

Q What is the difference between an employment contract and offer letter?

A This seems to be the age-old question both from candidates and Selection Committees and one we thought best to partner with an expert, Scott Centrella, to provide a detailed response. As the defining document at the inception of the employment relationship, in most instances an offer letter is the preferred tool. While, an employment contract is generally much more detailed and formal, offer letters are a more flexible, open-ended means of summarizing the major deal points of employment.

The most significant distinction between the two is that whereas employment extended through an offer letter is generally “at-will,” the employment relationship defined in a contract is usually not. The term “at-will” simply means that the employment is of an indefinite duration and, therefore, terminable at the will of the employer or the employee at any time, with or without cause, for any reason or no reason. This is an important benefit to the employer who wants to retain latitude for making employment decisions such as hiring, firing and disciplining employees. Most employment relationships are “at-will.”

Offer Letters

Offer letters typically include the job title, description of duties or reference to a formal job description, compensation (including base salary and bonus), a start date, and benefits such as medical and/or dental insurance, professional development reimbursement and 401k, profit sharing and/or retirement benefit participation. It may indicate that the employee is subject to a reference or background check. It will state that the employment is “at-will,” that the offer does not constitute a contract, and that the benefits outlined therein may be modified at any time at the will of the employer.

It may appear that the employee is at a disadvantage given the qualified nature of the offer. However, there are a multitude of labor laws in every state and at the federal level which provide ample protection to employees regarding the terms and conditions of their employment.

Typically employers prefer offer letters, but there are special circumstances where a more detailed contract makes sense for both parties. This is more the case when dealing with senior or executive positions such as club manager. For example, in attempting to lure a club manager from another position, a club may need to provide protections that minimize the risk to the individual in leaving his current employment. Providing a contract of employment that offers an initial minimum term of employment of two or three years serves that purpose.

Employment Contracts

Employment contracts generally include much of the same information that is in an offer letter, but they do not provide for employment “at-will.” Rather, they generally provide for a minimum multi-year term of employment with a provision for renewal after the initial term expires. The employee is assured that, except in very limited circumstances, he will retain the job (income and benefits) for a fixed minimum period of time.

The employer can terminate before the end of the initial term of a contract under limited circumstances referred to as a “for cause” termination. The contract will include a very specific definition of “cause” including conduct such as willful or serious misconduct that reflects negatively on the reputation or good name of the employer; gross neglect in the performance of duties after warning by the employer; and fraud, misappropriation or dishonesty in financial dealings, and other egregious forms of conduct.

Even if an early termination is not a “for cause” situation, employment contracts will often allow for such a termination providing that the employer pays severance to the employee for the balance of the unexpired initial term or in some fixed amount, or some combination thereof.

The tradeoff for the employee is that while he has enhanced job security, he is also bound to the relationship for the initial minimum term. The employer may allow for a voluntary departure by the employee “for good reason,” such as a material diminution in his title or duties, and still be entitled to severance pay.



While there are instances where a formal employment contract makes sense and provides benefits to both employer and employee in the relationship, the simpler, more open-ended offer letter is the preferred choice. However there is no “one size fits all.”

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