

**SUPREME COURT OF INDIA**

Gridco Limited & Anr.

Vs.

Sadananda Doloi & Ors.

C.A.No.11303 of 2011

(Cyriac Joseph and T.S.Thakur,JJ.,)

16.12.2011

**JUDGMENT**

**T.S.Thakur,J.,**

1. Leave granted.

2. Two questions fall for our determination in this appeal by special leave, which arises out of a judgment and order dated 2nd April, 2008, passed by a Division Bench of the High Court of Orissa whereby Writ Appeal No.11 of 2003 filed by respondent No.1 has been allowed, order dated 26th September, 2003, passed by a Single Judge of the High Court in O.J.C. No.2225 of 2001 set aside and order of termination of the services of respondent No.1. quashed.

3. The questions are:

“1. What was the true nature of the appointment of the respondent? In particular, was the appointment regular or simply contractual in nature? and

2. If the appointment was contractual, was the termination thereof vitiated by any legal infirmity to call for interference under Article 226 of the Constitution?”

4. Before we advert to the questions and possible answers to the same, we may briefly set out the facts in the backdrop:

5. The appellant-Grid Corporation of Orissa Ltd. ('GRIDCO' for short) is a company wholly owned by the Government of Orissa. By an advertisement notice dated 28th May, 1996, issued by the appellant, applications were invited from eligible candidates for appointment against the post of Senior General Manager: HR Policy, Job Evaluation, Appraisal, Remuneration. Respondent No.1 was one among several others who applied for selection and appointment against the said post. A Selection Committee constituted by the appellant short-

listed three candidates including respondent No.1-Shri Sadananda Doloi for an appointment. The Corporation eventually issued a letter dated 8th January, 1997, by which it offered to the respondent, appointment as Senior General Manager on contract basis for a period of three years subject to renewal on the basis of his performance. Clause (3) of the letter stipulated the tenure of the proposed appointment as under:

"(3) Period:- The tenure of appointment as Sr. General Manager (HRD) is for a period of three years on contract basis subject to renewal on the basis of your performance. This contract of employment is, however terminable even during this three year term on three months' notice or on payment of three months salary in lieu thereof by either side."

6. A formal order of appointment dated 6th February, 1997, was, in due course, issued in favour of respondent No.1 by the appellant-Corporation, which embodied the condition regarding the tenure of his appointment as contained in the initial offer. Clause (12) of the appointment letter further stipulated that the respondent shall be governed by the Grid Corporation Officers Service Regulations, 1996.

7. The respondent joined the appellant-Corporation as Senior General Manager (HRD) on 30th April, 1997. With the coming into force of the Grid Corporation Officers Service Regulations, 1996, the Officers working in the Corporate Office of GRIDCO were re-designated including respondent No.1, whom the Corporation re-designated as Chief General Manager (HR). Respondent No.1 soon after re-designation wrote a letter dated 29th October, 1997, requesting for an amendment of Clause (2) of the appointment letter to bring the same in conformity with the Para 13(3) of the GRIDCO Officers Regulations. That request of the respondent was accepted and Clause (2) of the Appointment Order dated 6th February, 1997, amended to read as under:

"(2) Period:- Your tenure of appointment shall be on a contract basis initially for a period of three years & renewable thereafter for such period(s) as the Board or the Committee of the Board may prescribe until you attain the age of superannuation as provided in GRIDCO Officers Service Regulations. This contract of employment is, however, terminable even during this three year term on three months' notice or on payment of three months' salary in lieu thereof by either side."

8. On the expiry of the contractual period of three years stipulated in the appointment letter the appellant- Corporation extended the employment of the respondent upto 3rd November, 2000, by a letter dated 29th March, 2000, on the same terms and conditions as were stipulated in the appointment letter. Respondent No.1, however, made a representation to the Chairman-cum-Managing Director of the appellant on 3rd June, 2000, seeking extension of his tenure till superannuation. In the meantime, the extended period of his employment also expired whereupon the Corporation granted to the respondent a further extension of one year upto 3rd November, 2001, on the same terms and conditions as stipulated in the letters dated 6th February, 1997, and 29th October, 1997. Two further representations dated 22nd November, 2000, and 13th February, 2001, to the appellant-Corporation for extension of the

tenure of appointment till superannuation did not find favour with the appellant. Instead the appointment of the respondent was terminated in terms of an order dated 19th February, 2001 with three months' salary in lieu of notice paid to him.

