



Supreme Court Refines ‘Industry’ Test, Separates Legacy Labour Disputes from the New Industrial Relations Code Regime:

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Recent Developments and Constitutional Significance:

- On **20 August 2026**, a **nine-judge Constitution Bench** of the Supreme Court, headed by **Chief Justice of India Surya Kant**, delivered a **5:4 judgment** on the interpretation of “industry” under the **Industrial Disputes Act, 1947** in the context of *Bangalore Water Supply & Sewerage Board v. R. Rajappa (1978)*.
- The majority held that the **essential framework of the 1978 triple test has stood the test of time**, but certain elements and accompanying guidelines require refinement; therefore, the Court decided to **reformulate the test prospectively** rather than completely discard the 1978 framework.
- The judgment is particularly significant because the **Industrial Disputes Act, 1947 has been replaced by the Industrial Relations Code, 2020**, which contains its own statutory definition of “industry”.
- The Court expressly clarified that its present interpretation concerns the **repealed 1947 Act** and does **not determine the meaning of “industry” under the Industrial Relations Code, 2020**. Future disputes under the new Code will therefore have to be decided primarily from its own statutory text and scheme.

Background: Meaning of “Industry” under Labour Law:

Industrial Disputes Act, 1947:

- Section **2(j)** of the Industrial Disputes Act, 1947 defined “industry” broadly in relation to business, trade, undertaking, manufacture, calling, service, employment, handicraft and industrial occupations or avocations.
- The provision became the foundation for extensive judicial interpretation because the statutory definition covered activities far beyond conventional manufacturing or commercial enterprises.
- The central legal question was whether the expression “industry” should be interpreted narrowly to cover commercial production alone or broadly to cover organised activities involving employer-worker relationships.

Bangalore Water Supply Judgment, 1978:

- In **Bangalore Water Supply & Sewerage Board v. R. Rajappa**, a seven-judge Bench adopted an **expansive interpretation** of “industry”, substantially widening the protective scope of labour legislation.
- The judgment recognised that the **profit motive was not an essential requirement**, meaning that an organisation could potentially fall within the definition even when its primary objective was not commercial profit.
- The decision therefore had implications for institutions such as **hospitals, educational institutions, municipalities, clubs and welfare-oriented organisations**, depending upon the nature of their activities and employment relationships.

The Triple Test: Core Judicial Framework:

Three Essential Components:

- **Systematic Activity:** The organisation must undertake a structured and organised activity rather than an isolated or purely individual activity.
- **Employer-Worker Cooperation:** The activity must involve organised cooperation between employers and workers.
- **Production or Distribution:** The activity must involve the production, supply or distribution of goods or services for the satisfaction of human wants and wishes.
- The three components were required to be examined together rather than treated as isolated conditions.
- The test shifted the focus from the **profit-making character of an institution** towards the **nature and organisation of the activity** undertaken by it.

Dominant Nature Test:

- Where an establishment performed several interconnected activities, the Court developed the **Dominant Nature Test** to determine whether the establishment as a whole should be treated as an industry.
- The approach required examination of the **dominant character of the integrated activity** instead of mechanically classifying every individual activity in isolation.
- This principle became particularly relevant for large public institutions and organisations performing both industrial and non-industrial functions.

Why the Definition of “Industry” Matters:

Impact on Workers:

- Classification as an “industry” determines whether an establishment and its workers fall within particular **industrial-dispute mechanisms and statutory labour protections**.
- The issue consequently affects matters such as **retrenchment, dismissal, wages, working conditions, trade unions, strikes, collective bargaining and dispute resolution**.
- A wider definition generally expands the number of workers and establishments that can access statutory labour-law remedies, whereas a narrower definition can reduce regulatory coverage.

Impact on Employers and Institutions:

- An expansive interpretation can increase the **compliance obligations and potential litigation exposure** of employers, including non-profit institutions and public bodies.
- A narrower interpretation may provide greater institutional flexibility but can simultaneously raise concerns regarding the adequacy of protection available to workers.
- The controversy therefore reflects a broader policy tension between **labour protection, industrial peace, institutional autonomy and ease of doing business**.

Supreme Court’s 2026 Majority Position:

Refinement Rather than Complete Rejection:

- The majority did not treat the 1978 judgment as wholly incorrect; instead, it held that its **essential framework remains valuable**, while certain elements of the triple test require a more precise formulation.
- Chief Justice Surya Kant observed that some constituent elements could have been articulated differently to better correspond with the statutory scope of Section 2(j).
- The Court therefore adopted a **prospective approach**, avoiding disruption to disputes that had already arisen under the old statutory framework.

Separation from the Industrial Relations Code, 2020:

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- The Court expressly refrained from deciding the interpretation of “industry” under the **Industrial Relations Code, 2020**.
- This is important because the 2020 Code contains a **new statutory formulation and specific exclusions**, including certain sovereign functions, domestic service and other categories specified by law.
- The 2026 judgment therefore should not be understood as judicially importing the 1978 triple test into the new Code.
- Future litigation under the **Industrial Relations Code** will require interpretation of its own statutory language, legislative purpose and exclusions.

Pending and Future Cases: A Crucial Distinction:

Proceedings under the Industrial Disputes Act, 1947:

- Pending disputes arising under the repealed **Industrial Disputes Act, 1947** continue to be governed by the applicable legal framework associated with the 1978 judgment.
- The Court specifically sought to prevent the prospective reformulation from unsettling pending proceedings and concluded matters.
- This approach promotes **legal certainty** and prevents workers or employers from being disadvantaged merely because a later judicial formulation changed the applicable test.

