



HRKatha
HUMAN RESOURCE SIMPLIFIED

SURVEY REPORT

LABOUR CODE 2020

IMPACT ON BUSINESS

UKG



OBJECTIVE



September 23, 2020, was an eventful day for Indian businesses, their workforces and also the employer-employee relationship, in general. On this day, the Parliament of India passed three labour codes – the Industrial Relations Code Bill, 2020; the Code on Social Security Bill, 2020; and the Occupational Safety, Health and Working Conditions Code Bill, 2020.

These new labour codes are expected to bring in several reforms in the industry and the labour sector — comprising both permanent / full-time workers and the growing community of gig workers.

HRKatha, in association with UKG (Ultimate Kronos Group), conducted a survey between February and March 2021 among HR professionals across organisations of different sizes, industries and sectors to capture their views on how the new labour codes could impact workforce cost, productivity and compliance for organisations in India.

These reforms will have a major impact on organisations across sectors. The new laws are expected to reduce complexities, improve ease of compliance and usher in more transparency and accountability, to help both employers and workers. The codes are aimed at enhancing compliances significantly, especially due to increased penal liabilities. Organisations are both anxious and curious as it may increase the employee costs and compliance costs.

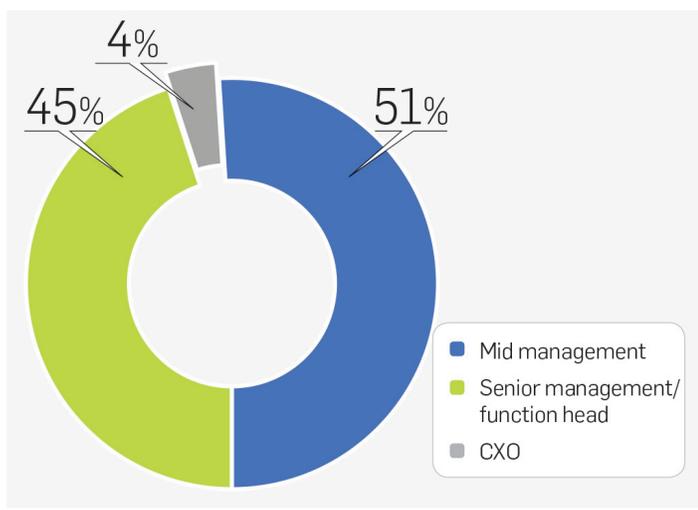
The new labour code will also impact workplace strikes and agitation, occupational safety norms, social security, layoffs, retrenchment and reskilling. In a nutshell, it will not only have a bearing on the relationship between employers and their employees, but also cause serious repercussions in terms of business objectives and goals.

Of course, the actual impact can only be ascertained once the codes are implemented. [\[4\]](#)

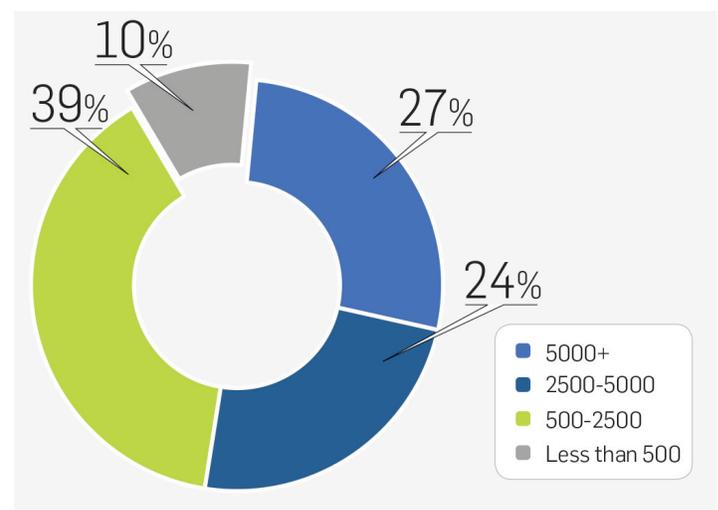
RESPONDENTS

Of the 277 participants in the survey, 40 per cent were from manufacturing companies, 32 per cent from information technology (IT) and information technology-enabled services (ITES), eight per cent from retail, four per cent from healthcare, three per cent from hospitality and two per cent from logistics. The remaining 11 per cent were from other sectors, such as construction, mining, banking, financial services and insurance (BFSI), education, media, real estate, education services, consultancy and telecom. [\[4\]](#)

