

Exploring Fixed-Term Employment: Benefits and Challenges

Mr. Aum Jadav* and Dr. Neha Dubey**

*Researcher, Master of Social Work – Human Resource Management, Parul University

**Assistant Professor, Faculty of Social Work, Parul University, Vadodara

ABSTRACT

Fixed-term employment (FTE) contracts allow companies to hire employees for a specific duration or project. They provide flexibility in workforce management but also introduce challenges in job security and legal compliance. This research examines the benefits and drawbacks of FTE from the perspectives of employers, employees, and regulatory authorities, with a focus on legal frameworks and industry trends. The study highlights the implications of FTE on industrial relations, workforce stability, and employment laws.

KEYWORDS: Fixed-term employment, contract labour, workforce flexibility, employment laws, HRM.

I. INTRODUCTION

From the last two decades, India has experienced significant changes in various areas of industrial relations (IR) and labour market due to liberalization of the economy. The period has seen a growth in contingent work arrangements which strongly rely on the concept of flexible category employees. In particular, fixed-term employment (FTE) is one of such flexible work arrangements.

Fixed-term employment (FTE) has gained significance in India due to changing industrial relations and labour laws. Historically, permanent employment was the norm, but globalization and economic liberalization led to increased use of flexible employment contracts. The Industrial Employment (Standing Orders) Act of 1946 and its subsequent amendments permitted the use of fixed-term contracts in all sectors. While these contracts offer adaptability, they also create uncertainties for workers. Prior to October 2016, the provision was exclusive to the clothing manufacturing industry. Ministry amend as changed the the name Amendment terminology enables spreading that adaptation to all types of manufacturing sector. Before amendment was made, it was only possible in the apparel sector to hire workers for definite periods through contracts.

Fixed term employment contracts are which that exist between employer and employee which are known as special forms of temporary dependent work and include casual employment, project-based engagement, and private employment agency hireling. Consequently, they differ from the many types of regular jobs that are “permanent,” “open-ended” or “of indefinite duration.” Most crucial principle and need for the FTC to function are specific to hiring a person only when they are needed for only a short-term project.

Reasons why employer employee people on a fix term contract are:

- Working on any project that is time bound.
- During maternity leave for 26 weeks or so an employer can substitute her with a fixed-term employee.
- Covering seasonal peaks.
- Recovering absent employees
- To increase staff for a large project
- To fill employment gap

It is anticipated that the 2020 Industrial Relation Code as well as the 2020 Social Security Code will displace the labour laws that articulate the employment terms in industrial establishments and undertakings and also make provisions for benefits under social security.

1.1 Types of FTC

- FTC, which has no early termination clause and automatically finishes when the predetermined term ends (i.e., without prior notice of termination of employment upon term expiration).
- Permits an early termination of the FTC by the employer with notice; in the event that this is not feasible, the FTC will automatically end the term without further notice.
- FTC that expires at the end of the term unless the employer gives notification that it wants to extend the

agreement for a predetermined amount of time.

1.2 Fixed-term contracts were declared unlawful by Indian courts if

- The agreement covered ongoing business operations.
- There was no set goal for the work.
- The arrangement's goal was to get around the duties and protections associated with retrenchment under the relevant laws.
- The fixed-term employees' job was not particularly related to any one project or temporary demand; rather, it was identical to or comparable to that of ordinary indefinite-term employees.

1.3 Implementation of fixed-term employment contracts in Gujarat

Gujarat marked a watershed labour laws, especially continued context of globalization and the modernization of industries. This initiative soon gained credence after the commencement of Special Economic Zones under the SEZ Act of 2005, which demanded flexible labour frameworks considering the dynamic requirements of industries within these zones.

Emerging out of the state that had comprehensive industrial growth and very innovative labour reforms was Gujarat, which became the first in the country to bring about FTCs in 2006. This was done to meet the specific labour demands created by rapid industry growth and globalization through SEZs. FTCs were found to be a new way of balancing flexibility requirements from the employers' side with those of protecting rights for workers- they created a win-win situation for both.

At an industrial level, FTCs enabled employers to address their specific and seasonal project-related needs for labour without requiring them to employ persons for an indefinite period. Such flexibility allowed industries to scale their workforces according to business requirements, which is especially significant for manufacturing, construction, and IT services, where the nature of work varies. Thus, Gujarat positioned itself as an innovator in labour policy by aligning workforce policies with the cyclical and project-based nature of modern enterprises.

