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Labour Law Considerations in Corporate Restructuring: Safeguarding Employee Rights amidst Mergers and Layoffs

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Restructurings, whether in the form of mergers, acquisitions, or layoffs, have far-reaching implications for employees, often provoking concerns about potential job loss, wrongful termination, and the loss of benefits. This paper analyses the Indian legislation that guarantees employee protections regarding restructurings through the scope of the Industrial Disputes Act, 1947, and other principal labour statutes. The analysis underscores the expectation for employers to observe legal provisions which mitigate employees' chances of arbitrary dismissal, as well as guarantee employee equity during restructures. It also stresses the need to safeguard employee entitlements, including but not limited to, gratuity, employer's contribution to provident fund, and continuity of service, which frequently face the axe in aimed restructurings. Furthermore, the paper studies the need to seek employees' permission in cases of transfer of employment to other job positions for maintaining the necessary equilibrium in the workplace. India has very powerful labour laws that are very protective toward workers, but management continues to encounter significant challenges in knowing precisely from day to day what those laws mean and just how to get along nicely with some of those complex regulations. Things can be a bit dizzy at times for those running companies down there, dealing with all those laws. Bosses tend to feel pressured by so much bureaucracy and rules. It can be starkly different from Western approaches that could be much more laissez-faire. Non-compliance is not only a big legal consequence but can really do damage to employee relations and to the public reputation as well. When heading down this route, this paper proposes some key takeaways that companies must hold near and dear. Like sending clear, your evidence and dealing with fair severance, places very high on that list. It's also critical to keep track of what the rights are for the people who work for us. Ensuring the safety of professionals while restructuring is not only a legal obligation, but a strategic business planning and having a cosmopolitan group with value for the long haul.

Keywords: *corporate restructuring, employee rights, labour law, mergers, layoffs.*

INTRODUCTION

Nowadays, in our interconnected world, most organisations are reorganising themselves as a main source of value to increase their efficacy and remain relevant. Restructuring can help any business survive and grow, whether for expansion, entering new regions, or resolving financial challenges. But while it does a great job of delivering many benefits, it also comes with its fair share of tough challenges, especially when we're handling our employees. Mergers and acquisitions, and job cuts can hit workers hard, for example, during the Vodafone-Idea merger, over 2,500 employees were retrenched between 2017 and 2019 due to role duplication, prompting questions about a lack of proactive protection and severance equity¹, which is why it's important to be familiar with the legislation around work.

Employee responsibility encompasses all of that; they are left to grapple with uncertainty about their roles, jobs and pay, HR and employee engagement. The 2022 KPMG International report underscores the focus on navigating the next few years as global volatility and ambiguity continue to propel decision-making, affecting HR functions and employee engagement.² Such changes could involve layoffs, shifts or other modifications to working conditions, all of which create their legal issues. When companies reorganise, they should be aware of India's labour laws to protect their workers' rights. Laws like the Industrial Disputes Act of 1947 and the Companies Act, which was introduced in 2013, are critical in the care of employees. The laws deal with severance pay, notice periods, and continuity of service.

These laws make it common sense to maintain legality. Ignoring the workers in restructuring can range from litigation to low morale, damaging the reputation of the organization and in the long run can hurt the company, for instance, in the case of Jet Airways' disintegration in 2019, a lack of timely communication and severance pay prompted public outrage, and over

¹ 'Vodafone-Idea merger: Loss of jobs for thousands' (HR Katha, 06 September 2018) <<https://www.hrkatha.com/news/vodafone-idea-merger-loss-of-jobs-for-thousands/>> accessed 12 April 2025

² 'The future of HR: From flux to flow' (KPMG International) <<https://kpmg.com/xx/en/our-insights/workforce/the-future-of-hr-from-flux-to-flow.html>> accessed 12 April 2025

1,000 employees filed lawsuits seeking back payments and clearances.³ By contrast, businesses that handle restructuring equitably and transparently create trust, lower resistance to change, preserve crucial human capital, and facilitate smoother transitions and ongoing growth. The paper discusses what employee protections look like from a law perspective; the obstacles that leaders in organizations face against their workforce in a time of crisis; the advice for leaders on how to maintain legitimacy through a period of uncertainty; and finally, what that means for leaders regarding protecting their employee's status and their health. The study aims, through its monothematic focus on these topics, to fairly represent how businesses can restructure while prioritising employee welfare.