Respondents by Seniority



Respondents by Company Size



IMPACT ON LABOUR COST

Labour cost to increase

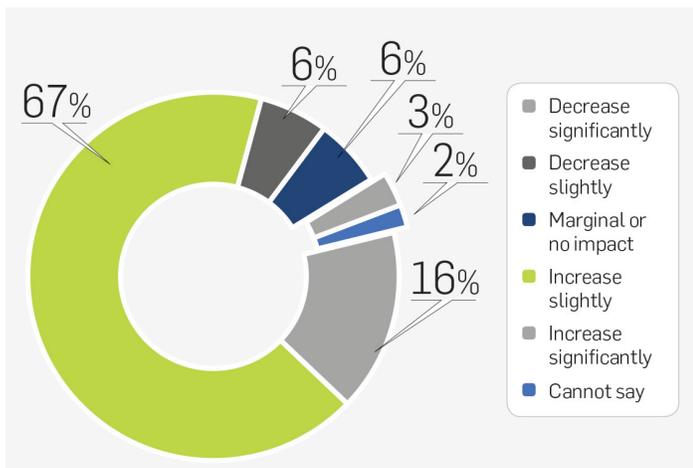


Figure 1: Impact on Labour Cost

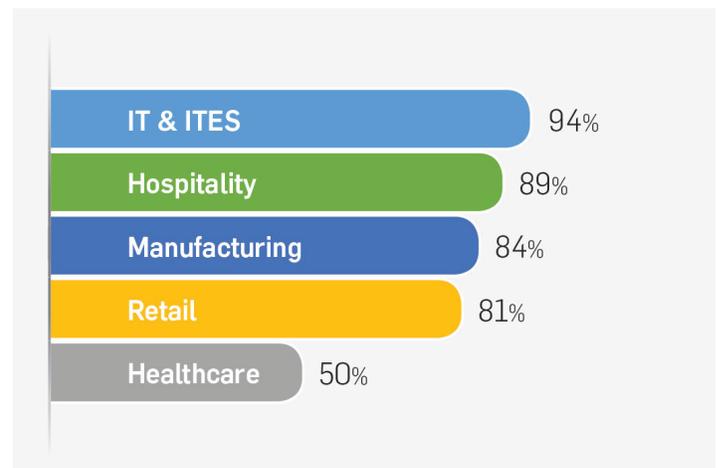


Figure 2: Respondents who agree there will be an increase in labour cost

For most companies, the immediate concern is the impact of the new labour code on the labour cost, as it would affect the bottom line.

Overall, 83 per cent believe that the labour cost will increase due to new laws. If one breaks it down, 16 per cent said the impact would be significant, and 67 per cent felt the labour cost will increase slightly.

Among the CXOs, 80 per cent of the respondents were of the opinion that the cost would increase either significantly (30 per cent) or slightly (50 per cent). A small 10 per cent of CXOs believed that the new labour code will bring down the labour cost marginally, and the remaining 10 per cent were on the border line, with the opinion that it will not have any impact. Among the other senior management professionals or functional heads, 70 per cent opined that the impact on labour cost will be a marginal increase, while a little over nine per cent of them predicted a significant increase. Among the middle management, close to 85 per cent predicted an increase in labour cost – 63 per cent marginally and 22 per cent significantly.

Sector wise, IT/ITES organisations felt the new regime will have maximum impact on labour cost with 94 per cent of respondents of the opinion that costs will increase as opposed to 83 per cent in manufacturing, 80 per cent in retail and 50 per cent in the healthcare sector.

Clearly, the impact on labour cost was disproportionately more for larger organisations compared to smaller ones. 95 per cent of organisations with a workforce greater than 5000 employees expect a cost increase compared to 58 per cent of organisations with less than 500-employee workforce.

