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Supreme Court of India traces evolution of the employer-employee test; holds bank subsidies for canteen do not establish control

The Supreme Court of India (“**Supreme Court**”), in *General Manager, U.P. Cooperative Bank Limited vs. Achchey Lal and Anr.*¹, has delivered a comprehensive judgment tracing the judicial evolution of the tests used to determine an employer-employee relationship.

Applying this framework in a dispute that spanned 3 (three) decades, the Supreme Court held that a bank providing infrastructure, finance, and subsidies for a non-statutory canteen run by its employees’ cooperative society does not, by itself, establish a ‘master-servant’ relationship with the canteen workers. The Supreme Court set aside the concurrent findings of the Labour Court and the Allahabad High Court, holding that the determinative factor remains complete administrative control, which the bank did not possess.

Brief facts

The appellant, U.P. Cooperative Bank Limited (“**Bank**”), had permitted its employees to form a registered Cooperative Society (“**Society**”) to run a canteen facility. The Bank provided the necessary infrastructure, finance, and subsidies (at one point, covering 75% of wages). The respondents (“**workmen**”) were appointed, paid, and managed directly by the Society.

In 1995, after the Bank declined a request for enhanced subsidies, the Society closed the canteen, terminating the workmen’s services. The workmen raised an industrial dispute. The Labour Court ruled in their favour in 1999. This decision was upheld by the High Court in a judgment dated 2012, setting the stage for the final appeal before the Supreme Court, which concluded the 30 (thirty) year long legal battle in 2025.

Issue

The central issue was whether the workmen, engaged by the Society to run a non-statutory canteen, could be deemed employees of the Bank merely because the Bank provided the premises and significant financial subsidies.

¹ 2025 SCC OnLine SC 2096 (decided on September 11, 2025)

Analysis and findings

The Supreme Court allowed the Bank's appeals, holding that the lower courts had erred. The judgment provides a detailed analysis of the legal tests for determining an employer-employee relationship, based on a thorough review of existing case law.

The evolution of the legal tests (as detailed by the Supreme Court)

The Court traced the progression from a rigid test to a flexible, multi-factor analysis:

1. **The Traditional 'Control Test'**: The Supreme Court explained that this test postulates that an employer-employee relationship is established when the hirer has control over the work assigned and the manner in which it is to be done. It was first established in cases like *Dharangadhara Chemical Works Limited vs. State of Saurashtra*², which defined the test as requiring "due control and supervision".
2. **The 'Organisation/Integration Test'**: The judgment observed that the 'control' test was insufficient for skilled professionals where the employer lacks the technical expertise to direct the *manner* of work. Citing *Silver Jubilee Tailoring House vs. Chief Inspector of Shops and Establishments*³, the Supreme Court explained the shift to this test, which asks: "is the person's work an integral part of the employer's primary business?". The higher the level of integration, the more likely the worker is an employee.
3. **The Modern 'Multiple Factor Test'**: The Supreme Court affirmed that the law has now settled on a holistic 'multiple factor' test, as laid out in cases like *Workmen of Nilgiri Coop. Mktg. Society Limited vs. State of T.N.*⁴ The judgment explained that this holistic test is applied precisely because the 'Control' and 'Integration' tests alone are insufficient for modern, complex work arrangements. The multi-factor test is used, for example:
 - a) adjudicate cases involving skilled professionals where the employer lacks the technical expertise to control the manner of work (as noted in the Silver Jubilee (*ibid*) analysis);
 - b) "Pierce the veil" of what appear to be 'sham' or 'camouflage' arrangements to find the true employer (as held in *Workmen of Nilgiri Coop. Mktg. Society Limited (ibid)*);
 - c) distinguish a 'contract of service' (employee) from a 'contract for service' (independent contractor) by looking at the complete economic reality of the relationship (as refined in *Sushilaben Indravadan Gandhi vs. The New India Assurance Company Limited*⁵).

This test provides a more complete picture by examining various factors, including:

- i) who has the power to appoint (select the servant)?
- ii) who is the paymaster (pays wages/remuneration)?
- iii) who has the right to dismiss or suspend?
- iv) who has the right to control the 'method' of doing the work?
- v) who owns the tools?
- vi) who takes the chance of profit or risk of loss?
- vii) what is the degree of integration?