UNDERSTANDING EMPLOYEE RIGHTS IN LEGAL CONTEXT

In India, there are many important laws which help in protecting employee rights during mergers and restructuring:

Industrial Disputes Act, 1947 (IDA):⁴ This legislation serves as the foundation of labour laws in India. It lays down rules for the resolution of disputes in industries and safeguards the rights of workers. The following are several important aspects of the IDA that pertain to corporate restructuring:

Section 25F: This section ensures that any worker who has been in employment for a period of not less than one year, & has been terminated from employment (by the employer such as a company), would be entitled to one month notice or pay instead of the notice before even in termination from employment. Furthermore, employees who were fired (other than by way of misconduct) have a right to severance compensation equivalent to 15 days of average salary for every complete year served with the employer.⁵

Section 25FF: This section deals with the employee's apprehension of what happens when the business changes management or ownership. It says that if this were to happen, the employees would transfer with it, unless they make a different choice.⁶

³ 'Jet Airways' ground staff demonstrate at Mumbai airport over unpaid salaries' *The Indian Express* (12 April 2019) <<https://indianexpress.com/article/business/aviation/jet-airways-ground-staff-demonstrate-at-mumbai-airport-over-unpaid-salaries-5672949/>> accessed 12 April 2025

⁴ Industrial Disputes Act 1947

⁵ Industrial Disputes Act 1947, s 25F

⁶ Industrial Disputes Act 1947, s 25FF

Shops and Establishments Acts:⁷ Employers must also ensure that they comply with state-specific rules when terminating non-unionised workers (in addition to federal requirements). These laws generally require employers to comply with certain procedures when laying off employees, such as providing advance notice and paying them proper amounts as termination pay.

Maternity Benefit Act 2017:⁸ It protects pregnant workers against being terminated while on maternity leave and protects their right to return to work afterwards. Employers considering layoffs, restructuring, or other changes that affect female workers should also keep these protections in mind.

Contract Labour (Regulation and Abolition) Act 1970:⁹ It works towards regulating the employment of contract labour in certain establishments and for matters connected therewith. The fair and reasonable treatment of workers is still very important for employers, methodically protecting workers' rights as well as interests in myriad aspects.

EMPLOYEE PROTECTIONS DURING MERGERS AND LAYOFFS

Transfer of Employment: According to Section 25FF of the Industrial Disputes Act (IDA), if a change in ownership or management results in a workman being transferred to his job, he shall receive compensation. The main function of this clause is to guarantee that employees are not rendered completely penniless when corporate transactions such as combinations, acquisitions or take-overs affect their jobs as well. Employers must know that this section applies not only in the case of mergers but also in the case of a mere change in the structure of ownership of the company or management within the organisation.¹⁰

This obligation is contained in S. 25FF of the Industrial Disputes Act, 1947. Considering that it is a mandatory provision of law obligating employers to pay or continue the same terms of employment, the Act does not permit an employer to be released from this statutory obligation.

⁷ Bombay Shops and Establishments Act 1948

⁸ Maternity Benefit (Amendment) Act 2017

⁹ Contract Labour (Regulation and Abolition) Act 1970

¹⁰ 'Workforce changes during business reorganisation' (*India Business Law Journal*, 13 November 2024)

<<https://law.asia/employment-considerations-business-reorganisation/>> accessed 19 March 2025

Consent Requirements: As it is understood by the provision given under Section 25FF allowing automatic transfer of employees under certain conditions, it is to be noted that the Supreme Court has ruled that workmen cannot be compelled to accept employment with a new employer without their consent. Therefore, obtaining employees' consent is the right way forward to avoid potential disputes and legal challenges.