9. Aggrieved by the termination of his services, respondent no.1 filed a writ petition in the High Court of Orissa for issue of a Writ of Certiorari quashing the same on several grounds. A learned Single Bench of the High Court, however, dismissed the said petition holding that the appointment of the writ petitioner, respondent herein, being purely temporary and contractual in nature and the termination being in no way stigmatic, the respondent had no legal right to claim continuance in service. The writ petition was, on that basis, dismissed.

10. Respondent No.1 then filed Writ Appeal No.11 of 2003 which was heard and allowed by a Division Bench of the High Court of Orissa in terms of the impugned judgment and order. The Division Bench held that 'introduction of a contractual condition' in a regular appointment under the State was opposed to the principles of Articles 14 and 16 of the Constitution, and that the freedom of contract was rendered illusory by an unequal bargaining power between a citizen seeking appointment to public service on the one hand and a giant employer like a State Corporation on the other. The order passed by the learned Single Judge was on that reasoning set aside by the High Court and the order terminating the services of respondent No.1 quashed.

11. We have heard learned counsel for the parties at considerable length and propose to take up the two questions that we have formulated for determination ad- seriatim.

Re: Question No.1

12. As noticed earlier, while the learned Single Judge has held the appointment of the respondent to be contractual in nature and termination thereof to be valid and permissible in terms of the contract, the Division Bench has in appeal taken the view that the appointment was a regular appointment that could not be terminated summarily by issuing a notice or paying three months' salary in lieu thereof. It is trite that the power to make a contractual employment is implicit in the power to make a regular permanent appointment unless the statute under which the authority exercises its powers and discharges its functions or the Rules & Regulations governing recruitment under the authority specifically forbid the making of such an appointment. No such prohibition has been pointed out to us in the present case. All that was argued was that the Rules did not at the relevant time specifically provide for making a contractual employment. That is, in our opinion, no reason to hold that an appointment made on contractual basis would constitute a breach of the Rules or that such an appointment had to be necessarily treated as a regular appointment. Having said that, let us now see the background in which the appointment was made in the present case. As seen above, the selection process culminating in the appointment of the respondent started with the publication of an advertisement to fill up two vacancies of human resource professionals at senior management level. The advertisement, it is common ground, did not indicate the nature of appointment (whether regular or contractual) that may be offered to the selected candidates. The absence of any such indication in the advertisement notice did not, in our

opinion, make any material difference having regard to the fact that the offer of appointment made to respondent No.1 in terms of appellant-Corporation's letter dated 8th January, 1997, specifically described the appointment to be a tenure appointment. A careful reading of paragraph 3 of the offer letter leaves no manner of doubt that the tenure of appointment offered to the respondent No.1 as Senior General Manager, HRD was limited to a period of three years subject to renewal on the basis of his performance. It also made it abundantly clear that the contract of employment was terminable even during the currency of the three years term on three months' notice or on payment of three months' salary in lieu thereof by either side. We find it difficult to read any element of regular appointment in the offer made to the respondent or any assurance that the appointment is in the nature of a regular appointment or that the respondent was on probation to be regularised on satisfactory completion of his probation period. That apart, appointment order issued on 6th February, 1997, also specifically embodied the stipulation regarding the tenure as it was in clause (3) of the offer letter.