² (1957) 1 LLJ 477

³ (1974) 3 SCC 498

⁴ (2004) 3 SCC 514

⁵ (2021) 7 SCC 151

Precedents relied upon by the Supreme Court

To determine the relationship in this case, the Supreme Court placed direct reliance on the following:

1. ***Balwant Rai Saluja vs. Air India Limited*⁶, and *Employers in relation to the Management of Reserve Bank of India*⁷**: The Supreme Court drew heavily from these cases, establishing that the key test is “*complete administrative control*”. The Reserve Bank of India (“RBI”) case was particularly relevant as it held that in the absence of a statutory obligation and direct control, providing subsidies (even 95%) and infrastructure did not create an employment relationship.
2. ***State Bank of India vs. State Bank of India Canteen Employees’ Union*⁸**: The Supreme Court found the facts ‘similar’ to the present case. It relied on this judgment to hold that a bank’s scheme for granting subsidies does not create an obligation to run the canteen, nor does it imply supervision or control over the canteen’s employees.
3. ***Employees in relation to Punjab National Bank vs. Ghulam Dastagir*⁹**: The Supreme Court found that the facts vary from case to case and a direct nexus between the bank and the driver (or, here, canteen worker) must be proven, which was absent.

Precedents distinguished or not relied on

The Supreme Court explicitly found that the High Court had erred by misapplying key precedents:

1. ***Indian Overseas Bank vs. I.O.B. Staff Canteen Workers’ Union*¹⁰**: This was the High Court’s primary basis for its decision. The Supreme Court distinguished it, stating it was decided on its own ‘peculiar facts’ namely, that the Indian Overseas Bank (“IOB”) canteen workers were integrated into the bank’s own welfare fund, medical scheme, and provident fund. These crucial facts, which proved integration, were absent in the present case.
2. ***Parimal Chandra Raha vs. LIC of India*¹¹**: The Supreme Court noted that the High Court’s reliance on this case was misplaced. It pointed out that the ratio in this case had already been corrected by a larger bench in the RBI case and subsequently clarified in *Indian Petrochemicals Corpn. Limited vs. Shramik Sena*¹². The *Indian Petrochemicals* case established that even *statutory* canteen workers are deemed employees *only* for the limited purposes of the Factories Act, 1948 not for all purposes.
3. ***M.M.R. Khan vs. Union of India*¹³**: The Supreme Court also considered and distinguished this case, noting it dealt with statutory and recognised railway canteens where the Railway Administration had direct administrative control, which was not the fact in the present dispute.

Application of the correct tests to this case

1. **No “Complete Administrative Control”**: Applying the tests from *Balwant Rai Saluja* and the *RBI* case, the Supreme Court found that while the Bank played a ‘pivotal role’ in *setting up* the canteen, it had no direct role in managing the canteen’s affairs. This was “*left absolutely to the Society*”.
2. **Multiple factor test failed**: The workmen failed the multi-factor test for the following reasons:
 - a) **appointment/dismissal**: Done by the Society.
 - b) **Paymaster**: Done by the Society (the Bank’s contribution was only a subsidy).

⁶ (2014) 9 SCC 407

⁷ (1996) 3 SCC 267

⁸ (2000) 5 SCC 531

⁹ (1978) 1 LLJ 312) (SC)

¹⁰ (2000) 4 SCC 245

¹¹ 1995 Supp (2) SCC 611

¹² (1999) 6 SCC 439

¹³ 1990 Supp SCC 191

c) **Control/supervision:** Vested with the Society.

3. **Non-statutory canteen:** The Supreme Court reiterated that this was a non-statutory canteen, and the Bank had no legal obligation to provide it.

Conclusion

This judgment, concluding a 3 (three) decade dispute, serves as a significant clarification in the judicial evolution of the employer-employee test. It signals a 'course correction' from a trend where lower courts, relying on fact-specific cases like IOB (*ibid*), had begun to equate significant financial subsidies with an implicit employment relationship.

The Supreme Court's 'change' here is to firmly re-establish that such precedents were exceptions based on 'peculiar facts' (like direct integration into provident fund and welfare schemes), not the general rule. By distinguishing IOB (*ibid*) and re-emphasising the ratio of the RBI and Balwant Rai Saluja cases, this judgment decisively re-centers the "complete administrative control" test as the dominant factor for non-statutory canteens. It clarifies that in the absence of this control, financial assistance, subsidies, or the mere provision of infrastructure are not determinative and do not, by themselves, create a master-servant relationship.

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