

THE LEGAL FRAMEWORK OF EMPLOYMENT CONTRACTS: RIGHTS AND OBLIGATIONS

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Abstract

The basic pillar that regulates the relationship between employers and employees is the legal framework that governs employment contracts. In order to foster justice, safety, and adherence to labour laws, it creates reciprocal rights and duties. Important parameters like job duties, pay, working hours, leave benefits, and termination conditions are outlined in an employment contract, whether it is explicit or implicit. These contracts must comply with minimal labour law requirements, including non-discrimination, health and safety, and protection from wrongful termination, according to legal systems around the world. Workers have the right to safe working conditions, fair pay, and the ability to form or join a trade union. In turn, employers have the right to demand skill, loyalty, and compliance with policy. Both parties have obligations: employers must abide by legal requirements and contractual provisions, and employees must perform their jobs with a reasonable level of skill and care. In order to enforce these rights and responsibilities, dispute resolution methods, including labour tribunals and grievance procedures, are essential. Furthermore, because of modifications to laws, court rulings, and cultural norms, including new issues like remote work, data security, and workplace diversity, employment contracts are also susceptible to changing legal interpretations.

Overall, the goal of the legal framework governing employment contracts is to preserve conformity with more general labour laws while balancing the interests of the two parties. It is imperative that both employers and employees comprehend this framework in order to guarantee a just and lawful working

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environment, which will promote productivity and legal accountability in the workplace.

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INTRODUCTION

The legal basis of an employer-employee relationship is employment contracts. These agreements, which might be verbal, written, or observed from actions, set forth the terms and circumstances for the exchange of labor for payment. They serve as essential instruments in contemporary employment systems, outlining each party's rights, obligations, and expectations in order to minimize uncertainty in working relationships and provide legal certainty.¹

While each country has its own legal framework for employment contracts, it usually consists of statutory legislation, constitutional provisions, court decisions, and, when relevant, collective bargaining agreements. In India, *for example*, this framework is largely influenced by the contract law, which regulates general contract law principles,² as well as state-level labour-specific laws like the Industrial Disputes Act, 1947, the Minimum Wages Act, 1948, and the Shops and Establishments Acts.³

Employment contracts serve as both administrative and legal tools, safeguarding employees' rights to safe working conditions, equitable compensation, and protection from wrongful termination. They also give employers the authority to demand secrecy, loyalty, and performance from their workforce. Even if all parties agree, these contracts cannot deviate from the basic statutory protections and must comply with national labour regulations.⁴

The emergence of non-traditional work arrangements, such as remote and gig labour, has made it more crucial than ever to comprehend the legal requirements of employment contracts. Due to the constantly changing nature of employment law, it is imperative that

¹ Simon Deakin & Gillian S. Morris, *Labour Law* (Hart Publishing, 2012).

² The Indian Contract Act, 1872 (Act 9 of 1872).

³ S. N. Singh, *Labour and Industrial Laws* (Eastern Book Company, 2016).

⁴ Gautam Bhatia, *Understanding Employment Law in India* (Oxford University Press, 2020).

both employers and employees understand their legal views in order to promote compliance, equity, and workplace harmony.⁵

EMPLOYMENT CONTRACTS

The terms and conditions of employment are specified in an employment contract, which is a legally binding agreement between an employer and an employee. It usually covers things like job duties, pay, working hours, length of employment, benefits, confidentiality, termination procedures, and other rights and obligations of both parties. This contract makes sure that both parties are aware of their responsibilities and obligations during the employment period.⁶

OBJECTIVE OF EMPLOYMENT CONTRACTS

The main goal of employment contracts is to establish legally binding terms that define and govern the relationship between the employer and employee. A framework for equitable and predictable labour relations is established by the contract, which specifies crucial components such as employment duties, pay, working conditions, and termination procedures.⁷

Contracts of employment also apply to:

- Respect workers' legal and financial rights by establishing minimum requirements for pay, hours worked, and workplace safety.⁸
- Make sure that everyone is aware of their responsibilities and expectations in order to reduce conflict and foster positive working relationships.⁹
- Assist in ensuring adherence to both domestic and international labour laws and regulations.¹⁰

SCOPE OF EMPLOYMENT CONTRACTS

⁵ International Labour Organization, *The Future of Work Report* (ILO, 2021).

⁶ Hugh Collins, *Employment Law* (Oxford University Press, 2003); *See also*, *Malik v. Bank of Credit and Commerce International SA*, [1997] UKHL 23.

