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# Layoff in Indian IT Sector and its Legality

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## ABSTRACT

*In recent years, employees in India's booming IT sector have faced an unsettling wave of mass layoffs—often sudden, often unexplained. This article dives into the reasons behind these job cuts, from economic slowdowns and rising inflation to the growing influence of artificial intelligence and post-pandemic shifts in business models. While traditional industries are protected by labour laws like the Industrial Disputes Act, IT professionals find themselves in a legal grey area. Their employment is mostly governed by contracts that often favor the employer, leaving little room for recourse when layoffs happen. The article highlights how this lack of legal protection not only creates job insecurity but also violates basic principles of fairness and natural justice. With India's new labour codes still waiting to be implemented, the piece calls for urgent reforms to ensure that IT employees aren't left behind in the evolving landscape of labour rights.*

**Keywords:** Lay off, Information Technology Sector, Inflation, Terminating Employees, Compensation.

## I. INTRODUCTION

In IT sector more than application of labour legislations, condition of service of IT employees predominantly governed by the terms of contract which is entered between the individual employee and the organization, employees were made to sign contract while joining the employment itself. The contract contains clauses for termination policy, hours of work, training period, penalty clause etc., Therefore even the conditions regarding layoff and compensation during layoff will also be properly mentioned in contract by some companies, when laying off particular employee of that company such terms of contract must be followed. Tech employees were facing tough time for past few years till now which is happening not only in India but all over the world which is due to practice of mass layoff and it is also creating mental pressure among the employees who is working in IT sector due to uncertainty of their job. The most miserable thing is that these practice of mass layoff have been advanced from the big corporate sectors like meta and twitter. In India big company like, Twitter laid off employees, working at offices located in Delhi, Mumbai, and Bengaluru that more than

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ninety per cent of the company's total of 230 lost their jobs. It's not only the foreign corporations, Indian unicorns are also doing away with thousands of employees, most of them are IT employees. However, recession fear, low demand, global oil crisis, war and the majority of which is to manage expenditure costs of the company and also for the purpose of restructuring company have thrown the companies into a vicious cycle of layoffs for diverse reasons. This article discuss about what are the legal procedure for layoff and how far the tech employees protected under the existing labour legislation.

## **II. THE REASONS BEHIND IT LAYOFFS**

### **1. Slowdowns in the economy**

The main causes of layoffs in the IT industry are concerns about a recession and unstable economies. Businesses frequently take steps to minimise expenses during uncertain economic times, and laying off employees is a typical strategy. When faced with lower revenue and profitability, tech companies frequently use layoffs as a cost-cutting measure.

### **2. Artificial Intelligence's (AI) effects**

Companies are giving preference to hiring workers with AI-related abilities, which is changing the tech job market. However, the likelihood of layoffs rises for jobs that can be mechanised. 10% of American jobs are thought to be at risk from AI disruption. Additionally, with over 8,000 layoffs in India's tech sector, businesses like Paytm and Unacademy are concentrating on employing AI and cutting expenses.<sup>3</sup>

AI reduces jobs that become obsolete even when it increases productivity in other areas. As they shift some activities to AI, companies like IBM have already declared employment cutbacks.

### **3. An increase in inflation**

Due to rising costs brought on by inflation, many firms are being forced to reassess their operations. Inflation has caused marketers to spend less, which has affected overall revenues for computer companies that depend on advertising revenue. Companies have forced to cut staff in order to offset growing costs, which has led to an increase in IT layoffs.<sup>4</sup>

### **4. Increases in Interest Rates**

Companies now find borrowing more costly as a result of the Federal Reserve's interest rate

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<sup>3</sup> Paytm, Unacademy among tech firms cutting jobs amid AI shift, *Business Standard* (Aug. 2, 2023), <https://www.business-standard.com>

<sup>4</sup> IBM to pause hiring for roles that AI could replace, *Reuters* (May 1, 2023), <https://www.reuters.com>

hikes, which discourages investment in expansion and innovation. Startups that depend on venture capital funding have been most impacted by this. Tech companies are forced to downsize their operations, frequently by laying off employees, as a result of investors growing more cautious.

## **5. Overwork in the Pandemic**

During the epidemic, tech companies hired a lot of people to meet the increasing demand for digital services. As more individuals worked, purchased, and interacted online, businesses expanded their workforces to keep up. However, because of the return to more conventional patterns of activity, many computer companies are today overstaffed. As a result, layoffs have become a necessary adjustment after the pandemic-induced employment boom.<sup>5</sup>

## **6. Expectations of Investors**

Investors anticipate that businesses will continue to turn a profit even if revenue growth slows. Many computer companies have reduced their workforce in an effort to save money as a result of this pressure. Investor demands for increased efficiency have led to large layoffs at companies like Meta and Alphabet. Layoffs are frequently viewed as a necessary step to achieve financial goals because profit expectations are still high.

## **7. Post-pandemic Modifications**

The demand for some electronic services has declined as consumers resume face-to-face interactions. Numerous workers who were employed for remote work and technology solutions during the pandemic are no longer required. In response to decreased demand, tech companies are now reducing their personnel, which is resulting in layoffs in positions that were crucial during the pandemic but are now less important.