IMPACT ON LABOUR COST

What will lead to increase in labour cost?

‘Changes in wage definition’ has emerged as the contributor to increase in labour cost and around 82 per cent of the respondents — 51 per cent for marginal increase and 31 per cent for significant increase — consider this to be a reason for increase in labour cost. This view remained consistent across industries including retail (95 per cent), IT/ITES (90 per cent) and manufacturing (87 per cent)

The other contributing reasons were overtime relaxation (57 per cent), inclusion of white-collar and supervisory staff in the definition of worker, and leave encashment (56 per cent), and principal employer accountability for contract labour (49 per cent).

Other factors, such as employee consent for overtime and late-night working (40 per cent), gig and platform workers’ inclusion in the social security net (40 per cent), provision for registers and routine filings to be maintained digitally (38 per cent), full and final settlement (38 per cent), fixed-term employment (34 per cent) would have marginal or no impact on increase in labour cost.

Interestingly, 35 per cent of respondents also believed that restrictions on strikes and lockouts could bring down the labour cost marginally or significantly. [5]

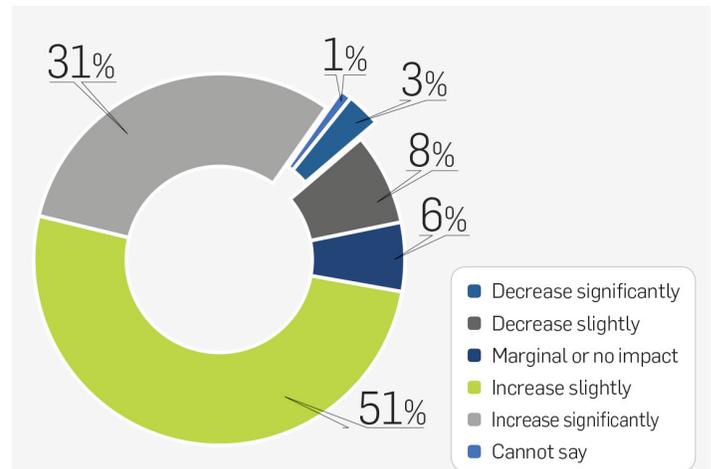


Figure 3: How new wage definition will impact labour cost

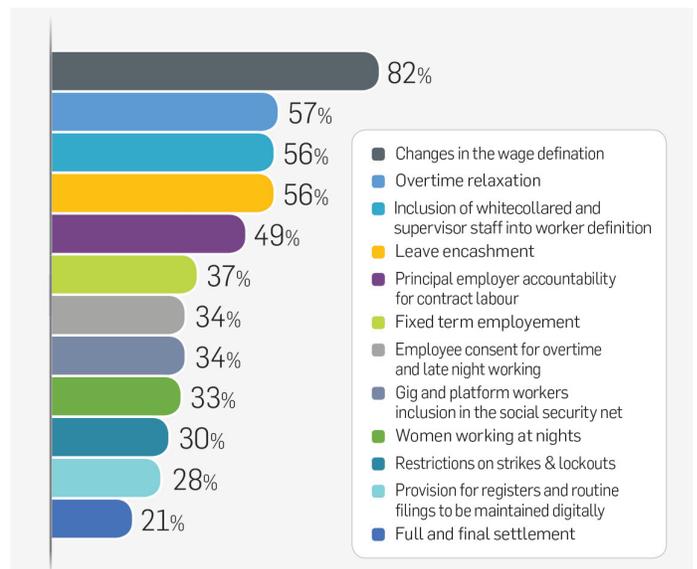


Figure 4: Respondents who said these factors will contribute to increase in labour cost

IMPACT ON COMPLIANCE ADMINISTRATION

Compliance administration to become smoother but enforced

A positive outcome of the new labour code is ease of compliance administration. The Code on Social Security, 2020 and the Occupational Safety, Health and Working Conditions Code, 2020 have greatly reduced the number of registrations an employer / establishment has to maintain and have digitised the entire process to ensure that the same is streamlined. The registration procedure has been simplified, however, some industry experts do say that the draft rules can be further simplified.

