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PROTECTING LABOUR IN CORPORATE RESTRUCTURING: EMPLOYEE RIGHTS IN MERGERS AND ACQUISITIONS

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ABSTRACT:

While corporate restructuring through mergers and acquisitions (M&A) has become a defining characteristic of contemporary economic growth, it also poses important questions about labour rights protection. As important stakeholders in business organisations, employees are frequently the most impacted throughout these changes, dealing with concerns about wages, social security benefits, job security, and continuity of service. With an emphasis on the revolutionary effects of the recently enacted Four Labour Codes, 2025, this study explores the changing legal environment governing employee rights in M&A transactions in India.

The paper examines how the regulatory environment has changed as a result of the consolidation of 29 disparate labor laws into four comprehensive codes, which have improved formalization, increased social security coverage, and standardized compliance procedures. In contrast to countries like the UK, it critically assesses the ongoing lack of a specific statutory framework controlling the transfer of undertakings, leaving employee protection reliant on court interpretation and contractual agreements. The essay delves deeper into important legal topics such as employment continuity, compensation for layoffs, employee classification, labor due diligence, and the interaction between labor and corporate laws.

This study illustrates the conflict between promoting ease of doing business and guaranteeing social justice for employees by looking at statutory requirements, judicial tendencies, and real-world difficulties in M&A transactions. It contends that there are still large gaps in protecting employee rights during corporate restructuring, even though the new labor rules reflect a paradigm change in bringing labor regulation into line with modern economic realities. In order to improve employee involvement, guarantee fair treatment, and establish a thorough framework for labor protection in business transfers, the report ends with reform recommendations.

All things considered, the study adds to the conversation about striking a balance between worker wellbeing and economic efficiency in a business climate that is becoming more and more dynamic.

INTRODUCTION:

In a globalized economy, corporate restructuring especially through mergers and acquisitions (M&A) has become an essential tool for attaining market expansion, company consolidation, and economic efficiency. In India, labor and employment regulations that

manage workforce migrations collide with corporate rules like the Companies Act, 2013, which oversee M&A transactions. The National Company Law Tribunal is one of the adjudicatory authorities that oversees these transactions."⁴⁹⁹ Corporate law, on the other

⁴⁹⁹ *Companies Act, 2013*, §§ 230-232 (India);

hand, makes it easier to transfer assets and liabilities, while labor law adds a protective element to protect employee interests. This creates a complicated interaction between social justice and economic goals.⁵⁰⁰

A change of ownership or control of an undertaking is a fundamental component of the M&A concept, which has an immediate effect on the employment relationship. Unlike other assets, employees cannot be transferred automatically without taking natural justice considerations, contractual duties, and regulatory protections into account. Indian labor law, which has its roots in welfare theory, acknowledges workers as a vulnerable group that has to be shielded from arbitrary layoffs, layoffs, or changes to working conditions.⁵⁰¹ This susceptibility is most noticeable during economic shifts like mergers, when restructuring choices could result in work position changes, layoffs, or a reduction in earned benefits. Employment-related liabilities, including unpaid statutory dues, wrongful termination lawsuits, and classification disputes, frequently emerge as substantial concerns during M&A transactions, according to empirical studies and legal analysis.

The inherent problems with the Indian legal system exacerbate labour's vulnerability during these changes. In the past, the existence of 29 disparate labor laws led to regulatory uncertainty and complexity, which frequently resulted in uneven enforcement and application. A major reform aimed at streamlining compliance while improving worker protection is the recent consolidation into four comprehensive labor codes: the Code on Wages, 2019; the Industrial Relations Code, 2020; the Code on Social Security, 2020; and the Occupational Safety, Health, and Working Conditions Code, 2020.⁵⁰² In an effort to strike a

compromise between freedom for companies and security for employees, these laws broaden the scope of social security, standardize salary standards, and bolster dispute resolution procedures.

Despite these changes, there is still uncertainty over the protection of employee rights during M&A due to the lack of a specific legal framework for transfer of undertakings, similar to the Transfer of Undertakings (Protection of Employment) Regulations (TUPE) in the United Kingdom.⁵⁰³ In order to prevent economic transformation from undermining basic labor rights, a labor-centric regulatory framework becomes essential. To strike a fair balance between business efficiency and worker protection, such a framework must incorporate legal protections, judicial principles, and best practices in labor due diligence.

CONCEPTUAL FRAMEWORK OF MERGERS AND ACQUISITIONS:

Corporate restructuring tactics aimed at achieving economic efficiency, market expansion, and competitive advantage form the foundation of the M&A conceptual framework. Legally speaking, mergers and acquisitions (M&A) are transactions in which businesses merge, buy, or restructure their organizational structures, frequently leading to the transfer of assets, liabilities, and managerial control. The Companies Act, 2013, in particular Sections 230–232, which govern compromises, arrangements, mergers, and amalgamations under judicial monitoring by the NCLT, is the primary legal framework governing such restructuring in India.⁵⁰⁴ An acquisition is the purchase of one firm's shares or assets by another, resulting in a transfer of control, whereas a merger typically entails the amalgamation of two or more businesses into a single organization, either by absorption or by creating a new company.

⁵⁰⁰ Singhania & Co., *Acquisition Transactions and the Limits of Labour Laws in India* (2025)

⁵⁰¹ *Industrial Disputes Act, 1947* (now subsumed under the Industrial Relations Code, 2020); see also *Workmen of Sudder Office v. Govt. of Madras*, AIR 1965 SC 174.