13. It is not the case of the respondent that there was any uncertainty or ambiguity in the appointment made by the respondent in so far as the tenure on the post to which he was appointed, was concerned. What puts the matter beyond any shadow of doubt is the understanding of the respondent evident from his letter dated 29th October 1997 asking for an amendment of clause (2) of the appointment order so as to bring the same in conformity with para 13 of the GRIDCO Officers' Regulation. The request manifestly demonstrated that the parties were ad idem regarding the tenure of appointment given to the respondent and that while the initial contract period was limited to three years the same could be renewed by the Board or the Committee of the Board until the respondent attained the age of superannuation as provided in the GRIDCO Service Officers Regulations. It is quite evident that reference to the superannuation of the respondent in this appointment letter was only in the nature of providing an outer limit to which the employment on contract could have been extended. It did not suggest that there was any specific or implied condition of employment that the respondent would continue to serve till he attains the age of superannuation. Even after the amendment of clause (2) of the appointment letter, the condition that the contract of employment could be terminated at any time during the period of three years on three months' notice or payment of three months' salary in lieu thereof by either side continued to be operative between the parties. The fact that the appellant- Corporation extended the tenure upto 3rd November, 2000, in the first place and upto 3rd November, 2001 later, is also suggestive of the parties having clearly understood that the appointment was a tenure appointment, extendable at the discretion of the Board of Directors/Corporation. These extensions, it is noteworthy, were themselves subject to the terms and conditions stipulated in the appointment letter which, inter-alia, provided that the arrangement could be terminated by either party on three months' notice or on payment of three months' salary in lieu thereof. In the totality of the above circumstances, we are of the opinion that the nature of appointment made by the appellant-Corporation was contractual and not regular as held by the Division Bench of the High Court.

14. There is one other aspect to which we must advert before we part with the question of nature of appointment offered to the respondent. The appointment order issued in favour of

the respondent specifically stated that the respondent will be governed by the GRIDCO Officers Service Regulations, 1996. With the coming into force of the said Regulations, the respondent was re-designated as Chief General Manager, HR which was in terms of the Regulations, a post in the Executive Grade of E-10. This re- designation was not at any stage questioned by the respondent. On the contrary it was he who had prayed for amendment of clause (2) of the appointment letter to bring the same in tune with para 13(3) of the GRIDCO Officers Service Regulation. Para 13(3) of the Regulations reads as:

"13(3): The appointment to grades above E-9 shall be on a contract basis initially for a period of 3 years and renewable thereafter for such period(s) as the Board or the Committee of the Board may prescribe until the Officer attains the age of superannuation as provided in these Regulations."

15. The above makes it manifest that an appointment to the post in category E-10 could be made only on a contractual basis. The Regulations do not envisage a regular appointment at E-10 level to which the respondent stands appointed on the terms of the contract of employment. That being the case it is difficult to see how the said appointment could be treated to be a regular appointment when the Rules did not permit any such appointment. We may mention to the credit of learned senior counsel who appeared for the respondent that although at one stage an attempt was made to argue that the appointment of the respondent was regular in nature, that line of argument was not pursued further and in our opinion, rightly so having regard to what we have said above. Such being the case the question of the so called unequal bargaining power of the parties did not have any relevance or role to play in the facts and circumstances of the case. Question No.1 is answered accordingly. Re: Question No.2

16. This question has to be answered in two distinct parts. The first part relates to the aspect whether the order passed by the appellant-Corporation is amenable to judicial review and if so what is the scope of such review. The second part of the question is whether on the standards of judicial review applicable to it, the order of termination is seen to be suffering from any legal infirmity. Before we refer to certain decisions of this Court that have dealt with similar issues in the past we may at the outset say that there was no challenge either before the High Court or before us as to the competence of the authority that passed the termination order. There was indeed a feeble argument that the order was mala fide in character but having regard to the settled legal position regarding the proof of mala fides and the need for providing particulars to substantiate any such plea, we are of the view that the charge of mala fide does not stand scrutiny. Neither before the learned Single Judge nor before the Division Bench was the ground based on mala fides seriously argued by the respondent. What was contended on behalf of the respondent was that the appellant-Corporation did not act fairly and objectively in taking the decision to terminate the arrangement. It was contended that the decision to terminate the contractual employment was not a fair and reasonable decision having regard to the fact that the respondent had performed well during his tenure and the requirement of the Corporation to have a Chief General Manager (HR) continued to subsist. In substance, the contention urged on behalf of the respondent was that this Court should reappraise and review the material touching the

question of performance of the respondent as Chief General Manager (HR) as also the question whether the Corporation's need for a General Manager (HR) had continued to subsist. We regret our inability to do so. It is true that judicial review of matters that fall in the realm of contracts is also available before the superior courts, but the scope of any such review is not all pervasive. It does not extend to the Court substituting its own view for that taken by the decision-making authority. Judicial review and resultant interference is permissible where the action of the authority is mala fide, arbitrary, irrational, disproportionate or unreasonable but impermissible if the petitioner's challenge is based only on the ground that the view taken by the authority may be less reasonable than what is a possible alternative. The legal position is settled that judicial review is not so much concerned with the correctness of the ultimate decision as it is with the decision-making process unless of course the decision itself is so perverse or irrational or in such outrageous defiance of logic that the person taking the decision can be said to have taken leave of his senses.