1.4 Impact on the Workforce

For employees on FTCs, these amendments would otherwise be very effective only if properly implemented. A big part of the purpose of FTCs is to ensure that temporary workers also have similar statutory benefits, such as gratuity, provident fund, and other entitlements. The amendments clearly state these bases on which these will all be provided: pro-rata-considering the nature and length of the contract. However, as it stands, almost all fixed-term workers will miss out on this benefit since laws are not applied uniformly across industries and states.

This research aims to analyze the impact of FTE on employers and employees, legal considerations, and future trends in employment.

II. OBJECTIVES

- To investigate the advantages and difficulties of using FTCs.
- To investigate the legal and regulatory frameworks governing FTCs and their implications for employment practices.

III. REVIEW OF LITERATURE

3.1 Fixed-Term Employment vs. Other Employment Models

FTE differs from indefinite-term contracts as it has a predefined end date. Unlike permanent employees, FTE workers may not receive long-term benefits like gratuity or pension unless mandated by law. Comparisons with other employment models highlight:

- **Permanent Employment:** Offers stability but limits workforce flexibility.
- **Probationary Employment:** Serves as a trial period before permanent employment.
- **Agency Work:** Involves third-party hiring, providing flexibility to employers.
- **Casual Employment:** Involves irregular, short-term work without employment security.
- **Apprenticeship:** Focuses on skill development rather than employment continuity.

3.2 The Future of Fixed-Term Employment in India

Jain et al. (2023) examine the evolution of FTE contracts in India from a global and policy perspective. They highlight that while FTE helps employers control labour costs and manage workforce flexibility, it also presents risks such as worker vulnerability and lack of union representation. Comparing FTE policies in countries like Spain,

France, Sweden, and Japan, the authors argue that India must adopt a balanced approach that ensures both economic growth and worker protection. They suggest defining contract renewal terms, limiting FTE to non-core activities, and encouraging stakeholder dialogue to develop a worker-friendly legal framework

3.3 Article on Fixed-Term Employment Law in India

K.R. Shyam Sundar's article explores the implications of FTE laws in India from multiple perspectives, including employers, employees, and economic factors. The study critiques the government's approach to labour law reform and provides historical context. Key themes include:

- **Policy Evolution:** FTE was initially introduced in select industries (e.g., apparel, leather) but later expanded to all sectors. While it aligns with global labour trends, India lacks the robust worker protections found in countries like China and Norway.
- **Employer Perspective:** Employers find FTE beneficial for flexibility but claim it is costlier than contract labour due to uniform wage and benefit structures.
- **Trade Union Opposition:** Unions argue that FTE undermines job security and was introduced without adequate consultation, potentially violating ILO conventions.
- **Economic and Social Concerns:** Short-term contracts may reduce employer investment in worker training and safety, affecting long-term employability and economic growth.
- **Comparative Analysis:** India's FTE framework lacks safeguards such as limits on contract renewals, making workers more vulnerable than in other nations.
- **Legislative Gaps:** There are no clear criteria for FTE implementation, which could allow employers to exploit cost-saving measures at the expense of job security.

3.4 Fixed-Term Contracts and Occupational Tasks

A study conducted in Portugal (2010-2019) analyzed the impact of fixed-term contracts on different occupational tasks and wage structures. The findings indicate that:

- Medium-skilled tasks have the highest probability of FTC conversion to permanent jobs, while high- and low-skilled roles have lower conversion rates.
- FTCs act as a screening tool for mid-skilled workers before offering permanent employment.
- Wage disparities exist, with FTC employees earning significantly less than their permanent counterparts, particularly in cognitive-intensive jobs.
- The study suggests that FTCs not only create job insecurity but also contribute to wage inequality.

These findings underscore the necessity for labour policies that improve job security, ensure fair wages, and facilitate smoother transitions to permanent employment

3.5 Legal Developments and Impact of Fixed-Term Employment in India

Recent changes in India's labour laws have significantly influenced the adoption and regulation of fixed-term employment. The **Industrial Employment (Standing Orders) Central (Amendment) Rules, 2018**, played a crucial role in institutionalizing fixed-term contracts, allowing industries beyond the apparel sector to employ workers under fixed-term arrangements. According to **Sethuram (2018)**, the amendment ensures that FTE employees receive wages, allowances, and statutory benefits on par with permanent employees, proportionate to their tenure. However, concerns remain regarding job security and the potential misuse of FTE to circumvent long-term employment obligations.