As per the survey, almost 60 per cent of the respondents said the new labour codes will ease compliance administration — 35 per cent said significantly and 25 per cent said slightly. However, another 18 per cent of the respondents also commented that it would have marginal or no impact. Only a small percentage — 21 per cent (18 per cent slightly and 3 per cent significantly) — feel that it may have a negative impact and that compliance may become more difficult.

Around 40 per cent of CXOs, 33 per cent of senior managers and function heads, and 38 per cent mid-management professionals believe that the ease of compliance will be significant.

Among sectors, more people from IT & ITES (81 per cent respondents) than manufacturing (54 per cent), believe that the ease of compliance administration will increase.

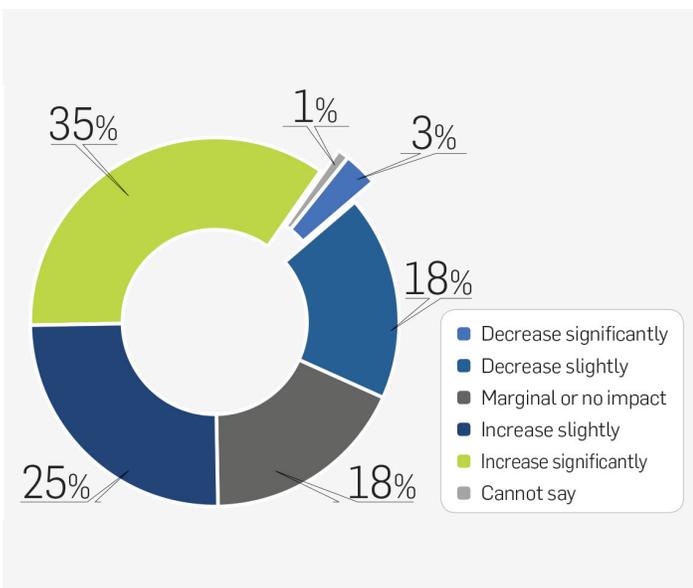


Figure 5: Impact of new labour laws on ease of compliance administration

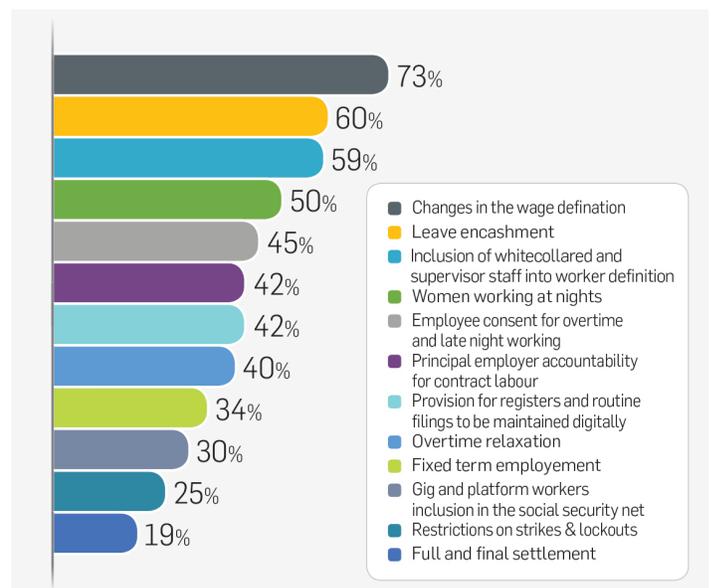


Figure 6: Factors to ease compliance

IMPACT ON COMPLIANCE ADMINISTRATION

While ‘Changes in Wage Definition’ can increase the labour cost, on the flip side, the respondents are hopeful that it will also ease compliance administration.

Other major factors that the respondents feel will ease compliance are leave encashment (60 per cent), inclusion of white-collar and supervisor staff into worker definition (59 per cent), women working at night (50 per cent), employee consent for overtime and late night working (45 per cent), principal employer accountability for contract labour and provision for registers and routine filings to be maintained digitally (42 per cent).