The employers must ensure transparency and maintain good communication, which can be obtained by keeping the employees in the loop for the transfer process. This allows employers to better understand employee concerns, which would in turn create trust and minimise the risk of disputes and legal challenges during layoffs.

This is advisable as it is not only beneficial for the employees but also for the employers, as they could retain their talents. Although the statute does not specifically state it, this requirement to obtain employees' consent is based on a longstanding legal principle that a change of employer cannot be imposed without the employee's agreement, especially where the terms and conditions of employment or the locus of control over the work change substantially.

Severance Pay: In the case of a layoff, employers must abide by the rules as outlined in Section 25F of the Industrial Disputes Act. This includes giving workers one month's warning or paying for it, as well as compensation pay on top of their severance, which is regulated according to how long they have been with the company.

Employers need to be careful in calculating severance pay. To avoid possible dispute and ensure full compliance with the law, effort should be made not only on making sure calculations are correct but also by following all relevant laws which might cause trouble for an employee such as managing his financial affairs during notice period before dismissal proceeding or providing annual pensions even after retirement when there are benefits provided over this period using company resources and being paid from them through the funds that have been set up toward retirement for each member of staff.¹¹ Such provisions

¹¹ Ankita Ray and Soumyashree Ray Chowdhury, 'Legal Framework and Mitigating Risks Associated with Employee Downsizing in India' (Cyril Amarchand Mangaldas, 13 July 2022) <<https://corporate.cyrilamarchandblogs.com/2022/07/legal-framework-and-mitigating-risks-associated-with-employee-downsizing-in-india/>> accessed 19 March 2025

are stated in Section 25F of the Industrial Disputes Act 1947, wherein notice and compensation are statutory requirements before retrenchment.

Protection Against Discrimination: To lay off staff or restructure a business, management should not discriminate on the grounds of age, gender, or anything other than suitability. Observance of the Equal Remuneration Act is also necessary to avoid discrimination. By regular checking on the state of layoff procedures in a company and see if they are by these anti-discrimination statutes, an employer can then fire staff at more leisure and with some foresight. The Equal Remuneration Act, 1976, places a legal obligation on employers not to discriminate on the grounds of sex, and that all restructuring procedures must be conducted according to the principles of equality under the law.

Right to Information: Staff members are entitled to be informed about any impending changes that affect their work position due to company restructuring. These matters could involve warnings of possible lay-offs, alterations in job descriptions or transfer. Employers must establish an appropriate and clear mode of communication to keep staff informed at every stage of the reorganisation process.¹² Although not enshrined in one specific law, the obligation to inform workers as part of the restructuring process reflects more general duties in Indian labour law to provide open and fair employment practices, particularly around changes to terms of service.

CHALLENGES FACED BY EMPLOYEES

While legal protections are robust, employees often lack support during corporate restructuring:

Lack of Awareness: Most workers aren't aware of other labour laws, combined with the fact that they are always fired during layoffs or mergers without understanding their legal rights. But the employers must teach labour laws and related rights to the employees. Besides, good industrial relations are good for both parties.

¹² Meghna Saini, 'Corporate Restructuring in the Indian Market: An Investigation of its Impact on Organisations and Stakeholders' (2024) 9(1) International Journal of Novel Research and Development <<https://www.ijnrd.org/papers/IJNRD2401152.pdf>> accessed 19 March 2025

It is the responsibility of employers to educate their employees about these duties through workshops and conduct informational meetings.

Judicial Delays: The system of litigation regarding labour disputes in India is so slow that aggrieved employees are awaiting justice in such mentally and physically challenging circumstances. Long-drawn-out litigation in India is reported to have caused both stress and uncertainty among workers engaged in legal battles amidst corporate restructuring.¹³ Immediate steps must be taken, except perhaps to wait on the court system to resolve, which is unlikely. The employer must make reasonable efforts to resolve the dispute amicably through alternative dispute resolution systems such as negotiation or mediation.

Non-compliance Risks: Organisations unintentionally violate labour laws due to the complexity of compliance requirements or the absence of legal advice throughout the restructuring. With complicated issues in play, companies need to hire labour law experts before making any major restructuring decisions. Legal experts assist in making sure that, when restructuring, statutory obligations are satisfied, thereby minimising the ability of employees to litigate and simultaneously safeguarding the rights of both employer and employee.