The **Standing Orders Act, 1946**, mandates clear employment conditions for industrial establishments. The 2018 amendment added **fixed-term employment** as a workman classification, ensuring clarity in contractual obligations. Key provisions include:

- **Equitable Benefits:** Fixed-term employees must receive wages and benefits equivalent to permanent employees.
- **Prohibition of Conversion:** Employers are restricted from converting permanent employees into fixed-term workers to prevent exploitation.
- **Certification Requirements:** Employers must declare fixed-term workers in standing orders submissions to regulatory authorities.

The **analysis by Sethuram (2018)** highlights the potential advantages of FTE for industries requiring a seasonal workforce. However, the policy shift also raises concerns about its impact on worker security, particularly for unskilled and semi-skilled laborers.

3.6 Intricacy of Fixed-Term Employment

Fixed-term employment has emerged as an effective strategy for organizations to enjoy flexibility in manpower and for adapting to economic and operational demands. **Sanjay Suthar (2024)** delves into this interwoven world of fixed-term employment, which he sees as simultaneously capable of addressing the issue of

organizational agility and welfare of employees as well. Fixed-term contracts are common in those sectors characterized by demand fluctuations, like textiles, leather, and food, where short-lived labour forms enable seasonal handling of the workload changes. Regulations stipulate that fixed-term employees shall be treated equally with permanent employees in areas like wages, benefits, and working conditions.

Flexibility is probably what mainly attracts both employers and employees towards fixed-term employment. During peak times, when costs rise, it serves as a way for employers to scale their operations efficiently. Employers can also utilize fixed-term contracts to assess employee performance during a probationary period and accordingly allocate costs for resources. Employees benefit from statutory security protection in terms of equal pay and possess opportunities to become permanent employees depending on their performance.

However, **Suthar (2024)** argues that although such contracts are targeted to address major operational challenges, they also create significant concerns regarding job insecurity. This persistent downside of fixed-term contracts remains despite the potential pathways towards gaining permanent employment. The complexity of fixed-term employment encompasses not just the nature of employment but also the detailed content of contracts.

Fixed-term employment agreements contain elaborate clauses on remuneration, leave provisions, working hours, disciplinary procedures, termination conditions, and grievance handling mechanisms. These clauses aim to create transparency and protect both employers and employees. However, they also increase the complexities of employment management. Internationally, employment laws vary in their approach to fixed-term contracts, such as in the **United Kingdom**, where fixed-term contracts are automatically converted into permanent status after four years of continuous service. Similarly, in other jurisdictions, the eligibility for permanent employment depends on the length of the contract or an employee's performance.

Suthar envisions fixed-term employment as a model offering organizational flexibility, but he emphasizes that its implementation should balance compliance with employment laws and employee welfare. In the Indian context, the rising adoption of fixed-term employment reflects its efficiency in workforce management while aligning with statutory regulations. However, **Suthar (2024)** highlights that further policy refinements are needed to address crucial issues such as early termination disputes, thereby ensuring that fixed-term employment maximizes benefits for both employers and employees. As industries continue to adopt fixed-term employment, its complexities will expand, necessitating a nuanced understanding and sound management to maintain equitable and sustainable labour relations.

IV. RESEARCH DESIGN

This study employs a mixed-methods approach:

- **Data Collection:** Primary data from HR professionals and secondary data from labour laws and case studies.
- **Sampling:** HR managers from various industries utilizing FTE.
- **Analysis:** Statistical tools to assess employer and employee perspectives.

V. ANALYSIS AND INTERPRETATION

5.1 Benefits of Fixed-Term Employment (FTE) for Employers

1. **Workforce Flexibility:** Employers can scale their staff to meet project demands, which is one of the main benefits of FTE. Employing qualified experts for set periods of time allows businesses to allocate resources effectively without making long-term commitments. This is especially advantageous for sectors like manufacturing, construction, and information technology that have varying workloads.
2. **Cost Efficiency:** In general, fixed-term workers do not have the same long-term benefits as permanent workers, like long-term severance pay, comprehensive healthcare packages, or pension plans. This enables companies to keep expenses under control while still hiring the expertise they need. It also reduces the financial obligations associated with redundancy payments and layoffs.
3. **Performance-Based Contracts:** FTE agreements frequently incorporate project-specific deliverables or performance-based incentives, which can promote increased efficiency and productivity. Employee motivation helps the organization achieve its short-term strategic goals by encouraging them to perform successfully within a specified timeframe.
4. **Legal Compliance Simplification:** Employers can reduce the possibility of wrongful termination lawsuits by having contracts that are well-defined and contain clear termination terms. Businesses lower the risk of lawsuits and administrative hassles by following labour rules and establishing clear employment lengths.