Regarding inclusion of white-collar and supervisory staff into worker definition and its impact on compliance, most people think there will be a slight increase, not a significant one.

Many respondents also believe that factors such as restrictions on strikes and lockouts, and fixed-term employment will have marginal or zero impact on compliance.

Importance of compliance enforcement to stay

While people believe that the new labour codes will ease compliance, at the same time, they also believe that compliance enforcement will increase — 42 per cent believe it will increase slightly, and 16 per cent believe it will increase significantly. At the same time, 15 per cent are of the opinion that it will have marginal or zero impact. However, 17 per cent of the respondents believe it could decrease slightly, and six per cent feel it could decrease significantly, while five per cent were not sure about the impact. [\[7\]](#)

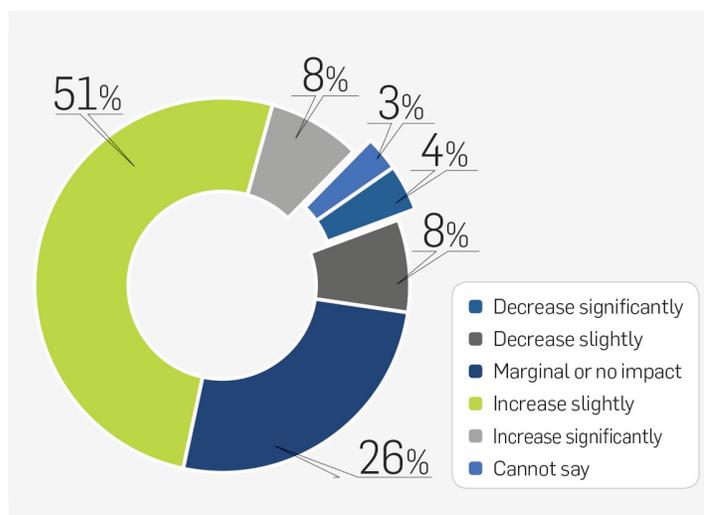


Figure 7: Impact of inclusion of white-collar and supervisor staff into worker definition on compliance

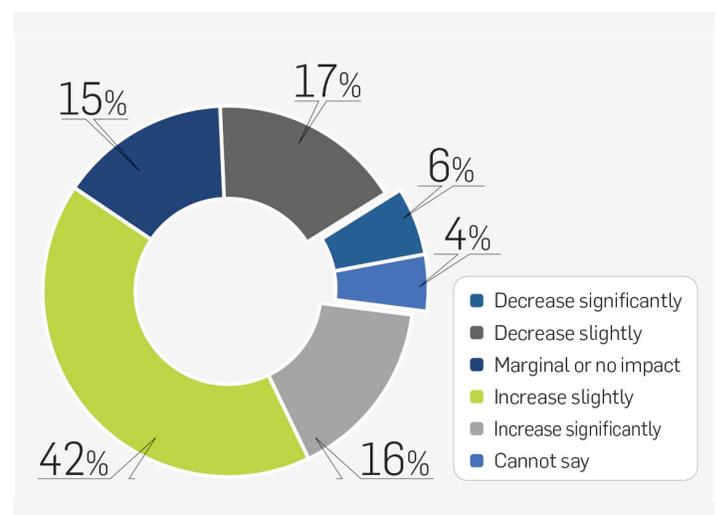


Figure 8: Importance of compliance enforcement

IMPACT ON PRODUCTIVITY

Overtime relaxation & women working at night to impact productivity marginally

The new labour codes are expected to impact productivity levels, and 33 per cent respondents opined that workforce productivity could increase slightly, while 30 per cent said it would have marginal or no effect.

Around 14 per cent were highly optimistic and estimated the increase in productivity levels would be significant. On the contrary, 20 per cent of respondents said that productivity level could actually decline — 16 per cent said slightly and four per cent said significantly.

Interestingly, the manufacturing sector is more optimistic that the updated labour codes will increase productivity — 46 per cent felt it would increase slightly, 11 per cent said significantly and 31 per cent said it would have marginal or zero effect. Only nine per cent respondents from the manufacturing sector believed productivity could go down.