Psychological Impact on Employees: Reorganisation is intimidating and demoralising. Reorganisation can create widespread fear among staff and has been shown to increase stress, anxiety, and kill morale. Research findings also suggest that restructuring is related to higher perceived stress, emotional exhaustion, depersonalization, and lower job satisfaction among employees.¹⁴ The psychological impact of these developments is worsened, if not wrecked, by residual mental health issues emerging from the COVID-19 pandemic that still plague leadership and staff alike. To prevent these outcomes, employers need to establish resources like counselling, employee assistance programs (EAPs), and mental health support. The IBA report covers the growing problem of mental health issues faced by workers worldwide as a consequence of the COVID-19 pandemic.¹⁵ Providing such help

¹³ Sila Mishra, “Cyclic syndrome’ of arrears and efficiency of Indian judiciary’ (2022) 3(1) SN Business & Economics <<https://doi.org/10.1007/s43546-022-00377-1>> accessed 12 April 2025

¹⁴ Goedele A Geuskens et al., ‘Enterprise restructuring and the health of employees: a cohort study’ (2012) 54(1) Journal of Occupational and Environmental Medicine <<https://doi.org/10.1097/JOM.0b013e31823c766e>> accessed 12 April 2025

¹⁵ Preetha Soman and Vikram Shroff, ‘Mental health and wellbeing of employees in a post-pandemic world: considerations for employers’ (*International Bar Association*, 15 December 2021)

results in a more positive workplace and ensures that employees continue to be motivated and effective when their organisation goes through change.

Best Practices for Employers: There are options available to employers to minimise the potential risks of corporate restructuring whilst protecting employees' rights. Best practices regarding this practice are important as they help professional organisations comply with the local laws as well as build a fair culture and prevent significant disturbances. Some of the most effective measures include:

Performing thorough Due Diligence: Organisations must review the existing contracts of employment and be attuned to the applicable legislation to avoid non-compliance. This might include examining any relevant collective bargaining agreements that could shape how layoffs proceed.

Engage Employees Early: If the future of work means changing up old organisational structures and creating new roles, then involve employees in conversations about what their future could look like, opening up trust and an environment of transparency. The best way to help in smooth transitions. Frequent employee engagement sessions are a way for management to keep an open dialogue with employees (bidirectional communication) and vice versa.¹⁶

Providing Adequate Severance Packages: Making sure that the severance pay meets legal requirements reduces the risk of litigation by disgruntled employees after they leave, which means that severance packages should be reasonable. Employers may also choose to offer enhanced entitlements over and above any statutory minimum to impacted employees as a goodwill gesture.

Maintain Open Communication: Keeping communication lines open will help you identify some of the concerns of employees and reduce job security anxiety during the transition. You could update employees about such matters periodically, either through emails or in-house newsletters.

<<https://www.ibanet.org/mental-wellbeing-of-employees-post-pandemic-considerations-for-employers>>
accessed 12 April 2025

¹⁶ Workforce changes during business reorganisation (n 10)

Training Programs: Establish training programs to re-skill employees whose jobs are threatened by restructuring. This not only strengthens employee morale but also prepares them for potential new positions in the company. Change readiness, including employee engagement and training, as it pertains to restructuring, and employee adaptability, has been demonstrated to favourably impact organisational restructuring.¹⁷

Legal Compliance Audits: Conducts regular audits of HR practices and policies regarding layoffs and restructurings. This proactive practice enables organisations to identify where compliance or noncompliance may exist, so that they can address it before any potential dispute.

CASE LAW AND EMPLOYEE PROTECTION

The Indian judiciary has been protecting employees' rights during corporate restructuring. In *Sunil Kumar Ghosh v K. Ram Chandran*¹⁸ The consent of the workman was established. In this case, the court determined that an employer must obtain the worker's consent before transferring employees to a new employer, even where the workers are transferred under the same or better terms.