5.2 Challenges of Fixed-Term Employment (FTE) for Employers

1. **High Employee Turnover:** Employers frequently face greater turnover rates since FTE roles have set durations. Frequent recruiting cycles, more hiring expenses, and more administrative work may result from this.

It can be inconvenient and time-consuming to find and onboard replacements.

2. **Knowledge Retention Issues:** The skills, experience, and institutional knowledge of fixed-term employees are taken with them when their contracts expire. Long-term productivity and continuity may be impacted by the gaps in knowledge transmission that may result from this.

3. **Legal Risks and Compliance Issues:** When it comes to accurately identifying employees under FTE contracts, employers must exercise caution. Misclassifying workers as temporary rather than permanent can result in penalties, labour disputes, and damage to one's reputation. Legal complexity is further increased by many jurisdictions' need for fixed-term employees to receive similar benefits and protections.

5.3 Benefits of Fixed-Term Employment (FTE) for Employees

1. **Career Growth Opportunities:** Employees in fixed-term positions are exposed to a variety of projects, industries, and work settings. Their long-term job possibilities can be improved, their experience can be expanded, and their abilities can be improved.

2. **Higher Short-Term Earnings:** Competitive pay is offered by many fixed-term jobs, especially for specialized abilities. Higher pay rates are frequently offered by employers to entice top talent for temporary work, enabling workers to make more money in less time.

3. **Work-Life Balance and Flexibility:** Employees in FTE arrangements frequently have greater career control. They can take breaks in between contracts, select tasks that fit their professional and personal objectives, or seek further education or freelancing.

5.4 Challenges of Fixed-Term Employment (FTE) for Employees

1. **Job Insecurity:** The uncertainty around contract renewal is one of the main disadvantages of FTE. Workers could have to constantly look for new possibilities, which could cause stress and financial instability.

2. **Limited Benefits and Perks:** Many FTE workers may not receive benefits like health insurance, paid time off, retirement plans, or job stability like permanent employees do. Their access to long-term employment benefits and financial security may be impacted by this.

3. **Lack of Career Progression:** Fixed-term workers may have less prospects for leadership positions, skill development initiatives, and promotions within the organization because they are frequently hired for short-term projects rather than long-term growth.

VI. FINDINGS

1. Legislative Evolution:

- Fixed-term employment (FTE) was first made available to the clothing manufacturing industry. In 2018 revision, however, made this clause applicable to all industries.
- States such as Gujarat have pioneered FTE rules since 2006, leading to their adoption in other states following the central amendment.
- The 2020 Industrial Relations Code further integrated FTE into the national framework, ensuring uniformity in its definition and benefits.

2. Flexibility for Employers:

- FTE allows businesses to meet seasonal or project-based workforce needs without committing to indefinite employment contracts.
- Employers can hire specialized talent for short-term roles, ensuring cost-effective and targeted workforce solutions.
- Provides a strategic option to adjust the workforce according to fluctuating market demands or temporary project requirements.

3. Enhanced Worker Rights:

- Benefits such as gratuity, previously reserved for permanent workers, are extended to FTEs even if their tenure is less than five years.
- Workers enjoy similar protection against unfair dismissal and are covered under labour laws applicable to permanent employees.

4. Advantages of Fixed-Term Jobs:

- **Flexibility:** It permits an adjustment in the manpower complement as per the project or seasonal dictates.
- **Cost-Effectiveness:** The long-term monetary commitments avoid overheads for temporary hiring.
- **Specialized Talent:** Further short-term projects can lead to increased efficiency if the hiring of experts can be brought into place.

- **Equal Rights with Permanent Employees:** For example, the fixed-term employee shall also include statutory benefits, including gratuity and provident fund, but prorated according to the service period.

- **Job Opportunities:** It provides a framework to reduce unemployment by offering avenues for specific jobs over a specific period.

5. **Challenges Identified:**

- **Job Security:** FTEs face insecurity due to contract renewals being at the discretion of employers.

- **Exploitation Risks:** Some employers misuse FTE provisions to replace permanent positions, circumventing legal obligations like severance pay and long-term benefits.

- **State-Level Implementation Gaps:** While some states have implemented the amendments effectively, others lag behind, causing inconsistencies in enforcement.

- **Ambiguity in Renewal:** The lack of clear guidelines on the duration and frequency of FTE renewals creates room for misuse and employee dissatisfaction.