⁷ International Labour Organization, *Recommendation No. 198: The Employment Relationship* (ILO, 2006).

⁸ Fair Labor Standards Act, 29 U.S.C. § 201 et seq. (United States); The Minimum Wages Act, 1948 (Act 11 of 1948).

⁹ *Supra* note 6.

¹⁰ United Nations, *Guiding Principles on Business and Human Rights* (UN, 2011).

All aspects of the work relationship are covered by the vast scope of employment contracts, which are influenced by common law, contractual, and statutory principles. Important areas consist of:

- *Contract Formation and Validity*: Identifying the necessary components of a legally binding contract, such as consideration, mutual consent, and a legitimate aim.
- The terms and conditions of employment, which are frequently regulated by legislative minimums, cover pay, benefits, leave rights, working hours, and rest times.¹¹
- *Employment Classification*: Depending on the level of control and financial reliance, this classification applies to full-time, part-time, fixed-term, probationary, and occasionally dependent contractors.¹²
- *Rights and Duties*: These include the right to fair treatment, a safe workplace, confidentiality, and non-discrimination.¹³
- *Termination and Compensation*: Resignation, termination, redundancy, notice, severance, and post-termination duties, including non-compete agreements.
- *Dispute Resolution*: Fair and effective methods of resolving commercial disputes, such as labour tribunals, arbitration, and mediation.

Due to the contract's operation inside a larger legal framework, some of its terms, especially those that are less advantageous than statutory standards, may be null and void or unenforceable. The contract's applicability in transnational employment circumstances may also be influenced by international labour standards and conflict-of-law considerations.¹⁴

TYPES OF EMPLOYMENT CONTRACTS

The terms of employment contracts are determined by the nature of the work and the relationship between the employer and employee. Different employment contract classes are determined by the nature of employment. Specific provisions for various work conditions are provided by different contracts.

¹¹ Directive 2003/88/EC of the European Parliament and of the Council of 4 November 2003 concerning certain aspects of the organization of working time; Employment Standards Act, 2000 (Ontario, Canada).

¹² *Uber BV v. Aslam*, [2021] UKSC 5; California Assembly Bill 5 (AB5), Ch. 296, 2019.

¹³ The Equality Act, 2010 (United Kingdom); Occupational Safety and Health Act, 1970 (United States).

¹⁴ Regulation (EC) No. 593/2008 of the European Parliament and of the Council on the Law Applicable to Contractual Obligations (Rome I); Hague Convention on the Law Applicable to Contracts of Employment, 1980.

- **Permanent Contract:** This type of work arrangement is the most common and lasts indefinitely until one side decides to terminate it. Usually, no end date is mentioned.
- **Contract with a fixed term:** The agreement expires after a predetermined amount of time, like a year. When the contract period ends, unless both parties agree to extend or renew it, the job connection ends.
- **Contract for Part-Time or Casual Work:** This type of employment agreement covers workers who put in fewer hours than full-time workers. These workers are frequently brought on by their employers to finish seasonal or specialised labour.
- **Consultant or Freelance Contract:** Consultants and freelancers work as independent professionals for a corporation, completing tasks for them within a specified project or time limit. Timeliness and deliverables are the main terms of these contracts.
- Employers can use a *probationary contract* to assess new hires for a predetermined amount of time before determining whether to offer them permanent employment.¹⁵

LEGAL PROVISIONS OF EMPLOYMENT CONTRACTS

India's employment contracts are regulated by a number of important laws that specify their substance, enforceability, and legality. Key legal provisions pertaining to employment contracts are as follows:

- **In 1872, the Indian Contract Act:** In India, this is the fundamental legislation that regulates all contracts. According to Section 10, a contract for employment must be made with the free consent of both parties, for a legitimate purpose, and for a legitimate compensation. It must attempt to establish legal relations and not be specifically deemed null and void.¹⁶
- **The 1947 Industrial Disputes Act:** The terms of employment for industrial workers are governed by this statute. Employment contracts must include explicit provisions about termination, layoffs, retrenchments, and dispute resolution procedures, particularly in industrial settings.¹⁷
- **State laws known as the Shops and Establishments Acts:** The Shops and Establishments Act, which governs working hours, overtime, holidays, and leave

¹⁵ *Understanding Employment Contracts in India*, available at: <https://thelegalschool.in/blog/employment-contract> (last visited on: 18.07.2025).

¹⁶ The Indian Contract Act, 1872 (Act 9 of 1872), s. 10.

