

A Critical Analysis Of Fixed-Term Contracts In Employment: Legal Framework, Benefits, And Challenges

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Abstract

Fixed-term employment contracts have emerged as a significant component of contemporary labour markets, reflecting the growing demand for flexibility in workforce management. These contracts, which specify a set duration or end date, are commonly used across various sectors to address short-term staffing needs, project-based assignments, and seasonal demands. They offer a range of benefits for both employers and employees. For employers, fixed-term contracts provide operational agility, enabling organizations to adapt quickly to changing business conditions, manage costs effectively, and reduce long-term employment liabilities. For employees, such contracts can offer valuable entry points into competitive industries, opportunities to gain experience, and pathways to permanent employment in some cases. Despite these advantages, fixed-term employment also presents notable challenges. One of the primary concerns is job insecurity, as employees on fixed-term contracts often face uncertainty regarding continued employment. This can lead to reduced morale, lack of motivation, and lower commitment to organizational goals. Additionally, workers on fixed-term contracts may not enjoy the same benefits and protections as their permanent counterparts, including access to health insurance, retirement plans, or career advancement opportunities. There is also the potential for misuse by employers who may use successive fixed-term contracts to avoid the obligations associated with permanent employment. From a legal and regulatory standpoint, the governance of fixed-term contracts varies widely across jurisdictions, with some countries implementing stricter rules to prevent abuse and ensure fair treatment. Policymakers and organizations must strike a balance between the need for labour market flexibility and the protection of workers' rights. This paper examines the benefits and challenges associated with fixed-term employment contracts, drawing on labour law, economic theory, and case studies. It highlights the importance of establishing clear policies and fair practices to ensure that fixed-term employment serves as a tool for opportunity and growth rather than one of exploitation and insecurity.

Keywords: Fixed-Term Contracts, Employment Law, Labour Market Flexibility, Temporary Employment, Job Security Workplace Rights.

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I. Research Methodology:

The Secondary Data is used in

Literature Review:

It includes Journals, articles, books on employment, contracts and labour law.

Legal Documents: National labour laws, international labour standards (ILO), EU directives, etc.

Statistical Reports: from labour departments, ILO, World Bank, or national bureaus.

II. Introduction

In evolving the landscape of global employment, fixed-term employment contracts have emerged as a significant form of work arrangement. These contracts, defined by a predetermined duration or linked to the completion of a specific task or project, offer an alternative to traditional permanent employment. Their increasing use across various sectors including education, healthcare, information technology, and manufacturing reflects broader shifts toward the labour market flexibility, economic uncertainty, and organizational restructuring. Fixed-term contracts present a dual-edged dynamic: on one hand, they provide employers with flexibility to manage the workforce demands efficiently, adapt to seasonal or project-based needs, and reduce long-term labour costs. On the other hand, they often raise concerns regarding job security, employee benefits, and workplace equality, particularly when used excessively or as a substitute for permanent roles. For employees, these contracts may offer short-term employment opportunities, entry points into competitive industries, and exposure to diverse work environments. However, the lack of stability and limited access to social protections can lead to precarious

working conditions, affecting morale, career development, and overall well-being. This research paper aims to explore the benefits and the challenges of fixed-term employment contracts from multiple perspectives — legal, economic, organizational, and social. Through an analysis of relevant laws, and case studies, this study seeks to evaluate the impact of fixed-term arrangements on both employers and employees, and to identify potential regulatory or policy measures that can ensure a fair and balanced approach to their use.

Definition of fixed-term employment contracts :

A **fixed-term employment contract** is a type of employment agreement between an employer and an employee that lasts for a specific period of time or until the completion of a particular task or project. The contract clearly states the start and end date, or the condition upon which the contract will terminate (e.g., end of a season, completion of a project, or return of a permanent employee from leave).

Characteristics:

- The duration of the employment is predefined.
- It automatically expires at the end of the term, unless renewed.
- It may be renewed or extended, depending on the employer's needs and legal limits (which vary by country).
- The employee usually has the same rights as permanent staff, including salary, working conditions, and protection against unfair treatment.