## **8. The Crisis at Silicon Valley Bank**

The tech sector was impacted by Silicon Valley Bank's failure in 2023, especially for startups. The demise of SVB, a major lender to tech startups, has made it more difficult for these businesses to obtain capital. As they struggle to stay afloat, many companies are experiencing financial challenges, which is causing them to lay off employees.

## **9. Maturity of the Industry**

After decades of fast expansion, the tech industry is now entering a more stable period. Growth has slowed as a result of many businesses already controlling a sizable chunk of their

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<sup>5</sup> Neha Raj, *IT Workers and Indian Labour Laws: An Analysis in Times of Mass Layoffs*, Centre for Labour Laws, NLIU (Apr. 20, 2023), IT WORKERS AND INDIAN LABOUR LAWS: AN ANALYSIS IN TIMES OF MASS LAYOFFS – Centre For Labour Laws

target markets. Tech companies are concentrating on efficiency and profitability, which frequently entails personnel reductions, as there are less prospects for growth.<sup>6</sup>

### **III. LEGAL PROCEDURE ON TERMINATING EMPLOYEES**

Employees in the organization can be terminated in two ways one on the ground of punishment or on other grounds which does not include punishment eg. Excess employees, recession, war, shortage of raw material, etc, labour legislation which current deals with the procedure for the termination of employees is Industrial dispute Act 1947, which is enacted to protect employees and settle industrial disputes. It also contains essential conditions and procedure for layoff. The detailed procedure of layoff is discussed as follow

According to Sec. 2(kkk) of the IDA<sup>7</sup>, a layoff is “the failure, refusal or inability of an employer on account of a shortage of coal, power or raw materials or the accumulation of stocks or the breakdown of machinery or natural calamity or for any other connected reason to give employment to a workman whose name is borne on the muster rolls of his industrial establishment and who has not been retrenched.”

Under ID Act, layoff is an inability of employer to give employment for workmen whose name is in the muster role due to shortage of raw material or any other connected cases, it is only a temporary termination of workman he will be re-instated once the problem is sorted.

As per the Act the employee must be compensated during the period of layoff , only those employees who have continuously worked in the establishment for 12 months preceding the layoff are entitled to compensation equivalent to half of the basic pay and dearness allowance until their layoff period is over.

#### **Conditions for Layoff**

Before terminating employees, employers must adhere to the following requirements:

- The employer must be incapable, unable or fail to give employment to the employees.
- The incapability or disinclination must result from a lack of power, coal, break down of machinery, natural calamities or other reasons.
- The laid-off employee’s name must be registered on the muster roll of his industrial establishment.
- Employees must not be retrenched.

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<sup>6</sup> Ibid

<sup>7</sup> *Industrial Disputes Act*, No. 14 of 1947, § 2(kkk), INDIA CODE (1947).

#### **IV. APPLICATION OF LAYOFF PROCEDURE TO IT SECTORS**

Industrial dispute Act section 25A to 25E<sup>8</sup> contains procedure and essential conditions of layoff. Section 25A deals with industrial establishment to which layoff provisions applies, as per the explanation under section 25A Industrial establishment are those establishments that are

- (i) “a factory as defined in clause (m) of section 2 of the Factories Act 1948 (63 of 1948); or
- (ii) a mine as defined in clause (i) of section 2 of the Mines Act, 1952 (35 of 1952); or
- (iii) a plantation as defined in clause (f) of section 2 of the Plantations Labour Act, 1951”.

Hence, when it comes to application of layoff procedure for IT employees, information technology sector does not falls under the definition of Industrial establishment under section 25A.

Because of this kind of un-uniformity in the labour legislations, IT companies practicing the new trend of mass layoff of its employees without following any requirements of the law. Most of the organizations sending their termination letter all of sudden without any prior intimation to the concerned employees. As per the law any organization while laying off employees must get prior permission form the appropriate state government, In case of IT companies, due to the non-applicability of layoff provisions to IT sectors, even a big corporate companies laying off hundreds and thousands of employees in a same time.

Therefore as of now layoff procedure in the corporate sectors are governed by their employment contract which is entered between the organization and the employee. Even the law governing the employment bond was also not regulated, hence most of the employment bond will the in the nature of the favoring the employer alone.

#### **V. CONCLUSION**

The current labour legislations which are exempting information technology sectors is causing severe hardship to IT employees. The legislation is itself is like discriminating employees and there is no equal protection. Mass layoff of IT employees all of sudden without prior notice and proper reason also violets the principle of natural justice. This kind discrimination which violets the fundamental rights of the employees must be addressed and it must be properly regulated at least in the new labour codes. The central government in order to codify labour

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<sup>8</sup> *Industrial Disputes Act*, No. 14 of 1947, s.25A, INDIA CODE (1947).

legislations enacted four labour codes which is the Code on Wages 2019, the Code on Social Security 2020, the Industrial Relations Code 2020 and the Occupational Safety, Health and Working Conditions Code 2020 but codes are not still implemented due to difficulty in application. But the existing labour provision were vague in protecting the interest of IT employees.

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