Over the past few years, the Indian judiciary has pronounced several important judgments relating to employee rights in corporate restructuring.

Notable Cases are:

1. *State Bank of India v Moser Baer Karam Chari*, the Supreme Court inter alia ruled that the employees are entitled to provident fund and gratuity dues even during the liquidation process and observed that the said dues do not form part of the liquidation estate and must be paid before the other claims. Legal principle: Employee benefits such as provident fund (PF) and gratuity are critical priorities, not debts under liquidation.

¹⁷ Dwitya Tanti Wigraha and Anandha Budiantoro, 'Change Management And Employee Engagement Impact To Transformational Leadership And Organizational Restructuring Processes At PT. XZ' (2024) 4(6) Eduvest - Journal of Universal Studies <<http://dx.doi.org/10.59188/eduvest.v4i6.1213>> accessed 12 April 2025

¹⁸ *Sunil Kumar Ghosh v K Ram Chandran* (2011) 14 SCC 320

2. *Air India Aircraft Engineers' Association v Air India Ltd*,¹⁹ the Bombay High Court reiterated the position taken by the Supreme Court in the *Gurmail Singh* case that during a merger, the employees are entitled to either compensation or continuity of employment, but not both. Legal principle: Workers are also immune from redundancy under restructuring, but can demand a settlement if their service contract is broken.
3. *Union of India v R. Thiagarajan*,²⁰ the Supreme Court once more declared that just as courts may look at parity of pay scales for employees who were similarly placed until then, the importance of equal work being rewarded in an equal manner will be noted by them as well. Legal principle: The Court reinforced the constitutional notion of equal pay for equal work as an enforceable obligation of labour jurisprudence.

These decisions affirm the judiciary's commitment to protecting worker rights in the wake of corporate restructuring, ensuring that legal protections can be upheld throughout.

CONCLUSION

Restructuring remains a strategic tool with which corporate India continues to pursue operational efficiency in the ever-competitive world. But, as this paper has shown, it is not just a business decision; it comes with heavy legal and ethical obligations, especially toward employees.

The Industrial Disputes Act 1947, with other important labour laws, places statutory obligations on employers in the case of mergers, acquisitions and retrenchment. These protections involve securing payment, maintaining continuity of service, and remaining fairly treated during the process of transitioning service. In spite of these structures, there remains a series of practical challenges from a lack of awareness among workers to court delays, the refusal to comply and emotional strain.

An environmentally and socially just reorganisation of production will therefore combine economic imperatives with the rights and wellbeing of the workers, and companies who fail to strike the balance, risk reputational harm, legal action and erosion of employee trust.

¹⁹ *Air India Aircraft Engineers' Association v Air India Ltd* (2012) WP No 2457/2012

²⁰ *Union of India v R Thiagarajan* (2020) Civil App No 2229/2020

SUGGESTION

The following policy and practice guidelines are suggested to assist in restructuring ethically and legally sound:

1. Legal Awareness Session is a must: Companies should be made duty-bound to hold awareness programs for employees to make them aware of their rights under labour laws in case of restructuring.
2. Institutionalise ADR: The ADR means of mediation and conciliation of disputes should be strengthened for quick disposal of labour disputes, leading to reduced dependence on protracted litigation.
3. Mental Health integrated with other Support: Mental health should be mainstreamed with other support, including EAPs, as standard best practice within restructuring frameworks.
4. Timely and clear Communication: Alternatively, the normative framework may require clear and early communication of restructurings to employees to reduce uncertainty and facilitate the transfer of workers in response to a restructuring.
5. Adopt Global Best Practices: Indian employers and policy makers can look upon models in the EU and elsewhere, which amended social dialogue and codetermination in reorganising the law.

In the end, responsible corporate restructuring is no more a question of regulation than it is of law. It speaks to a company's belief in fairness, integrity and long-term performance. Companies that place employees at the centre of transitions can both retain members of the workforce, maintain morale and navigate change with character and resilience. To enable a sustainable, inclusive corporate ecosystem in India, a legally robust and people-sensitive approach to restructuring is needed.