17. In *Shrilekha Vidyarthi & Ors. v. State of U.P. & Ors*<sup>1</sup> the State Government had by a circular terminated the engagement of all the government counsels engaged throughout the State and sought to defend the same on the ground that such appointments being contractual in nature were terminable at the will of the government. The question of reviewability of administrative action in the realm of contract was in that backdrop examined by this Court. The Court also examined whether the personality of the State Government undergoes a change after the initial appointment of government counsels so as to render its action immune from judicial scrutiny. The answer was in the negative. The Court held that even after the initial appointment had been made and even when the matter is in the realm of contract, the State could not cast off its personality and exercise a power unfettered by the requirements of Article 14 or claim to be governed only by private law principles applicable to private individuals. The Court observed:

"... we are also clearly of the view that this power is available even without that element on the premise that after the initial appointment, the matter is purely contractual. Applicability of Article 14 to all executive actions of the State being settled and for the same reason its applicability at the threshold to the making of a contract in exercise of the executive power being beyond dispute, can it be said that the State can thereafter cast off its personality and exercise unbridled power unfettered by the requirements of Article 14 in the sphere of contractual matters and claim to be governed therein only by private law principles applicable to private individuals whose rights flow only from the terms of the contract without anything more? We have no hesitation in saying that the personality of the State, requiring regulation of its conduct in all spheres by requirements of Article 14, does not undergo such a radical change after the making of a contract merely because some contractual rights accrue to the other party in addition. It is not as if the requirements of Article 14 and contractual obligations are alien concepts, which cannot co-exist."

18. Recognizing the difference between public and private law activities of the State, this Court reasoned that unlike private individuals, the State while exercising its powers and

discharging its functions, acts for public good and in public interest. Consequently every State action has an impact on the public interest which would in turn bring in the minimal requirements of public law obligations in the discharge of such functions. The Court declared that to the extent, the challenge to State action is made on the ground of being arbitrary, unfair and unreasonable hence offensive to Article 14 of the Constitution, judicial review is permissible. The fact that the dispute fell within the domain of contractual obligations did not, declared this Court, relieve the State of its obligation to comply with the basic requirements of Article 14. The court said :

"This factor alone is sufficient to import at least the minimal requirements of public law obligations and impress with this character the contracts made by the State or its instrumentality. It is a different matter that the scope of judicial review in respect of disputes falling within the domain of contractual obligations may be more limited and in doubtful cases the parties may be relegated to adjudication of their rights by resort to remedies provided for adjudication of purely contractual disputes. However, to the extent, challenge is made on the ground of violation of Article 14 by alleging that the impugned act is arbitrary, unfair or unreasonable, the fact that the dispute also falls within the domain of contractual obligations would not relieve the State of its obligation to comply with the basic requirements of Article 14. To this extent, the obligation is of a public character invariably in every case irrespective of there being any other right or obligation in addition thereto. An additional contractual obligation cannot divest the claimant of the guarantee under Article 14 of non-arbitrariness at the hands of the State in any of its actions."

(emphasis supplied)

19. In *Assistant Excise Commissioner & Ors. v. Issac Peter & Ors*<sup>2</sup>. the dispute related to supply of additional quantities of arrack demanded by the license-holder. Supply of arrack was, however, controlled by the Government and the entire transaction relating to the supply and sale of arrack was based on licenses granted under the relevant rules to persons who emerged successful in a public auction. The Government claimed that the only obligation cast upon it under the Rules was to provide the monthly quota of arrack to each license-holder, supply of additional quantity being discretionary with the authorities. The license-holders, on the other hand, argued that supply of additional quantity was implicit in the conditions of the license. In support they relied upon the past practice and argued that if the supply is limited to the monthly quota only it would not be possible for the license holder to pay even the license fee. The license-holders questioned the refusal of the State Government to issue additional quantities of arrack as unfair and unreasonable. This court, however, rejected that contention and held :