⁵⁰² Ministry of Labour & Employment, *Implementation of Four Labour Codes* (2025)

⁵⁰³ Human Right Law Review, *Impact and Analysis of M&A Laws on Employees in India* (2025)

⁵⁰⁴ *Companies Act, 2013*, §§ 230–232 (India);

There are many different types of M&A deals, each with unique legal and financial ramifications. According to Section 2(1B) of the Income Tax Act, 1961, amalgamation is the creation of a new business or the merger of one or more firms into another, with all assets and liabilities transferred to the transferee company.⁵⁰⁵ In contrast, a "slump sale" is the transfer of an enterprise as a going concern for a lump sum payment under Section 2(42C) of the Income Tax Act, 1961, without a separate asset and liability appraisal.⁵⁰⁶ Acquisitions and takeovers are governed by securities legislation frameworks like SEBI (Substantial Acquisition of Shares and Takeovers) and can be friendly or hostile, depending on the target company's approval. rules. Furthermore, depending on the characteristics of the merging companies and their market connections, mergers can be classified as horizontal, vertical, conglomerate, or congeneric. These diverse structures show that M&A is a range of legal procedures that support corporate transformation rather than a single notion.

From the standpoint of labor law, M&A has a significant and frequently disruptive effect on worker organization. Redundancy, staff rationalization, modifications to service conditions, or personnel reclassification could result from the transfer of undertakings. According to academic research, post-merger adjustments often lead to short-term wage fluctuations and employment reduction, which reflects the reconfiguration of labor markets inside merging organizations.⁵⁰⁷ In India, workers' rights are primarily managed by legislative safeguards pertaining to retrenchment, compensation, and continuity of service rather than a comprehensive transfer regime due to the lack of automatic employee transfer rules. As a result, amid these changes, workers are uncertain about their job security and benefit retention.

Labor is becoming more often acknowledged as a crucial participant within the larger framework of corporate governance as opposed to just a factor of production. Stakeholder-oriented strategies that prioritize the defense of workers' rights and interests are challenging traditional shareholder-centric models of governance.⁵⁰⁸ Stakeholder governance theories contend that sustainable corporate restructuring must balance the interests of creditors, shareholders, and employees, especially in M&A transactions where labor displacement risks are high.⁵⁰⁹ Indian labor laws, such as the recently consolidated labor codes, support this strategy by requiring social security, wage protection, and fair working conditions, thereby integrating labor welfare into the corporate governance matrix.

EVOLUTION OF LABOUR PROTECTION IN INDIA:

India's labor protection system has gradually evolved from a disjointed, welfare-focused legal structure to a contemporary, unified regulatory framework that aims to strike a balance between worker protection and economic efficiency. The Industrial Disputes Act of 1947, the Factories Act of 1948, the Minimum Wages Act of 1948, and the Employees' Provident Funds and Miscellaneous Provisions Act of 1952 are just a few of the sector-specific statutes that were passed during the colonial and early post-independence periods.⁵¹⁰ These laws, which addressed labor exploitation and were based on the social justice philosophy, produced a highly disjointed legal system with 29 central labor statutes, each of which addressed different issues like wages, social security, industrial relations, and working conditions.⁵¹¹ Significant difficulties were brought about by this multiplicity, which had an impact on both businesses and employees. These difficulties

⁵⁰⁸ R. Edward Freeman, *Strategic Management: A Stakeholder Approach* (1984); see also comparative corporate governance literature.

⁵⁰⁹ Vitor Costa, *Local Labor Market Effects of Mergers and Acquisitions in Developing Countries* (2023)

⁵¹⁰ *Industrial Disputes Act, 1947; Factories Act, 1948; Minimum Wages Act, 1948; Employees' Provident Funds and Miscellaneous Provisions Act, 1952.*

⁵¹¹ PRS Legislative Research, *Overview of Labour Law Reforms in India* (2020)

⁵⁰⁵ *Income Tax Act, 1961*, § 2(1B);

⁵⁰⁶ *Income Tax Act, 1961*, § 2(42C);

⁵⁰⁷ SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 2011

included overlapping definitions, inconsistent compliance requirements, and confusing regulations. From a labor standpoint, the fragmentation frequently resulted in enforcement gaps, especially in the unorganized sector, leaving sizable portions of the workforce without sufficient legal protection.⁵¹²

Despite its progressive goals, the pre-code system came under growing criticism for being antiquated and unsuited to the needs of a liberalized and globalized industry. Researchers have noted that strict labor laws and complicated procedures discouraged formal employment while encouraging contractualization and informal labor.⁵¹³ In order to simplify labor laws, lessen the burden of compliance, and provide protection to new worker categories like gig and platform workers, thorough reform became necessary.

The Code on Wages, 2019; the Industrial Relations Code, 2020; the Code on Social Security, 2020; and the Occupational Safety, Health, and Working Conditions Code, 2020 are four comprehensive labor codes that were implemented on November 21, 2025, as part of one of the biggest labor law reforms in Indian history. With the goal of establishing a uniform, streamlined, and contemporary legal framework, this consolidation signifies a paradigm shift in India's labor law. Through mechanisms like single registration, licensing, and return filing systems, the new laws simplify administrative procedures, harmonize definitions, and establish a unified salary structure.