➤ ***Importance and relevance in the modern labour market***

Fixed-term employment contracts have become increasingly important and relevant in today's dynamic and evolving labour market. They play a crucial role for both **employers** and **employees**, particularly in industries that require flexibility, project-based work, or seasonal labour.

1. Flexibility for Employers

- **Adapt to market demand:** Employers can quickly scale their workforce up or down in response to changing business needs, seasonal fluctuations, or project timelines.
- **Cost-effective:** Reduces long-term financial commitments, especially during economic uncertainty or short-term needs.
- **Trial for permanent roles:** Serves as a probationary period before offering permanent employment.

2. Opportunities for Employees

- **Entry into competitive sectors:** Offers a way to gain experience or enter industries that may not have many permanent openings.
- **Skill development:** Provides diverse work experiences that enhance employability and build a varied skill set.
- **Work-life balance or specific needs:** Ideal for those seeking temporary employment, such as students, freelancers, or those transitioning between jobs.

3. Support for Project-Based Industries

- Common in **IT, construction, education, media, and research** where work is project-specific or time-limited.
- Enables efficient workforce management aligned with the duration and budget of projects.

4. Economic and Legal Relevance

- Fixed-term contracts are recognized and regulated by labour laws in most countries to ensure fair treatment and avoid abuse (e.g., repeated renewals without offering permanent roles).
- Plays a role in reducing unemployment by creating short-term job opportunities, especially during economic recovery phases.

5. Response to the Gig Economy and Hybrid Work

- In a labour market shaped by remote work, freelancing, and contract gigs, fixed-term contracts offer a structured yet flexible form of employment.
- They bridge the gap between traditional full-time employment and gig work by providing some stability without long-term obligations.
- Fixed-term employment contracts are a **strategic tool** in the modern labour market. They **balance flexibility and stability**, support workforce planning, and provide opportunities for both employers and employees in an increasingly project-oriented and uncertain economic environment.

➤ **Objectives of the Study**

These are the objectives as under:

- To allow employers to hire staff for a specific period based on business needs (e.g. seasonal demand, project timelines).
- To temporarily replace employees on leave (e.g., maternity, sick leave, sabbaticals).
- To engage employees for the duration of a particular project or task.
- To reduce labour costs by avoiding long-term benefits and severance obligations associated with permanent employment.
- To assess an employee's performance and fit before offering a permanent role.
- To bring in experts or specialists for a limited time when specific expertise is needed.
- To offer employment opportunities to different workforce segments (students, retirees, etc.).
- To create short-term jobs, particularly during economic downturns or recovery phases.

III. Legal Framework

Overview of laws and regulations governing fixed-term contracts (national/international, e.g., ILO conventions, EU directives)

A fixed-term employment contract is between a company and a worker for a period or until a specific task, like a project, is finished. These contracts help in businesses hire the people for the short-term or seasonal work while making sure about the workers have legal rights and protections. This explains what these contracts are, the laws behind them, workers' rights, and recent updates in a clear and easy-to-understand way.

Laws Governing Fixed-Term Contracts

The fixed-term contracts in India are primarily governed by the Indian Contract Act, 1872, which outlines the formation, performance, and termination of contracts. The Industrial Disputes Act, 1947, and state-specific labour laws regulate such contracts in employment, ensuring protections like notice periods and benefits for workers and compliance with the Shops and Establishments Act may also apply, depending on the workplace. Fixed-term contracts are mainly guided by two key laws in India:

- **2018 Rules:** *The Industrial Employment (Standing Orders) Central (Amendment) Rules, 2018*, effective from March 16, 2018, updated the Industrial Employment (Standing Orders) Act, 1946.

These rules officially **allowed fixed-term contracts in all industries.**

- **2020 Code:** *The Code on Social Security, 2020*, declares on September 29, 2020, brings together the various social security laws and includes the rules to protect fixed-term workers, ensuring they get benefits like pensions and health coverage.

How These Contracts Started

Before 2018: Fixed-term contracts were only allowed in certain industries, like textiles (2016) and leather footwear (2017), as part of the Make in India program.