"Doctrine of fairness or the duty to act fairly and reasonably is a doctrine developed in the administrative law field to ensure the Rule of Law and to prevent failure of justice where the action is administrative in nature. Just as principles of natural justice ensure fair decision where the function is quasi-judicial, the doctrine of fairness is evolved to ensure fair action where the function is administrative. But it can certainly

not be invoked to amend, alter or vary the express terms of the contract between the parties. This is so, even if the contract is governed by statutory provisions, i.e., where it is a statutory contract - or rather more so."

(emphasis supplied)

20. Taking note of the decision of this Court in *Shrilekha Vidyarthi's* case (supra), this court held that there was no room for invoking the doctrine of fairness and reasonableness against one party to the contract, for the purpose of altering or adding to the terms and conditions of the contract merely because it happens to be the State.

The Court said :

"It was a case of termination from a post involving public element. It was a case of non-government servant holding a public office, on account of which it was held to be a matter within the public law field. This decision too does not affirm the principle now canvassed by the learned Counsel (that being of incorporating the doctrine of fairness in contracts where State is a party). We are, therefore, of the opinion that in case of contracts freely entered into with the State, like the present ones, there is no room for invoking the doctrine of fairness and reasonableness against one party to the contract (State), for the purpose of altering or adding to the terms and conditions of the contract, merely because it happens to be the State. In such cases, the mutual rights and liabilities of the parties are governed by the terms of the contracts (which may be statutory in some cases) and the laws relating to contracts. It must be remembered that these contracts are entered into pursuant to public auction, floating of tenders or by negotiation. There is no compulsion on anyone to enter into these contracts. It is voluntary on both sides."

(emphasis supplied)

21. In conclusion, the Court made it clear that the opinion expressed by it was only in the context of contracts entered into between the State and its citizens pursuant to public auction, floating of tenders or by negotiation. The court considered it unnecessary to express any opinion about the legal position applicable to contracts entered into otherwise than by public auction, floating of tenders or negotiation.

22. In *State of Orissa v. Chandra Sekhar Mishra*<sup>3</sup> the respondent had been appointed as a Homeopathic Medical Officer whose services were subsequently terminated by issue of a notice. While rejecting the challenge to the termination order, the Court observed "when the respondent was only a contractual employee, there could be no question of his being granted the relief of being directed to be appointed as a regular employee."

23. We may also refer to the decision of this court in *Satish Chandra Anand v. Union of India*<sup>4</sup> where the petitioner, an employee of the Directorate General of Resettlement and Employment, was removed from contractual employment after being served a notice of

termination. The contract of service in that case was initially for a period of five years which was later extended. A five-Judge Bench hearing the matter, dismissed the petition, challenging the termination primarily on the ground that the petitioner could not prove a breach of a fundamental right since no right accrued to him as the whole matter rested in contract and termination of the contract did not amount to dismissal, or removal from service nor was it a reduction in rank. The Court found it to be an ordinary case of a contract being terminated by notice under one of its clauses. The Court observed :

"10. There was no compulsion on the Petitioner to enter into the contract he did. He was as free under the law as any other person to accept or reject the offer which was made to him. Having accepted, he still had open to him all the rights and remedies available to other persons similarly situated to enforce any rights under his contract, which has been denied to him, assuming there are any, and to pursue in the ordinary Courts of the land, such remedies for a breach as are open to him to exactly the same extent as other persons similarly situated. He has not been discriminated against and he has not been denied the protection of any laws which others similarly situated could claim...

11. The Petitioner has not been denied any opportunity of employment or of appointment. He has been treated just like any other person to whom an offer of temporary employment under these conditions was made. His grievance when analysed, not one of personal differentiation but is against an offer of temporary employment on special terms as opposed to permanent employment. But of course the State can enter into contracts of temporary employment and impose special terms in each case, provided they are not inconsistent with the Constitution, and those who chose to accept those terms and enter into the contract are bound by them, even as the State is bound."