The formalization of employment is one of the main goals of the labor regulations. This is accomplished by rules like required appointment letters, uniform minimum pay, and digital compliance systems. In India, where a sizable section of the labor force works in the unorganized sector without formal contracts or

social security benefits, formalization is especially important. The regulations aim to improve accountability and transparency in employer-employee relationships by standardizing work standards and requiring documentation.

Increasing social security coverage is another important goal. The Code on Social Security, 2020 closes a long-standing labor protection vacuum by extending benefits including insurance, gratuity, and provident fund to a larger group of workers, including gig and platform workers. This is a dramatic change from the conventional employment-centric social security model to a more inclusive framework that acknowledges how work is changing in the digital economy. The regulations also place a strong focus on benefit portability, allowing employees to keep their social security benefits even when they change jobs and locales.

Additionally, the labor regulations are designed to promote ease of doing business while strengthening worker protection. The rules aim to establish a balanced framework that promotes industrial expansion without sacrificing labor welfare by streamlining compliance requirements and cutting down on regulatory duplication. The evolution of labor protection is still underway, though, as this shift has also sparked discussions about the sufficiency of safeguards, especially in areas like retrenchment thresholds and collective bargaining rights.

LEGAL FRAMEWORK GOVERNING EMPLOYEE RIGHTS IN M&A:

The recently consolidated labor law regime, which includes the **Industrial Relations Code, 2020, the Code on Social Security, 2020, the Code on Wages, 2019, and the Occupational Safety, Health, and Working Conditions Code, 2020**, is the main source of the legal framework governing employee rights in mergers and acquisitions (M&A) in India. Together, these laws create a single legal framework governing pay, workplace safety, industrial relations, and

⁵¹² International Labour Organization, *India Labour Market Update* (2023).

⁵¹³ Bibek Debroy et al., *Reforming Labour Regulations in India* (NITI Aayog Working Paper).

employment conditions, replacing 29 disparate labor acts. These codes are essential for establishing the rights, obligations, and liabilities of employers and employees during business transfers, restructuring, and integration procedures in the context of M&A.⁵¹⁴

The foundation of employee protection in M&A transactions, especially with regard to layoffs, retrenchment, closure, and dispute resolution, is the Industrial Relations Code, 2020 (IR Code). It creates a complete framework for industrial relations by combining and replacing the Industrial Disputes Act of 1947, the Trade Unions Act of 1926, and the Industrial Employment (Standing Orders) Act of 1946. The Code governs the circumstances in which employers may change or terminate employment, including clauses mandating notice, payment, and, in some situations, prior government clearance for layoffs in businesses that surpass particular criteria. By recognizing negotiating unions and requiring engagement in situations involving changes to service conditions, it also enhances collective bargaining processes. This is especially important in post-merger integration.⁵¹⁵

In addition to this framework, the Code on Social Security, 2020 further broadens the scope of employee welfare by providing social security benefits to a larger group of workers, such as platform and gig workers. Contributions to provident funds, insurance, gratuities, and other welfare programs are required by this code, guaranteeing benefits even in situations where an employer or owner changes. This Code's recognition of employer accountability for statutory dues and emphasis on benefit portability, which reduces the danger of losing accrued rights during corporate restructuring, make it significant in M&A transactions. Additionally, labor compliance is a crucial component of due diligence in M&A transactions since transferee employers may

incur liabilities related to social security contributions.

The Code on Wages, 2019 guarantees the statutory right to minimum wages, prompt payment, and non-discrimination in compensation while introducing a unified definition of "wages." This Code is essential for protecting wage-related rights in the context of M&A since it forbids arbitrary salary reductions or changes to wage structures after a transfer. It also lessens uncertainty in determining employee remuneration, bonuses, and retrenchment benefits all of which are sometimes controversial topics in corporate restructuring by standardizing salary definitions across statutes. The Code also requires equal compensation regardless of gender, which strengthens equity ideals in reorganized organizations.

The Occupational Safety, Health and Working Conditions Code, 2020 (OSH Code), which regulates workplace safety, health standards, and working conditions across businesses, is equally important. Employers are required by this code to maintain specified occupational health standards, provide welfare amenities, and guarantee safe working environments. These responsibilities also apply to the transferee entity in M&A transactions, which is responsible for maintaining employee working conditions and adhering to safety regulations. Thus, the OSH Code emphasizes the right to a respectable and secure job, which is a crucial component of employee rights that transcends financial concerns.⁵¹⁶

By influencing workforce liabilities, compliance requirements, and risk distribution, these four labor laws together provide an integrated legal framework that has a substantial impact on M&A transactions. According to recent research, the implementation of these rules has changed labor compliance from a formal requirement to a crucial part of M&A due diligence, which has an impact on transaction structuring and

⁵¹⁴ *Industrial Relations Code, 2020; Code on Social Security, 2020; Code on Wages, 2019; Occupational Safety, Health and Working Conditions Code, 2020.*

⁵¹⁵ PRS Legislative Research, *Industrial Relations Code, 2020 Bill Summary*

⁵¹⁶ Ministry of Labour & Employment, Government of India, *Labour Code Reform Notifications (2025).*

pricing. But even with this extensive legal framework, there are still certain loopholes in employee protection, especially when it comes to guaranteeing automatic continuity of employment, because there is no specific statute controlling the transfer of undertakings. However, the labor regulations are a significant step toward balancing corporate restructuring with labor welfare, which strengthens the idea that economic shifts shouldn't come at the expense of workers' rights.