¹⁷ The Industrial Disputes Act, 1947 (Act 14 of 1947), ss. 2A, 9A.

rules, varies per state. These legislative requirements must be included by employers in employment contracts.¹⁸

- The 1948 Factories Act: This Act requires that health, safety, and welfare clauses be included in employment contracts for factory workers. It also establishes standards for women's and youths' employment, leave, and working hours.¹⁹
- The 1948 Minimum Wages Act: This Act guarantees that no worker receives less than the legally required minimum wage, which needs to be included in the employment contract.²⁰
- The 1936 Payment of Wages Act and the 1965 Payment of Bonus Act: These Acts govern the prompt payment of bonuses and wages. For compliance, employers must incorporate relevant clauses into employment contracts.²¹
- The 2019 Code on Wages, which supersedes a number of previous laws: All employees are covered by this new labor code, which unifies the aforementioned wage-related rules. It highlights the necessity of contracts to guarantee openness regarding wages, working conditions, and job categorization.²²
- Further Relevant Laws: The 1970 Contract Labour (Regulation and Abolition) Act applies to employees employed by contractors. For posting job openings, use the Employment Exchanges Act of 1959. Refer to the 2020 Occupational Safety, Health, and Working Conditions Code for health and safety requirements.

EMPLOYMENT CONTRACT IN LABOUR LAWS: COMPARATIVE STUDY

Since they serve as a universal framework for defining the legal relationship between employers and employees, employment contracts vary greatly throughout jurisdictions in terms of their statutory foundations, substance, enforceability, and construction. This comparative analysis highlights both similarities and differences between the fundamental components and legal treatment of employment contracts in the US, UK, India, and Germany.

Creation and Legal Character

¹⁸ The Tamil Nadu Shops and Establishments Act, 1947 (example of a state-level statute).

¹⁹ The Factories Act, 1948 (Act 63 of 1948), ss. 11–20, 51–66.

²⁰ The Minimum Wages Act, 1948 (Act 11 of 1948), s. 3.

²¹ The Payment of Wages Act, 1936 (Act 4 of 1936); The Payment of Bonus Act, 1965 (Act 21 of 1965).

²² The Code on Wages, 2019 (Act 29 of 2019), Ministry of Labour and Employment, Government of India.

Mutual consent, offer and acceptance, legitimate consideration, and legal competence are all necessary for an employment contract in every country. But the formal requirements are different:

- In the UK, employment agreements might be verbal, written, or implied. Nonetheless, employees are entitled to a written statement of particulars within two months of beginning employment under Section 1 of the Employment Rights Act of 1996.²³
- United States: Unless a specific contract or collective agreement specifies otherwise, employment is often “at-will”, meaning that either side may end it at any time and without cause.²⁴
- India: Labor-specific laws are added to the Indian Contract Act, 1872, which governs employment contracts. Although not required, written contracts are frequently used, especially in formal sectors.²⁵
- Germany: Contracts must abide under the Protection Against Unfair Dismissal Act (Kündigungsschutzgesetz) and the German Civil Code (Bürgerliches Gesetzbuch, or BGB). According to §2 of the Nachweisgesetz, a written form is typically necessary.²⁶

Conditions & Terms

Important concepts like pay, working hours, vacation time, and responsibilities are addressed differently:

Germany & UK: Regardless of the wording of the contract, statutory protections are applicable. For example, work hours and breaks are governed by the Working Time Act (ArbZG, Germany) and the Working Time Regulations 1998 (UK).²⁷

USA: While many safeguards differ by state, the Fair Labour Standards Act (FLSA) establishes minimum wage and overtime regulations. Compared to Europe, the scope of federal law is more constrained.²⁸

²³ Employment Rights Act, 1996, s. 1 (United Kingdom).

²⁴ J. M. Feinman, “The Development of the Employment at Will Rule” *American Journal of Legal History* (2000).

²⁵ The Indian Contract Act, 1872 (Act 9 of 1872); The Code on Wages, 2019 (Act 29 of 2019).

²⁶ Nachweisgesetz (NachwG), Federal Law Gazette I, 1995, p. 147 (Germany).

²⁷ The Working Time Regulations, 1998 (United Kingdom); The Arbeitszeitgesetz (ArbZG), 1994 (Germany).

²⁸ Fair Labor Standards Act, 29 U.S.C. § 201 et seq. (United States).