2018 Changes: The 2018 Rules made fixed-term contracts legal for all industries, helping businesses meet short-term needs.

2020 Updates: The 2020 Code strengthened protections for fixed-term workers, aiming to give everyone access to social security benefits.

Rules for Fixed-Term Contracts

The main points about how fixed-term contracts work in India, based on the 2018 Rules and 2020 Code:

1. What is fixed-term contract?

A fixed-term contract is an written agreement for a job that lasts for a specific time, like a few months or until a project ends. Unlike permanent jobs, these contracts ends automatically when the time is up, without needing a notice to stop the job.

2. Worker Category

The fixed-term workers are considered as a type of “workman” under the Industrial Employment (Standing Orders) Act, 1946.

3. Protecting Workers

Companies cannot turn permanent workers into fixed-term workers just to avoid giving them permanent job benefits.

4. Clear Employment Rules

The companies must include about the fixed-term jobs when they submit their workplace rules (i.e. standing orders) for approval, so everything is transparent.

5. Pay and Benefits

The fixed-term workers must get the same pay, work hours, allowances, and benefits as the permanent workers, and adjusted for how long they work. But their benefits cannot be less than what permanent workers get.

6. Legal benefits

Fixed-term workers are entitled to government benefits, including:

- *Employees' Provident Fund (EPF)*: A savings scheme for retirement.
- *Employees' State Insurance (ESI)*: Health insurance for workers.
- *Gratuity*: A payment for long service (if they meet the rules).
- *Maternity benefits*: Support for pregnant workers and other social security programs.

7. Ending the Contract

When the contract discharge, no notice is required. If the employer ends the contract previous, they must give:

One week's notice if the worker has been employed for a month or more. One week's notice for each year worked if employed for two years or more.

8. Contract Details

The contract must be written and like the job duration and tasks, to avoid confusion.

9. Limits on Use

Fixed-term contracts for temporary or the project-based work, is not for the regular jobs or to replace workers on long leave. Examples hiring IT professionals for a specific software project or workers for seasonal production in factories.

Rights and Protections for Workers

Fixed-term workers have some important rights under Indian laws:

Equal Pay and Benefits: They must get same wages and the benefits as permanent workers, is based on how long they work.

Social Security: Some programs like EPF and ESI for financial and health security.

Fair Treatment: After the two years, employers can't fire the fixed-term workers without a written reason. If let go because the job isn't needed anymore, workers may get redundancy pay.

Maternity Benefits: Women on the fixed-term contracts to get the same maternity support as permanent workers.

Recent Updates: Code on Social Security, 2020

The Code on Social Security, 2020 combines eight older labour laws, like the Employees' Provident Funds Act, 1952, into one. It includes important rules for fixed-term workers:

- It officially defines fixed-term contracts as written agreements for a set time.
- Workers get benefits like pensions, medical coverage, and support for death or disability.
- The government is still working on the final rules for the 2020 Code and asking for feedback. The Code also gives employers a chance to fix mistakes in providing benefits like EPF or ESI before facing penalties, unless they keep breaking the rules within three years.

Where Fixed-Term Contracts are used

Fixed-term contracts are commonly used in industries with seasonal or project-based work, such as construction, retail, and entertainment. They are also prevalent in academia for temporary teaching or research roles and in organizations needing specific skills for short-term projects. These contracts are common in industries like:

Information Technology: Companies hire workers for specific projects, and some may become permanent later.

Manufacturing: Industries like clothing or leather use these contracts for busy seasons. ***Construction***: Workers are hired for the length of a building project.

Benefits for Employers

- ***Flexibility***: Hire workers only for the time needed.
- ***Cost Savings***: Avoid paying for permanent staff when work is temporary.

- **Testing Workers:** See how workers perform before offering permanent jobs.

Benefits for Employees

- **Fair Treatment:** Get the same pay and benefits as permanent workers.
- **Skill Building:** Gain experience on projects.
- **Chance for Permanent Jobs:** Good performance might lead to a full-time role.