TRANSFER OF UNDERTAKINGS AND CONTINUITY OF EMPLOYMENT:

When it comes to assessing employee rights during mergers and acquisitions (M&A), especially with regard to continuity of employment and protection against arbitrary displacement, the legal framework governing transfer of enterprises in India plays a crucial role. Indian law does not acknowledge a general principle of automatic employee transfer, in contrast to nations like the United Kingdom that allow for such transfers under the Transfer of Undertakings (Protection of Employment) Regulations (TUPE). Rather, Section 25FF of the Industrial Disputes Act, 1947 (now included in the Industrial Relations Code, 2020), which takes a compensating rather than continuity-based approach, is the principal statutory provision governing this subject.⁵¹⁷ This clause states that, unless specific requirements are met, employees who have completed at least one year of continuous service are entitled to notice and retrenchment compensation as if they had been laid off under Section 25F when ownership or management of an undertaking is transferred, whether by agreement, amalgamation, or operation of law.⁵¹⁸

A key doctrinal difference in Indian labor law is seen in the lack of an automatic transfer provision. Employment contracts cannot be transferred without either statutory authorization or adherence to specified

precautions since they are regarded as personal contracts. As a result, personnel transfers in M&A deals are conditional rather than inherent, sometimes negotiated through business transfer agreements (BTAs), and covered by legal protections. This leads to some legal ambiguity, especially for non-workmen employees who rely mostly on contractual agreements and are not covered by labor laws.

The theory of "no less favourable terms," which functions as an exception to the necessity of compensation under Section 25FF, is a key concept that has arisen within this framework. The proviso to this section states that if three requirements are met, employees are not entitled to retrenchment compensation: (i) there is no interruption in service; (ii) the terms and conditions of employment following the transfer are not less favorable than those that existed prior to the transfer; and (iii) the transferee employer assumes liability for future retrenchment compensation based on continuous service. As long as employee interests are sufficiently protected, this approach practically permits employment continuity without further compensation. In actuality, it guarantees that workers' accumulated rights, including seniority, pay, and benefits, are maintained and that corporate reorganization does not disadvantage them.

The boundaries of employee rights in undertaking transfers have been significantly shaped by judicial interpretation. Indian courts have repeatedly emphasized that Section 25FF is not intended to forbid such transfers, but rather to shield employees from the negative effects of corporate reorganization.⁵¹⁹ The Supreme Court emphasized the provision's narrow but protective scope in **Maruti Udyog Ltd. v. Ram Lal** by clarifying that it mainly controls the computation of compensation and does not automatically extend all repercussions of retrenchment.⁵²⁰ In a similar vein, the Court's

⁵¹⁷ *Industrial Disputes Act, 1947*, § 25FF (now under the Industrial Relations Code, 2020, § 70 & 73).

⁵¹⁸ *Industrial Disputes Act, 1947*, § 25F.

⁵¹⁹ *Sunil Kr. Ghosh v. K. Ram Chandran*, Civil Appeal Nos. 9921–9922 of 2011 (Supreme Court of India).

⁵²⁰ *Maruti Udyog Ltd. v. Ram Lal*, (2005) 2 SCC 638.

ruling in *IPCL Employees' Association v. Indian Petrochemicals Corporation Ltd.* reinforced the idea that protection under Section 25FF is conditional rather than absolute by holding that employees cannot assert rights beyond those stipulated by statute when favorable conditions and continuity of service are maintained.⁵²¹

The issue of employee permission in transfer scenarios is another noteworthy legal development. When statutory prerequisites are met, courts have typically found that consent is not a requirement for transfer under Section 25FF, giving businesses some leeway in reorganizing operations. This stance has been contested, though, particularly when there has been a significant change in the terms of service or when the transfer is suspected of being a fraud. In these situations, judicial review guarantees that the clause isn't abused to get around labor laws.⁵²²

The Indian framework is nonetheless criticized for its narrow reach and ambiguity in spite of these protections. Relying on a compensation mechanism instead of an automatic transfer regime frequently leads to fragmented protection, especially for employee types who are not included in the definition of "workman." Additionally, the lack of a thorough legal framework governing corporate transfers results in a significant reliance on contractual agreements and judicial interpretation, which raises questions about M&A transactions.⁵²³

PROTECTION UNDER SECTION 25FF FRAMEWORK AND RETRENCHMENT, LAY-OFFS, AND CLOSURE IN M&A TRANSACTIONS:

The framework of Section 25FF of the Industrial Disputes Act, 1947 (now incorporated into the Industrial Relations Code, 2020), which introduces a hybrid mechanism combining continuity of employment with compensatory safeguards, greatly influences the protection of employees in mergers and acquisitions (M&A)

under Indian labor law.⁵²⁴ The legal illusion of "deemed retrenchment," which treats a transfer of undertaking as an employee layoff and activates the safeguards under Section 25F, is the basis for Section 25FF.⁵²⁵ Unless certain legal requirements are met, this guarantees that workers who have worked continuously for at least a year are entitled to notice and retrenchment compensation, which is computed at fifteen days' average salary for each completed year of service.