India: In addition to federal laws such as the Factories Act, 1948, and the Code on Wages, 2019, terms are frequently regulated by state-specific Shops and Establishments Acts.²⁹

Cancellation & Revocation

Among the most varied are termination regulations:

- UK: After two years of employment, workers are safeguarded against being fired without cause, provided they have been given due process and have good cause.³⁰
- USA: The at-will theory permits broad employer discretion in termination, unless specifically covered by a contract or anti-discrimination statutes (such as Title VII).³¹
- India: The Industrial Disputes Act, 1947, protects industrial workers and, in certain situations, calls for government approval or a valid reason for termination.³²
- Germany: According to the Kündigungsschutzgesetz, terminations must be socially justifiable, particularly in companies with more than ten employees and after six months of continuous employment.³³

Conflict Resolution

Labour courts or employment tribunals are frequently used to settle disputes in the UK and Germany.

- USA: In order to minimise litigation, arbitration agreements are effective and frequently employed to the disadvantage of employee rights.³⁴
- India: Depending on the categorisation of the worker, disputes are usually resolved by Industrial Tribunals, Labour Commissioners, or Labour Courts.³⁵

Because employment contracts generally have a similar form, there are substantial differences in the degree of employee protection and governmental monitoring. While the U.S. system places more emphasis on contractual freedom and employer flexibility, European nations such as Germany and the UK place more emphasis on job security and

²⁹ The Code on Social Security, 2020 (Act 36 of 2020); Shops and Establishments Act (varies by state).

³⁰ Employment Rights Act, 1996, s. 94 (United Kingdom).

³¹ *Montana v. Gilham*, U.S. Supreme Court, 1991; National Conference of State Legislatures, *At-Will Employment Overview*.

³² The Industrial Disputes Act, 1947 (Act 14 of 1947), ss. 25F–25N.

³³ Kündigungsschutzgesetz (KSchG), 1951 (Germany).

³⁴ *Gilmer v. Interstate/Johnson Lane Corp.*, 500 U.S. 20 (1991); Federal Arbitration Act, 1925 (United States).

³⁵ The Industrial Disputes Act, 1947 (Act 14 of 1947); Labour Courts and Tribunals under Indian labour law.

statutory rights. India offers a hybrid model that combines modern reforms with worker protections from the colonial past.

ROLE OF EMPLOYMENT CONTRACTS IN PROTECTING RIGHTS

In order to protect the rights and interests of both employers and employees, employment contracts are essential:

- Contracts give workers clarity on the terms and circumstances of their employment, including duties, pay, benefits, and termination grounds.
- Contracts assist employers in defining the parameters of the working relationship, safeguarding proprietary knowledge and intellectual property, and limiting liability in the event of a disagreement.
- Because they clearly outline each party's rights and responsibilities, well-written employment contracts can reduce the likelihood of disagreements and legal challenges.³⁶

RIGHTS AND DUTIES OF EMPLOYMENT CONTRACTS IN INDIA

The rights and obligations of each party are spelt out in detail in this legally binding agreement. Additionally, workers owe their employers reciprocal duties, which usually include:

Rights and Duties of Employees

- i. Workers have the following basic rights: protection against discrimination on a variety of grounds, guaranteeing that everyone is treated equally.
- ii. A right to just compensation, which includes pay, benefits, and vacation time.
- iii. The right to a courteous and private workplace.
- iv. The right to a minimum salary, a safe workplace, and acceptable work hours.
- v. Keeping information private.
- vi. Respecting the company's rules.
- vii. Effectively carrying out job responsibilities.³⁷

³⁶ *Complete Guide to Employment Contracts in India*, available at: <https://www.takelegal.in/employment-contract-complete-guide-2024/> (last visited on: 18.07.2025).