(emphasis supplied)

24. In *Parshotam Lal Dhingra v. Union of India*<sup>5</sup> this court followed the view taken in Satish Chandra's case (supra). Any reference to the case law on the subject would remain incomplete unless we also refer to the decision of the Constitution Bench of this court in *Delhi Transport Corporation v. D.T.C. Mazdoor Congress & Ors*<sup>6</sup>. where this Court was dealing with the constitutional validity of Regulation 9 (b) that authorized termination on account of reduction in the establishment or in circumstances other than those mentioned in clause (a) to Regulation 9 (b) by service of one month's notice or pay in lieu thereof. Sawant, J. in his concurring opinion held that the provision contained the much hated rules of hire and fire reminiscent of the days of *laissez faire* and unrestrained freedom of contract and that any such rule would have no place in service conditions.

25. To the same effect was an earlier decision of this Court in *Central Inland Water Transport Corporation Ltd. & Anr. v. Brojo Nath Ganguly & Anr*<sup>7</sup>. where the Court had refused to enforce an unfair and unreasonable contract or an unfair and unreasonable clause in a contract entered into between parties who did not have equal bargaining power.

26. A conspectus of the pronouncements of this court and the development of law over the past few decades thus show that there has been a notable shift from the stated legal position settled in earlier decisions, that termination of a contractual employment in accordance with the terms of the contract was permissible and the employee could claim no protection against such termination even when one of the contracting parties happened to be the State. Remedy for a breach of a contractual condition was also by way of civil action for damages/compensation. With the development of law relating to judicial review of administrative actions, a writ Court can now examine the validity of a termination order passed by public authority. It is no longer open to the authority passing the order to argue that its action being in the realm of contract is not open to judicial review. A writ Court is entitled to judicially review the action and determine whether there was any illegality, perversity, unreasonableness, unfairness or irrationality that would vitiate the action, no matter the action is in the realm of contract. Having said that we must add that judicial review cannot extend to the Court acting as an appellate authority sitting in judgment over the decision. The Court cannot sit in the arm chair of the Administrator to decide whether a more reasonable decision or course of action could have been taken in the circumstances. So long as the action taken by the authority is not shown to be vitiated by the infirmities referred to above and so long as the action is not demonstrably in outrageous defiance of logic, the writ Court would do well to respect the decision under challenge.

27. Applying the above principles to the case at hand, we have no hesitation in saying that there is no material to show that there is any unreasonableness, unfairness, perversity or irrationality in the action taken by the Corporation. The Regulations governing the service conditions of the employees of the Corporation, make it clear that officers in the category above E-9 had to be appointed only on contractual basis.

28. It is also evident that the renewal of the contract of employment depended upon the perception of the management as to the usefulness of the respondent and the need for an incumbent in the position held by him. Both these aspects rested entirely in the discretion of the Corporation. The respondent was in the service of another employer before he chose to accept a contractual employment offered to him by the Corporation which was limited in tenure and terminable by three months' notice on either side. In that view, therefore, there was no element of any unfair treatment or unequal bargaining power between the appellant and the respondent to call for an over-sympathetic or protective approach towards the latter. We need to remind ourselves that in the modern commercial world, executives are engaged on account of their expertise in a particular field and those who are so employed are free to leave or be asked to leave by the employer. Contractual appointments work only if the same are mutually beneficial to both the contracting parties and not otherwise.

29. In the result, we allow this appeal, set aside the impugned judgment and order passed by the Division Bench of the High Court of Orissa dismissing the Writ Appeal No.11 of 2003. We, however, direct that the salary and allowances if any paid to respondent No.1 pursuant

to the impugned judgment shall not be recovered from him. Parties shall bear their own costs in this Court as also in the courts below.

Judgment Referred.

<sup>1</sup>(1991) 1 SCC 0212

<sup>2</sup>(1994) 4 SCC 0104

<sup>3</sup>(2002) 10 SCC 0583

<sup>4</sup>AIR 1953 SC 0250

<sup>5</sup>AIR 1958 SC 0036

<sup>6</sup>(1991) *supp* 1 SCC 0600

<sup>7</sup>(1986) 3 SCC 0156