The right to continuity of service, which arises through the proviso to Section 25FF, is one of the fundamental rights under this framework. The employee's service is considered continuous if the transfer of undertaking does not disrupt employment and the terms and conditions of service are not less favorable. Maintaining acquired benefits like seniority, provident fund, and gratuity depends on this continuity. Thus, the idea of continuity serves as a buffer against the deterioration of long-term job rights, especially in restructuring situations where ownership shifts but corporate activities remain largely unaltered. However, continuity in India is contingent upon legislative compliance, which reflects a more employer-flexible but worker-protective paradigm, in contrast to jurisdictions with automatic transfer laws.

The fundamental protective component of the framework, the entitlement to notice and retrenchment compensation, is closely related to this. No worker may be laid off without one month's notice (or earnings in place of notice) and payment of compensation, according to Section 25F. For workers impacted by restructuring, this criterion guarantees both procedural justice and financial support. Depending on the terms of the contract and the form of the transaction, either the transferor or the transferee employer may be responsible for this obligation in the context of M&A. Corporate restructuring is in line with social justice ideals

⁵²¹ *IPCL Employees' Association v. Indian Petrochemicals Corporation Ltd.*, (2008) 12 SCC 558.

⁵²² NLUJ Law Review, *Employee Rights and Legal Complexities in Business Transfers* (2024)

⁵²³ Maheshwari & Co., Section 25FF and Business Transfers (2025)

⁵²⁴ *Industrial Disputes Act, 1947*, § 25FF (India) (transfer of undertakings and deemed retrenchment principle).

⁵²⁵ *Industrial Disputes Act, 1947*, § 25F (conditions precedent to retrenchment—notice and compensation).

because the statutory duty of compensation also serves as a deterrent against arbitrary employment reduction.⁵²⁶

M&A structuring is greatly impacted by the law's provisions for exemption from compensation, nevertheless. According to Section 25FF's proviso, compensation is not due if (i) there is no service interruption, (ii) post-transfer conditions are not less favourable, and (iii) the transferee employer takes on liability for future retrenchment compensation based on continuous service. Together, these criteria represent the idea of "no less favourable terms" and, as long as employee interests are upheld, provide for a smooth labor transfer without adding to the financial load. In order to ensure compliance with labor law requirements while facilitating business continuity, this exception is frequently used in M&A transactions.

The Industrial Relations Code, 2020's larger framework of retrenchment, layoffs, and closure which goes beyond transfer-specific protections is crucial in controlling workforce restructuring.⁵²⁷ The Code introduces major modifications and unifies previous regulations, especially with regard to thresholds and procedural requirements. The criterion for previous government clearance for layoffs, retrenchments, and closures was raised from 100 to 300 employees, which is a significant improvement. Large-scale restructuring is subject to an additional level of inspection since industrial establishments with 300 or more employees must first acquire clearance from the relevant authorities.⁵²⁸ This modification has been criticized for perhaps lowering protections for employees in smaller businesses, although it attempts to strike a balance between worker protection and convenience of doing business.

Procedural safeguards, such as notice requirements, compensation payment, and

adherence to statutory timelines, are also prescribed by the Code. For example, laid-off employees must get 50% of their pay during the layoff period, whereas retrenched employees are entitled to notice and compensation. Furthermore, a move toward promoting reemployment and lessening the negative effects of job loss is shown in the establishment of a reskilling fund that requires businesses to donate fifteen days' worth of salary. These protections guarantee that workforce reorganization is carried out in an open and fair way.

Crucially, there are severe legal repercussions for breaking these rules. Employees are entitled to reinstatement and back pay if retrenchment or closure is carried out without adhering to legal standards, especially in establishments that need prior government clearance. This stringent approach upholds the idea that economic restructuring cannot supersede statutory employee rights and highlights the protective objective of labor legislation.

Classification of Employees, Differential Protection, and Continuity of Service:

The basis for deciding the type and degree of protection afforded to workers in mergers and acquisitions (M&A) is the classification of employees under Indian labor legislation. The Industrial Disputes Act of 1947⁵²⁹ and the Industrial Relations Code of 2020⁵³⁰ are the foundations of India's labor jurisprudence, which has historically distinguished between "workmen" and "non-workmen." Those who perform manual, technical, operational, or clerical tasks are referred to as "workmen," while managers and supervisors are not included in this group and are regarded as non-workmen.⁵³¹ This distinction has significant ramifications for M&A transactions because statutory protections for layoffs, retrenchment, and dispute resolution mostly apply to workers,

⁵²⁶ Kamala Sankaran, "Labour Regulation and Corporate Restructuring in India," (2018) 53 *Economic and Political Weekly* 47.

⁵²⁷ Report of the *Second National Commission on Labour* (2002), Government of India – recommended consolidation of labour laws, forming the basis of the Industrial Relations Code, 2020.

⁵²⁸ *Industrial Relations Code, 2020*, § 77 (threshold requirement of prior government permission for establishments employing 300 or more workers).

⁵²⁹ *Industrial Disputes Act, 1947*, § 2(s) (definition of "workman").

⁵³⁰ *Industrial Relations Code, 2020*, § 2(zr) (expanded definition of "worker").

⁵³¹ *Burmah Shell Oil Storage and Distributing Co. of India Ltd. v. Burmah Shell Management Staff Association* – clarified distinction between managerial employees and workmen.

leaving non-workers mostly reliant on contractual remedies.