Future Proceedings under the Industrial Relations Code:

- The **Industrial Relations Code, 2020** must be interpreted independently because it is a separate statutory framework.
- The Supreme Court has not, through this judgment, supplied a final judicial definition of “industry” for the new Code.
- Consequently, future disputes will depend on the **text of Section 2(p), statutory exclusions, subordinate legislation and subsequent judicial interpretation** of the Code.

Dissenting Views: Justice Nagarathna and Others:

Justice B.V. Nagarathna:

- Justice **B.V. Nagarathna**, joined by Justices **Dipankar Datta and Ujjal Bhuyan**, opposed the reconsideration of the 1978 framework.
- She argued that the broad interpretation remains relevant because India’s economy has undergone substantial **liberalisation, privatisation and globalisation**, shifting several activities from the public sector to private entities.
- In her view, weakening the broad definition could reduce labour protection precisely when workers are increasingly employed in private and mixed institutional settings.
- She also emphasised that an activity does not become a **sovereign function merely because the State performs it**.
- Government welfare schemes and social services should therefore be examined according to the **nature of the activity**, rather than excluded solely on the basis of the identity of the entity performing them.

Justice Joymalya Bagchi:

- Justice **Joymalya Bagchi** adopted a nuanced position by accepting that the reference could be considered but disagreeing with the majority’s reformulation of the triple test.
- He considered the original triple test sufficiently capable of determining the scope of “industry” under the 1947 Act.

Institutional Finality:

- The dissent also raises an important jurisprudential question concerning **precedent, finality and judicial stability**.
- Reconsidering a long-standing precedent can correct doctrinal weaknesses, but excessive reconsideration may create uncertainty for workers, employers and institutions that have structured their conduct around settled law.

Legislative Background: Evolution of Labour Codes:

The 1982 Amendment Attempt:

- Parliament enacted the **Industrial Disputes (Amendment) Act, 1982**, which attempted to narrow and clarify the statutory concept of “industry”.
- The relevant amendment, however, was **not brought into force**, allowing the judicial interpretation under the 1978 judgment to remain highly influential for decades.

Four Labour Codes:

- Between **2019 and 2020**, Parliament consolidated 29 central labour laws into four major Labour Codes:
- **Code on Wages, 2019**, covering wage-related regulation.
- **Industrial Relations Code, 2020**, consolidating laws relating to trade unions, standing orders and industrial disputes.
- **Occupational Safety, Health and Working Conditions Code, 2020**, consolidating workplace safety and working-condition provisions.
- **Code on Social Security, 2020**, consolidating social-security-related legislation.
- The Labour Codes seek to simplify the fragmented labour-law framework while balancing **worker protection with regulatory efficiency and labour-market flexibility**.

Way Forward: Balancing Protection and Flexibility:

For Labour Policy:

- The government should ensure that the new labour framework provides **clear statutory definitions and exclusions** so that workers and employers can determine their legal obligations without prolonged litigation.
- Rules should prevent genuine **sovereign functions** from being treated as ordinary industrial activities while ensuring that welfare and economic activities are not automatically excluded merely because the State performs them.

For Workers:

- Labour-law reform should preserve effective mechanisms for **collective bargaining, dispute resolution, protection against arbitrary termination and decent working conditions**.
- The expansion of the service economy makes worker protection increasingly important beyond conventional manufacturing establishments.

For Employers:

- Regulatory simplification should be accompanied by **predictable compliance standards**, reducing unnecessary litigation while maintaining minimum labour protections.
- Clear distinctions between industrial establishments, public services, charitable institutions and sovereign functions can improve both **ease of doing business and legal certainty**.

For the Judiciary and Legislature:

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- Courts should interpret the Industrial Relations Code according to its **own statutory text and legislative context**, rather than automatically transplanting precedents developed under the repealed Industrial Disputes Act.
- Parliament and the executive should periodically evaluate the implementation of the Labour Codes through **evidence-based policy review**, stakeholder consultation and transparent rule-making.

Value Addition for UPSC:

Constitutional and Governance Linkages:

- **Fundamental Rights:** Labour protection intersects with **Article 14, Article 19(1)(c)** relating to associations and **Article 21** through dignity and humane working conditions.
- **Directive Principles:** The issue connects with **Articles 38, 39, 41, 42 and 43**, which emphasise social justice, adequate livelihood, the right to work, humane working conditions and living wages.
- **Industrial Peace:** Effective labour dispute resolution supports economic stability and reduces disruptive industrial conflict.
- **Inclusive Growth:** Labour-market flexibility must be accompanied by adequate social protection to ensure that economic growth does not translate into precarious employment.
- **Ease of Doing Business:** Simplified labour regulation can reduce compliance burdens, but deregulation without adequate safeguards can weaken worker security.
- **Cooperative Federalism:** Labour is placed in the **Concurrent List**, making coordination between the Union and States important for effective implementation of labour legislation.
- **Judicial Review:** The case illustrates how constitutional courts reconcile **precedent, statutory change, legal certainty and evolving socio-economic conditions**.

UPSC Mains Takeaway:

- The Supreme Court's 2026 ruling represents **refinement rather than outright rejection** of the landmark *Bangalore Water Supply* framework. Its principal significance lies in separating the interpretation of the **repealed Industrial Disputes Act, 1947** from the **new Industrial Relations Code, 2020**, while preserving legal certainty for existing disputes. The long-term challenge is to create a labour regime that simultaneously protects **worker dignity and bargaining power**, promotes **industrial peace**, enables **enterprise flexibility**, and provides sufficient **legal certainty for investment and employment generation**.