

# Pathology of labor contracts in the construction sector based on labor law with a project risk management approach

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## ABSTRACT

The non-compliance of construction labor contracts with the mandatory requirements of Labor Law is one of the fundamental causes of legal disputes, financial risks, and executive delays in private sector construction projects. Most of these contracts, due to unprofessional drafting and disregard for the fundamental rights of the workforce, create a breeding ground for conflicts and project failure. This research aims to perform a legal pathology, identify, and prioritize these discrepancies to enhance the risk management system in construction projects. The research method is descriptive-analytical, employing a qualitative content analysis approach to compare the provisions of 40 real-world contracts concluded in construction sites with 33 relevant articles of the Labor Law of the Islamic Republic of Iran. The findings led to the identification of 11 major and recurring discrepancies. Quantitative results indicate that discrepancies related to “wages and salaries”, “social security insurance”, and “end-of-service benefits,” accounting for 60% of the total frequency, are identified as the highest-risk challenges, followed by issues such as “non-compliance with safety principles” and “illegal working hours.” The final analysis proves that these discrepancies are not merely legal violations but act as hidden risks that directly lead to unforeseen costs, heavy penalties, and work stoppages. Finally, while providing a framework for drafting standard contracts, this study proposes practical solutions to reduce disputes and guarantee project success.

## KEYWORDS

Construction Law, Labor Law, Risk Management, Construction Contracts, Labor Disputes.

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## 1. Introduction

The construction sector is one of the most complex industries, involving diverse stakeholders and labor-intensive activities. In this environment, labor contracts serve as the primary legal instrument defining the relationship between employers and workers. However, a significant gap often exists between contractual practices and legal requirements. Misunderstandings of civil engineering law and labor regulations frequently lead to project failures [1]. The Labor Law of Iran is designed with a protective approach toward workers, making any contractual clause that provides less than the legal minimum null and void [2].

From a project risk management perspective, legal non-compliance is a critical risk factor. The regulation of the labor market and the balance of power between parties significantly influence operational stability [3]. In construction projects, ignoring mandatory articles of the Labor Law—such as those related to safety, working hours, and insurance—creates latent risks that can manifest as legal claims, heavy fines, or even project shutdowns. Furthermore, the impact of these discrepancies on legal remedies and worker rights is a major concern in modern project management [4]. These risks are often “hidden” because employers assume that mutual agreement in a contract overrides statutory law, whereas, in labor relations, the law is mandatory and non-negotiable.

The novelty and contribution of the present work lie in the systematic identification, review, and description of Labor Law provisions specifically related to the construction sector. Furthermore, this study innovates by analyzing the discrepancies between real-world employer-worker contracts and statutory requirements, interpreting these gaps as manageable project risks—a perspective previously under-explored in domestic construction management literature.

## 2. Methodology

This study adopts a descriptive-analytical methodology using a directed qualitative content analysis approach. The research examined 40 authentic labor contracts from construction projects in Qom (2019–2023) and compared them clause by clause with 33 relevant articles of the Labor Law of the Islamic Republic of Iran. The legal provisions were treated as the initial coding framework, and the contract texts were analyzed accordingly to identify discrepancies. These discrepancies were then prioritized based on their frequency and interpreted in terms of their practical implications for project risk management.

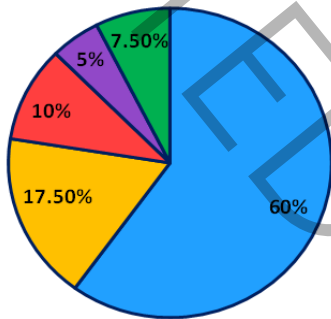
## 3. Discussion and Results

The analysis revealed a widespread pattern of non-compliance across the sampled contracts. In total, 11 major categories of discrepancies were identified in accordance with Table 1.

**Table 1: Discrepancies identified in labor contracts (between the worker and the employer).**

No.	Category of Discrepancy	Description of Legal Violation
1	Severance Pay (Sanavat)	Total omission of end-of-service benefits in contractual clauses.
2	Minimum Wage Payment	Failure to adhere to mandatory national minimum wage requirements.
3	Duty Travel Allowance	Non-provision of mandatory mission allowances for field assignments.
4	Working Hours Regulation	Compelling workers to exceed statutory weekly working hours.
5	Overtime Compensation	Failure to provide legal compensation for overtime hours.
6	Employer's Safety Obligations	Shifting the cost of Personal Protective Equipment (PPE) to workers.
7	OHS Regulatory Responsibility	Contractual waiver of employer liability for workplace accidents.
8	Employment of Foreign Nationals	Engagement of foreign workforce without valid legal work permits.
9	Social Security Contributions	Failure to enroll workers in the mandatory social security system.
10	Welfare Services (Food & Housing)	Omission of mandatory provisions regarding food and housing.
11	Transportation Services	Neglecting the provision of commuting facilities or travel allowances.

The frequency analysis of the audited contracts reveals a high density of legal non-compliance. As illustrated in Figure 1, the majority of identified discrepancies (60%) are related to financial matters, including wages, social security insurance, and severance pay. These are classified as “High-Impact Risks” because they lead to direct financial claims. Another 17.5% pertain to welfare facilities, while 10% are related to safety violations and the employer’s liability regarding workplace accidents. Under Article 91 of the Labor Law, any attempt to waive safety liability in a contract is legally invalid, leaving employers both civilly and legally liable for site accidents. Additionally, 5% of the discrepancies involve illegal cooperation with unauthorized foreign nationals, leaving only 7.5% of the contracts in full compliance with the law.



**Figure 3: Frequency percentages of the identified discrepancies in the contracts.**

The high concentration of discrepancies in financial areas (60%) indicates that legal non-compliance is a major latent risk in construction projects. While some contractors may seek short-term savings by omitting mandatory benefits, the analysis shows that the resulting legal claims and unforeseen penalties far outweigh these initial savings. Furthermore, the violations of safety regulations (Art. 91) represent a critical risk, as contractual attempts to waive employer liability are legally void and leave the project vulnerable to work stoppages and severe legal consequences.

#### 4. Conclusions

The pathology of labor contracts reveals a high degree of legal vulnerability in the construction industry. The 11 categories of discrepancies highlight that most employers prioritize short-term cost savings over long-term legal security. To mitigate these risks, the following practical recommendations are proposed:

- **Standardization:** Construction firms should adopt “Standardized Compliant Contracts” that strictly align with the 33 articles of the Labor Law identified in this research.

- **Legal Audit:** Project managers must conduct periodic legal audits of labor relations to identify and rectify discrepancies before they escalate into formal disputes.
- **Safety Priority:** Employers must recognize that safety liability (Art. 91) cannot be transferred to workers, necessitating a shift toward insurance-based risk transfer instead of illegal contractual waivers.

From a project risk management standpoint, these discrepancies collectively create substantial legal and financial exposure. When a dispute arises, labor boards almost always rule in favor of the worker if the contractual clauses provide less than the mandatory legal minimums. This systematic non-compliance results in severe unplanned costs, legal penalties, and unforeseen financial liabilities. By viewing these contractual gaps through a risk lens, it becomes evident that legal compliance is not merely a formality but a critical factor in ensuring the overall financial and operational stability of construction projects.

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