



Employee Handbook or Employment Contract? The Alabama Supreme Court Holds Employee Handbooks Can Create Contractual Liability Without the Proper Disclaimers

Article
01.19.2023

Despite a disclaimer, the Alabama Supreme Court held the City of Montevallo's Employee Handbook created a contract with employees that placed additional obligations on the City before it could terminate employees.

The At-Will Employment Doctrine

Does your employee handbook tell employees it is not a contract and their employment is at-will and can be terminated at any time for any reason? Does your employee handbook tell employees the company can unilaterally change policies at any time? Would you be surprised to learn that, even with such language, your employee handbook may still constitute an employment contract and expose the company to breach of contract claims from terminated employees? While it is well known the at-will employment doctrine generally allows employers to terminate an employee at any time and for any reason, there are exceptions and a recent Alabama Supreme Court decision may make it easier for employees to argue employee handbooks impose contractual obligations on employers going forward.

RELATED PROFESSIONALS

Joseph Barnello
Matthew T. Scully
Amy Jordan Wilkes

RELATED CAPABILITIES

Employer Advising, Policies & Training
Labor & Employment
Labor Relations

Employee Handbook or Employment Contract? The Alabama Supreme Court Holds Employee Handbooks Can Create Contractual Liability Without the Proper Disclaimers

The Alabama Supreme Court on Handbook Disclaimers

To preserve an employee's "at-will" status, employers typically include language in their written policies or employee handbook that disclaims the creation of any employment contract. In *Davis v. City of Montevallo*, the Alabama Supreme Court held the City's employee handbook – and a disclaimer in the handbook acknowledgement that nothing in the handbook "can be interpreted to be a contract for employment for any specified period of time" or to limit the City's freedom to terminate the employment relationship at any time – nonetheless created a unilateral contract that restricted the manner in which the City could terminate an employee. Specifically, the court held the handbook's pervasive use of "mandatory" language (such as the word "shall") required the City to follow discharge procedures contained in the handbook (i.e. providing written notice, holding a "Determination Hearing," and allowing an appeals process) before terminating an at-will employee. The court further held handbook language allowing the City to unilaterally change its policies and procedures did not permit the City to ignore the stated discharge procedures or render the handbook unenforceable as a contract.

Take Action

The Alabama Supreme Court's recent decision in *Davis* opens the door for employees to argue "mandatory" policies and procedures contained in an employee handbook create contractual obligations for employers and alter the at-will employment relationship despite the presence of general contract disclaimer language in the handbook. Employers should review their employee handbooks to determine whether they have adequate contract disclaimer language or have otherwise modified the at-will employment relationship and created contractual obligations related to employee discipline and termination.