LANDMARK CASES LAWS

- The case of *Workmen v. The Steel Authority of India Ltd*³⁸. Significance: Workers were laid off in this case. Impact: Highlighted the need to adhere to the Industrial Disputes Act's statutory processes and strengthened the protection against wrongful termination.
- The 1978 case of *Bangalore Water Supply & Sewerage Board v. R. Rajappa*³⁹ Significance: outlined the definition of a "workman" in the 1947 Industrial Disputes Act. Impact: This case broadened the range of employees covered by labour laws by emphasising the nature of the activity rather than the title or terms of the contract.
- *BHEL Workers Assn. v. Union of India*⁴⁰, Significance: it was decided that contract workers should have the same rights to pay, holidays, working hours, and working conditions as those directly employed by the establishment's principal employer for the same or comparable type of work. Impact: Based on the specific facts of this case, it was decided that the working conditions and wage recovery process for contract workers should be comparable to those for principal employer employees under the relevant Industrial and Labour Laws.
- The 1985 case of *Olga Tellis v. Bombay Municipal Corporation*⁴¹, Significance: Although it focused mostly on the right to livelihood, it also had a broad impact on labour rights and the state's obligation to workers in the unorganised sector. Impact: Article 21 recognised the right to livelihood as a component of the right to life.
- In 1997, *Air India Statutory Corporation v. United Labour Union*⁴² addressed the right to strike and the restrictions imposed on it. Impact: The public interest and necessary services were weighed against the right to strike by the court.
- *Management of Express Newspapers (P) Ltd. v. Workers*⁴³, Significance: Described the function of trade unions in defending the rights of employees and collective bargaining.

³⁷ Shubhra Legal, "Understanding Employment Contracts in India", *LinkedIn*, available at: <https://www.linkedin.com/pulse/understanding-employment-contracts-india-legal-shubhra-mv8mc> (last visited on: 18.07.2025).

³⁸ 1992 (1) KARLJ 477.

³⁹ (1978) 2 SCC 213.

⁴⁰ (1985) 1 SCC 630.

⁴¹ AIR 1986 SC 180.

⁴² AIR 1997 SC 645.

⁴³ AIR 1963 SC 569.

- *Mohan Kumar Singhania v. Union of India*⁴⁴, Significance: The topic of contract labour and the extent of contract employment were examined. Impact: Resulted in increased oversight of contract workers and safeguards against exploitation.
- *D. K. Yadav v. J. M. A. Industries Ltd.*⁴⁵, Significance: Talked about the fairness principle in terms of employment and termination. Impact: Emphasised that it is illegal to fire someone without good reason.

CONCLUSION

The employer-employee relationship is based on an employment contract. By outlining each party's rights, obligations, roles, and responsibilities precisely, it helps to avoid misunderstandings and disputes. A specifically written contract of employment:

- i. Provides both the employer and the employee with legal protection,
- ii. Encourages equity and openness at work, and
- iii. Provide specific instructions on how to handle issues including compensation, working hours, leave, and termination.

The primary goal of employment contracts is always the same, even though their structure and legal requirements differ from nation to nation: to establish a cooperative and legally binding working relationship. It is more crucial than ever to have clear and legal employment contracts in the rapidly evolving workplace of today, which includes remote work, gig work, and international hiring. Both parties can better grasp their rights and obligations when there is a contract in place. By ensuring that everything is transparent and equitable, it safeguards both the employer and the employee. Although employment contracts vary from nation to nation, the fundamental objective is always the same: to establish a respected, equitable, and safe workplace.

Statutory labour laws in India have a significant impact on employment contracts and are designed to safeguard workers, especially in the formal sector. While the US prefers flexibility through the "at-will" employment model, striking a balance between employer freedom and fundamental statutory rights, the UK offers a structured, legally supported contract system with robust employee safeguards.

⁴⁴ 1992 Supp (1) SCC 594.

⁴⁵ (1993) 3 SCC 259.

Employment contracts will continue to change as labour markets change and new work patterns (such as remote and gig work) appear. In addition to reducing disagreements, a well-written and legally compliant contract improves the working relationship and guarantees stability and equity in the workplace.

SUGGESTION

- **Required Written Agreements:** To maintain legal protection and transparency, governments should require written employment contracts in all sectors, particularly in developing nations like India.
- **Simplify and Standardise Contract Language:** In order for workers of various literacy levels to comprehend their rights and responsibilities, employment contracts should be drafted in plain, straightforward language.
- **Specify All Important Terms:** Job positions, pay, working hours, leave policies, termination provisions, and dispute resolution procedures should all be properly covered in contracts to prevent confusion.
- **Consistent Updates to Accompany Evolutions in the Law:** To guarantee adherence to the most recent labour regulations, including the new labour codes in India, employers should periodically examine and revise contracts.
- **Encourage Workers' Awareness:** Employees should be educated through awareness campaigns about the value of employment contracts and their legal rights under them.
- **Utilisation of Technology:** Encourage the use of e-contracts, or digital employment contracts, to enhance documentation, cut down on paper use, and make recordkeeping and verification simpler.

Improve Law Enforcement in the Unorganised Sector: Since legal protections are frequently lacking in the unorganised and informal sectors, governments should concentrate on expanding the coverage and enforcement of employment contracts in these areas.