By expanding the range of worker classifications particularly by acknowledging new forms of labor the evolution of labor law via the four labor codes has attempted to redress these discrepancies.⁵³² By adding groups like gig workers, platform workers, fixed-term employees, and unorganized workers, the Code on Social Security, 2020 marks a substantial shift from conventional classifications. These classifications show how the nature of work is evolving in a digital and service-oriented economy, where flexible, task-based engagements are gradually replacing traditional employer-employee ties.⁵³³ Platform workers access work through digital interfaces like applications or online platforms, whereas gig workers are those who labor outside of the typical employment arrangement.⁵³⁴

Fixed-term workers and contract labor also play a crucial role in this classification system. The new labor regulations reduce the possibility of exploitation through contractual agreements by granting fixed-term employees' parity with permanent employees in terms of salary, social security, and working conditions. Similarly, in order to prevent outsourcing agreements from weakening labor safeguards, contract labor is increasingly placed within the major employer's welfare and social security obligations. These improvements are especially pertinent to M&A transactions, as workforce restructuring frequently entails reclassifying workers or relying more on contractual labor models to improve operational flexibility.⁵³⁵

By providing social security benefits to a broader range of workers, such as gig and platform workers, unorganized labor, and migrant workers, the Code on Social Security,

2020's coverage expansion reinforces the framework of differentiated protection.⁵³⁶ In order to create a complete welfare architecture, the Code requires the establishment of social security programs that are financed by contributions from employers, aggregators, and the government. A notable change toward shared responsibility in labor welfare is the requirement that aggregators in the gig economy donate a portion of their earnings to a social security fund. By guaranteeing that labor security is not limited to conventional employment relationships but rather encompasses a variety of changing types of work, this extension represents a shift towards inclusivity.⁵³⁷

The idea of continuity of service and maintenance of employment benefits is closely related to employee classification, and it becomes more important in the context of M&A. Despite changes in ownership or management, continuity of service guarantees that workers maintain their acquired rights, such as seniority, gratuity, provident fund (PF), and leave entitlements. Contributions to provident funds under the Employees' Provident Funds and Miscellaneous Provisions Act, 1952 (now subsumed) and gratuity under the Payment of Gratuity Act, 1972 (now incorporated into the Social Security Code) are governed by statutes that emphasize the significance of continuous service for benefit accrual.⁵³⁸ Maintaining continuity of service is crucial in M&A transactions to avoid losing long-term advantages and to preserve stability and staff morale.

During business reorganization, wage protection and the equal pay principle are essential for maintaining employee rights. The Code on wages, 2019 eliminates discrepancies between industries and categories by establishing a uniform definition of salaries and

⁵³² S.C. Srivastava, *Industrial Relations and Labour Laws* (Vikas Publishing, 7th ed., 2020).

⁵³³ Report of the *Second National Commission on Labour* (2002), Government of India – recommended consolidation of labour laws, forming the basis of the Industrial Relations Code, 2020.

⁵³⁴ *Code on Social Security, 2020*, §§ 2(35), 2(60), 2(61), 2(86) (definitions of gig worker, platform worker, unorganised worker, and aggregator).

⁵³⁵ Surya Deva, "Labour Law Reforms in India: All in the Name of Ease of Doing Business," (2021) 63 *Journal of the Indian Law Institute* 1.

⁵³⁶ *Code on Social Security, 2020*, Chapter IX (Social Security for Gig and Platform Workers).

⁵³⁷ Benjamin Aaron, "The Transfer of Undertakings and Protection of Employment," (Comparative Labor Law Journal, 1988).

⁵³⁸ *Payment of Gratuity Act, 1972*, §§ 2A, 4 (continuous service and gratuity entitlement).

requiring all employees to receive minimum wages.⁵³⁹ It further upholds the idea of equal compensation for equal labor by outlawing gender-based wage discrimination. These clauses protect employees' financial interests by ensuring that post-merger restructuring does not lead to arbitrary salary reductions or discriminatory actions.⁵⁴⁰

M&A has an equally important effect on social security and pension rights. The Code on Social Security, 2020's unification of social security programs makes it easier for benefits to be portable, allowing workers to keep their entitlements even when they change jobs and locales. The implementation of centralized databases and universal account numbers linked to Aadhaar further improves benefit accessibility and transparency, guaranteeing that workers are not negatively impacted by organizational changes.⁵⁴¹ Nevertheless, there are still difficulties in putting these requirements into practice, especially when it comes to making sure gig and unorganized workers are aware of them and comply with them.

SOCIAL SECURITY, WELFARE PROTECTION, AND LABOUR DUE DILIGENCE IN M&A TRANSACTION:

The implementation of the four unified labor codes has drastically changed India's social security and welfare protection landscape, especially when it comes to mergers and acquisitions (M&A), where employee benefits continuity and compliance requirements are crucial. By intending to universalize social security coverage and expanding legislative protection beyond typical employer-employee relationships to include unorganized workers, gig workers, and platform workers, the Code on Social Security, 2020 constitutes a paradigm change.⁵⁴² A long-standing gap in Indian labor law, where a sizable section of the workforce

remained outside of official protective mechanisms, is addressed by this extension.⁵⁴³

The specific identification and protection of gig and platform workers, who were previously exempt from labor laws because they lacked a traditional employment relationship, is a noteworthy aspect of this approach. In addition to defining these categories, the Code establishes a contributing model in which aggregators must contribute a predetermined portion of their turnover to social security funds. This initiative acknowledges the changing nature of work in the digital economy and reflects a larger trend towards inclusive labor governance. According to scholarly opinion, this approach is consistent with global trends in labor regulation, wherein states are balancing the requirement for labor market freedom with the expanding extension of social protection to non-standard types of employment.