Challenges and Issues

While fixed-term contracts are helpful, there are some problems:

- **Job Insecurity:** Workers, especially those with fewer skills, may worry about losing their jobs, particularly in smaller companies.
- **Limited Reach:** The 2018 Rules apply to factories, not offices or shops, though some states (like Karnataka and Haryana) have extended similar rules to shops.
- **Gratuity Confusion:** It's unclear when short-term workers qualify for gratuity.
- **Misuse:** In the past, some companies kept renewing fixed-term contracts with short breaks to avoid giving permanent benefits, which led to court cases.

IV. Benefits Of Fixed-Term Contracts

For Employers:

- **Flexibility** in workforce management (e.g., seasonal work, project-based hiring)
- Cost-effectiveness (no long-term obligations like severance or pensions)
- Ability to test employees before offering permanent roles

For Employees:

- Opportunities to enter the workforce or specific industries
- Gaining work experience and building professional networks
- Potential transition to permanent roles (in some cases)

V. Challenges Of Fixed-Term Contracts

For Employers:

- **Low employee loyalty** and higher turnover
- Potential **training costs** with no long-term ROI
- Legal risks if contracts are misused (e.g., repeated renewals)

For Employees:

- **Job insecurity** and lack of stability
- Limited access to benefits (healthcare, pensions, maternity leave)
- Career development concerns and workplace inequality
- Risk of exploitation (e.g., using fixed-term contracts to avoid full rights)

VI. Policy And Regulatory Recommendations

1. Clear Employment Contracts and Policies

Define *rights and expectations* clearly, including job roles, working hours, leave policies, and termination procedures. It include *flexibility clauses* (e.g., remote work, project-based roles) without compromising core rights like fair wages and benefits.

2. Open Communication and Transparency

It encourage two-way communication between employees and management. Be transparent about organizational changes, especially when they affect job roles or working conditions.

3. Fair Compensation and Benefits

Ensure fair wages aligned with market standards and legal requirements. Offer **flexible benefits** (e.g., remote work allowances, mental health days, flexible hours) that support employee well-being.

4. Strong Legal and Ethical Compliance:

To adhere to labour laws and anti-discrimination policies and regularly review the practices to ensure compliance with regulations related to working conditions, termination, and union rights.

5. Promote Work-Life Balance:

To implement flexible working hours, hybrid or remote work options and avoid excessive overtime and encourage use of leave entitlements.

6. Provide Opportunities for Growth:

Support up skilling and career development even in non-traditional work models (e.g., freelancers or part-timers) and Offer equal access to training, promotions, and mentoring.

7. Engage Workers in Decision-Making:

It include employees or their representatives in decisions related to workplace policies and structural changes and Use surveys, suggestion boxes, or councils to gather feedback and act on it.

8. Grievance Redressal Mechanisms:

It Create a fair and confidential system for employees to report concerns or rights violations and ensure non-retaliation policies are in place.

9. Support Diversity and Inclusion:

To protect rights related to gender, race, disability, and other protected characteristics. Offer flexible arrangements to accommodate diverse needs (e.g., caregivers, persons with disabilities).

10. Embrace Technology Responsibly:

By using technology (like scheduling or monitoring tools) in a transparent and ethical way and to inform employees how data is collected, stored, and be used.

VII. Conclusion

The 2020 Code and the Rules of 2018 regulate India's fixed-term employment contracts, which allow businesses to hire workers for short-term or project-based work while protecting their rights. They are advantageous to a number of industries, including manufacturing, construction, and IT. Problems including job insecurity, unclear gratuity laws, and limitations on the rule's application, however, need greater attention. With more specific restrictions and the implementation of the 2020 Code, these contracts could further help India's labour market. Modern social and economic strategies face a major difficulty in striking a balance between worker protection and labour market flexibility. On one hand, flexibility allows employers to adapt to changing market conditions, encourages job creation, and fosters innovation and competitiveness. On the other, worker protection safeguards employees from exploitation, ensures fair treatment, and contributes to long-term social stability. Finding the right balance between these two priorities is not only a technical policy issue but a deeply ethical one that touches on the value we place on human dignity in the workplace

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