

Pros and Cons of Employment Contracts

Having an employment contract or not is a major decision. It's a document that both the employer and employee sign that sets your professional relationship. It can change the "at will" nature of employment. There is no legal requirement that you have to enter into a written employee contract with an employer.

As a business owner, you need to decide what level of employee will have one and what it will cover.

As an employee, you need to decide if this contract will help or hinder you. For both sides, legal representation is a must. Here are some of the pros and cons.

PROS:

- 1. Contracts can require an employee to give a long lead time should they decide to leave.**
- 2. Contracts can be used to prevent employees from revealing confidential information, soliciting customers or working for a competitor.**
- 3. Contracts can offer retention bonuses or ask for a forfeiture of future bonuses if an employee leaves before a specific date.**

CONS:

- 1. Contracts can restrict your ability to terminate an employee.**
- 2. Contracts can restrict an employee's ability to earn a living after leaving a company. This will be looked upon negatively by the courts.**
- 3. Contracts require that you act with a "covenant of good faith and fair dealing." Breaching the contract could also mean that you breached your duty and could lead to further legal issues. This pertains to both sides.**

A good employment contract will spell out exactly what is expected from an employee and what the employee can expect from you. It can also cover the terms of employment, benefits, vacation time, grounds for termination, nondisclosure, ownership agreements, assignment clauses and require a certain method for resolving disputes just to name a few.

Employment contracts should not be entered into lightly. Contract language is very important. A lawyer's advice is critical ... so take these six pros and cons as your introduction only.