The idea of benefit mobility between employers is equally important and directly affects M&A deals. Through systems like Aadhaar-linked universal account numbers, the labor codes enable employees to maintain their social security entitlements regardless of changes in job or geographic mobility. This is especially important in situations involving company restructuring, as workers might be moved, hired again, or incorporated into new organizational structures. By ensuring that such changes don't interfere with the accumulation of long-term benefits like insurance coverage, gratuities, and provident fund contributions, portability strengthens continuity and stability in work relationships. incorporates labor welfare concerns into the transactional framework of M&A by imposing legal duties on transferring businesses to guarantee compliance with ongoing social security commitments.

The growing significance of labor due diligence in M&A deals, which has developed into a crucial part of corporate risk assessment and valuation, is closely related to the growth of

⁵³⁹ *Randhir Singh v. Union of India* – constitutional recognition of “equal pay for equal work.”

⁵⁴⁰ *State of Punjab v. Jagjit Singh* – extended equal pay principle to temporary workers.

⁵⁴¹ *Code on Social Security, 2020*, §§ 141–142 (universal registration and Aadhaar linkage).

⁵⁴² *Code on Social Security, 2020*, §§ 1(4), 2 (application and definitions extending coverage beyond traditional employment).

⁵⁴³ *Code on Social Security, 2020*, Statement of Objects and Reasons (universalisation of social security coverage).

social security.⁵⁴⁴ The methodical identification and assessment of workforce-related liabilities, such as unpaid salaries, statutory non-compliance, ongoing legal proceedings, and social security obligations, is known as labor due diligence. Research shows that if labor obligations are not sufficiently addressed during the transaction phase, they can have a substantial impact on deal valuation and lead to post-acquisition litigation. Due diligence has become more extensive in the context of the new labor codes, requiring evaluation of adherence to occupational safety regulations, social security contributions, and standardized wage definitions.

The compliance audit under labor codes, which entails confirming adherence to legal obligations such as registration, record-keeping, salary payment, and social security contribution, is a crucial component of labor due diligence. The implementation of a single registration, single license, and consolidated returns unified compliance framework has improved accountability and transparency while streamlining the audit process. However, breaking these rules can result in serious consequences, such as fines, legal action, and reputational damage, which makes thorough due diligence in M&A deals necessary. Legal professionals stress that compliance audits not only guarantee respect to regulations but also enable more seamless workforce integration following acquisition.

Additionally, labor due diligence is essential to risk allocation and value in M&A deals. Identified labor responsibilities are frequently covered by contractual provisions like indemnities, representations, and warranties, or they are included in the purchase price.⁵⁴⁵ Price modifications or escrow arrangements, for example, may result from prospective liabilities resulting from non-payment of gratuity, provident fund dues, or wrongful termination

claims. Additionally, the new labor rules' broader social security duties have made acquiring entities more financially vulnerable, making labor compliance a crucial factor in determining transactional risk.

DISPUTE RESOLUTION MECHANISMS IN LABOUR CONFLICTS:

The Industrial Relations Code, 2020 (IR Code), which aims to strike a balance between efficiency, industrial harmony, and the preservation of employee rights, establishes a systematic and multi-tiered framework for resolving labor disputes in the context of mergers and acquisitions (M&A). The Code proposes a simplified system that includes conciliation, arbitration, and adjudication through Industrial Tribunals while consolidating previous conflict resolution procedures.⁵⁴⁶ This framework is especially important in M&A transactions, where disagreements may result from layoffs, changes to service terms, or the transfer of undertakings. In order to prevent labor unrest, these conflicts must be resolved quickly and effectively.

Industrial Tribunals, which serve as the principal adjudicatory body for labor disputes, are at the centre of this framework. In order to provide a balance of administrative and legal experience in decision-making, the IR Code calls for the establishment of Industrial Tribunals with a Judicial Member and an Administrative Member. These tribunals have more authority to decide cases because they have the same authorities as civil courts, such as calling witnesses, reviewing evidence, and requiring attendance. The removal of the need for government referrals of disputes, which permits direct access to tribunals and minimizes procedural delays, is a major change brought about by the Code. This is especially helpful in M&A situations where urgent resolution of time-sensitive disputes about pays or employment continuity is necessary.

⁵⁴⁴ Ramaiya, *Guide to the Companies Act* (LexisNexis, latest ed.) – discussion on due diligence in corporate restructuring.

⁵⁴⁵ Nishith Desai Associates, *Labour and Employment Law in India: M&A Perspective* (Research Paper, 2022).

⁵⁴⁶ *Industrial Relations Code, 2020*, §§ 42–49 (mechanisms for conciliation, arbitration, and adjudication).

The IR Code emphasizes conciliation as the main means of resolving disputes before they reach the adjudication stage. Conciliation officers, who serve as impartial mediators to promote a peaceful resolution between employers and employees, may be appointed by the relevant authorities. In conciliation processes, disagreements are investigated, parties negotiate, and settlement reports are submitted to the government. During corporate restructuring procedures, where staff stability is critical, this approach is intended to avoid disagreements from getting worse and to foster industrial harmony. Furthermore, the Code emphasizes the significance of mediated settlements by requiring conflicts to typically go through the mediation stage before being referred to adjudicatory agencies.