- **Disparity in Awareness:** Many FTE workers are unaware of their rights, making them vulnerable to exploitation.

6. **Judicial Oversight:**

- Indian courts have intervened in cases where FTEs were misclassified to deny workers their due benefits. For example:

- Courts have deemed repetitive short-term renewals without justification as unfair practices.

- Engaging FTEs for permanent roles has been declared unlawful.

- The Supreme Court has emphasized the need for employers to justify the temporary nature of work assigned to FTEs.

7. **Economic Impact:**

- FTE supports industries like manufacturing, IT, and seasonal businesses by providing workforce flexibility, improving productivity, and addressing fluctuating market demands.

- However, it creates disparities in job security and growth opportunities compared to permanent employment.

- The system helps reduce unemployment in sectors requiring temporary labor but raises concerns about long-term career stability.

VII. CONCLUSION AND SUGGESTIONS

7.1 Conclusion

The research on fixed-term employment (FTE) highlights the complexities and potential of this employment model in India's evolving labour market. Fixed-term employment provides a strategic solution for industries to address fluctuating workforce demands, especially in seasonal and project-based roles. The findings underscore the dual nature of FTE. On one hand, it empowers employers with flexibility, cost-effectiveness, and access to specialized talent. On the other hand, it raises concerns about job security, potential exploitation, and uneven enforcement across states. Despite the parity in statutory benefits between FTE and permanent workers, the lack of long-term stability for FTE employees and ambiguity in renewal terms create challenges that demand attention. Judicial interventions and amendments in legislation reflect a growing acknowledgment of these challenges. The courts have emphasized the need to ensure that FTEs are used for genuine temporary requirements rather than as a means to sidestep obligations to permanent employees. The research underscores the critical need for regulatory oversight, awareness campaigns, and a robust grievance redressal mechanism to bridge the gap between legislative intent and practical implementation. In conclusion, while FTE offers significant opportunities for economic growth and employment generation, its success hinges on addressing existing challenges. A holistic approach that combines legislative refinements, state-level uniformity, and active stakeholder engagement is essential to create a fair, transparent, and sustainable fixed-term employment framework in India. This framework balance Employers' demands for flexibility and workers' rights to fair treatment and job security must be balanced under this framework. The shift toward fixed-term employment reflects a balance employers' demands for flexibility and workers' rights. While amendments aim is equitable treatment of FTEs, challenges persist in ensuring uniform implementation and preventing misuse. Parity in benefits between FTEs and permanent workers is a progressive step, but the lack of job security and ambiguities in renewal terms highlight the need for further reforms. For FTE to be a sustainable model, robust monitoring mechanisms and policy refinements are essential. The success of FTE depends on bridging the gaps between legislative intent and ground level execution, ensuring both employers and employees benefit equitably.

7.2 Suggestions

1. Stronger Legal Framework:

- Define clear guidelines on the maximum duration and permissible number of contract renewals for FTEs.
- Mandate conversion of FTE roles into permanent positions after a specified period or number of renewals to ensure fair treatment.
- Specify conditions under which FTE contracts can be issued, such as project-based roles or seasonal work.

2. Regulatory Enforcement:

- Strengthen monitoring mechanisms through labour departments to ensure compliance with FTE provisions.
- Conduct regular audits of industries employing FTEs to identify and address violations.
- Develop an escalation framework for FTE workers to report grievances related to unfair practices.

3. Employee Protections:

- Introduce a mandatory grievance redressal system specifically for FTE workers.
- Enhance penalties for employers found guilty of exploiting FTE contracts.
- The FTE workers are entitled to social security benefits just like in provident funds and health insurance.

4. Awareness Campaigns:

- Educate employers about the ethical and legal use of FTE contracts through workshops and industry forums.
- Inform employees of their rights under FTE provisions through mass media and digital platforms.
- Partner with NGOs and trade unions to spread awareness about FTE regulations in informal sectors.

5. State-Level Uniformity:

- Encourage states to harmonize their rules with central amendments to ensure consistent implementation nationwide.
- Provide incentives to states adopting progressive FTE policies and achieving high compliance rates.
- Facilitate inter-state collaboration to share best practices and success stories in FTE implementation.

6. Judicial Oversight and Clarifications:

- Establish specialized labour courts or tribunals to expedite disputes related to FTE contracts.
- Issue judicial guidelines clarifying ambiguities, such as the acceptable use of FTEs for temporary roles versus permanent needs.
- Encourage courts to prioritize cases involving vulnerable workers in FTE disputes.

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