The IR Code encourages arbitration as an alternate conflict resolution process in addition to conciliation. Through arbitration, parties can willingly submit disagreements to an impartial arbiter, whose decision is legally binding on them. This approach is especially useful for settling complicated labor issues that arise in M&A transactions since it provides flexibility, confidentiality, and speed. In line with current trends supporting alternative conflict resolution processes, arbitration gives parties more control over the dispute settlement process and lessens the burden on tribunals.

The IR Code's framework for resolving disputes culminates in the provision of remedies, like as compensation, reinstatement, and other suitable reliefs. In circumstances of unjust termination, Industrial Tribunals have the authority to reinstate employees, reestablishing the employment relationship and guaranteeing justice.⁵⁴⁷ Tribunals may sometimes grant monetary compensation instead of reinstatement, especially where reinstatement is not feasible or when the employment relationship has irreversibly deteriorated.⁵⁴⁸

These remedies are a reflection of labor law's dual goals of preserving economic efficiency and shielding workers from unfair treatment.

In order to guarantee prompt conflict settlement, the Code also incorporates time-bound adjudication and improved procedural clarity. Preventive forums, conciliation, and adjudication make up the three-tier dispute resolution process, which guarantees that disagreements are handled at several levels and lessens the possibility of protracted litigation. This is especially important in M&A deals since unresolved labor conflicts can have a big impact on post-merger integration, valuation, and deal execution.

CHALLENGES AND RECOMMENDATIONS:

A number of structural and operational issues have arisen as a result of the four Labor Codes' adoption and how they interact with mergers and acquisitions (M&A) activities, creating a complicated and revolutionary regulatory environment. Even under the new labor rules, there is still no clear legal structure guiding the transfer of undertakings, which is one of the main obstacles. According to current legal studies, the Codes rely on heritage notions like continuity of service and "no less favourable terms" because they do not specifically provide for automatic staff transfers. Because employee rights rely more on contractual agreements and judicial interpretation than on legislative clarity, this leads to legal uncertainty, especially in large M&A transactions.

The new labor regulations' increasing compliance burden and transitional complexity present another major obstacle. Although simplification was the goal of consolidation, in reality, companies have to deal with a "dual regulatory environment" where central laws coexist with changing state-level regulations, creating uncertainty and compliance concerns. In order to comply with new definitions and standards, organizations must update internal HR policies, employment contracts, and salary structures. This frequently leads to higher operating costs and administrative burden.

⁵⁴⁷ *Industrial Relations Code, 2020*, § 42(4) (enabling direct application to Industrial Tribunals).

⁵⁴⁸ *Industrial Relations Code, 2020*, § 44 (constitution of Industrial Tribunals with Judicial and Administrative Members).

Furthermore, the expansion of social security responsibilities and the meaning of "wages" have drastically changed financial liabilities, which have an effect on cost estimates and valuation in M&A deals.

Identification of hidden liabilities and labor classification present significant issues as well. Businesses must conduct thorough workforce mapping to guarantee accurate classification and compliance as gig workers, contract labor, and fixed-term employees are now covered by the new rules. Failing to do so could result in unanticipated obligations, such as penalties and retroactive social security contributions. Furthermore, integrating labor policies after acquisition is still a challenging undertaking, especially when it comes to coordinating disparate employment terms, perks, and organizational cultures.

Furthermore, the efficacy of labor reforms is compromised by implementation gaps and enforcement issues. Research shows that a lack of awareness, insufficient training, and ineffective enforcement methods are more common causes of noncompliance than legislative flaws. Realizing universal labor protection is made more difficult by the existence of a sizable informal sector and a lack of institutional capacity, particularly for gig and unorganized workers.

Given these difficulties, a number of suggestions can be made. In order to reduce uncertainty in M&A transactions, it is imperative to establish a complete legal framework for the transfer of undertakings. This framework should guarantee the automated transfer of personnel with continuity of service and protection of existing terms. Second, in order to remove uncertainty and promote consistent compliance, the government should concentrate on harmonizing federal and state regulations and releasing comprehensive implementation guides. Third, companies need to take a proactive stance by incorporating labor due diligence which includes workforce mapping, compliance audits, and financial

impact assessments as a fundamental part of their M&A strategy.

CONCLUSION:

With the adoption of the four Labour Codes, India's labour law system underwent a dramatic change toward a cohesive, contemporary, and worker-centric framework. The reforms seek to improve social security, wage protection, and workplace safety while also fostering ease of doing business by combining 29 disparate statutes under a simplified framework.

These reforms are essential in rethinking the balance between employee protection and business flexibility in the context of mergers and acquisitions (M&A). Although labor welfare is strengthened by laws pertaining to due diligence, social security portability, and continuity of service, gaps such the lack of a complete transfer of undertakings law and differences in employee classification still provide difficulties.

In the end, strong implementation, judicial interpretation, and stakeholder involvement will determine how effective the labor regulations are. To make sure that corporate restructuring does not compromise employee rights, a balanced strategy that incorporates social justice with economic efficiency is crucial. Protecting labor dignity must continue to be at the center of legislative and policy initiatives as India moves toward a dynamic and formalized labor market.