On the contrary, around 36 per cent people from IT and ITES felt that the new code will bring down productivity. Around 33 per cent said there would be marginal or no effect and around 27 per cent said it could increase slightly and 10 per cent said significantly.

What will increase productivity?

People feel overtime relaxation will be a major contributor to increase in productivity, followed by women working night shifts and full and final settlement. Around 40 per cent CXOs, 58 per cent senior professionals and function heads, and 49 per cent mid-management professionals consider overtime relaxation to be a major contributor to rise in productivity.

Around 57 per cent and 49 per cent respondents believe that factors, such as inclusion of white-collar and supervisory staff into worker definition, and gig and platform workers in the social security net, respectively, will have marginal or no influence on increasing productivity. [H](#)

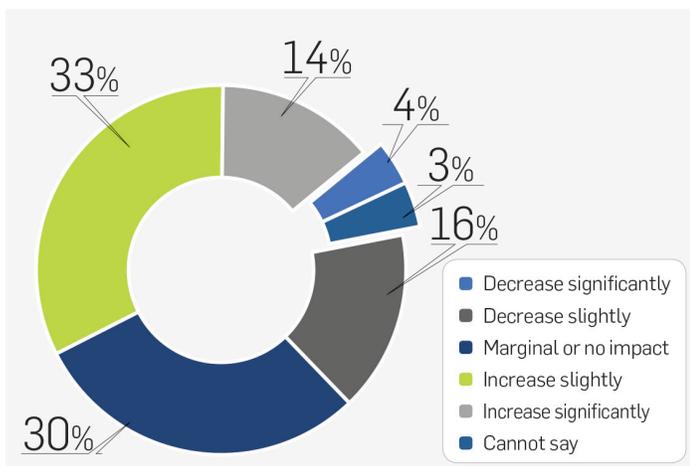


Figure 9: Impact of new labour laws on workplace productivity

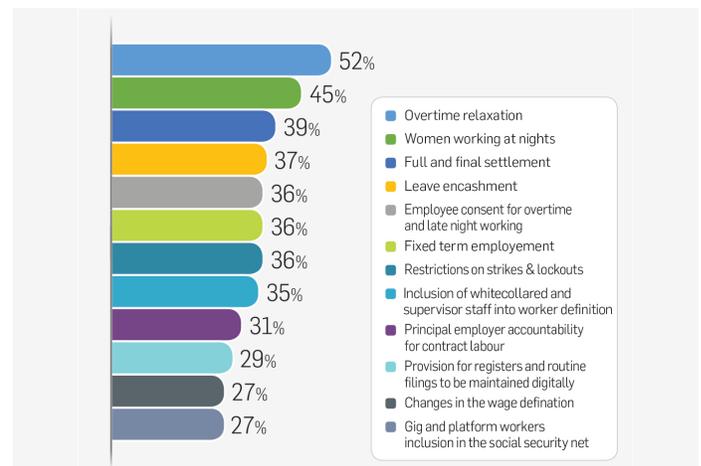


Figure 10: Factors that may increase productivity at workplace

IMPACT ON CONTRACT LABOUR

Flexing of workforce and contract labour deployment to increase

Close to 50 per cent of the respondents believe that engagement levels of contract workers will increase and another 39 per cent are on the borderline, who opine that there could be marginal or zero impact. Only three per cent of respondents were of the opinion that the new law can bring down the engagement level of contract workers.

Around 57 per cent of respondents from retail sector are gung-ho about this change vis-a-vis 40 per cent of people in manufacturing and 28 per cent IT & ITES professionals. In fact, 61 per cent IT & ITES professionals opined that there would be marginal or no change.

Sixty-two per cent respondents were of the opinion that flexing of workforce will increase, based on business demands and seasonality, and only 20 per cent said there will be no impact. A significant 16 per cent were not sure of any impact and only two per cent believed the reverse could happen, that is, flexing of workforce would decrease.

Again, the retail sector seemed optimistic about the trend in flexing workforce, with 42 per cent voting in favour, and only 35 per cent people in manufacturing and 12 per cent in IT & ITES in agreement with this.

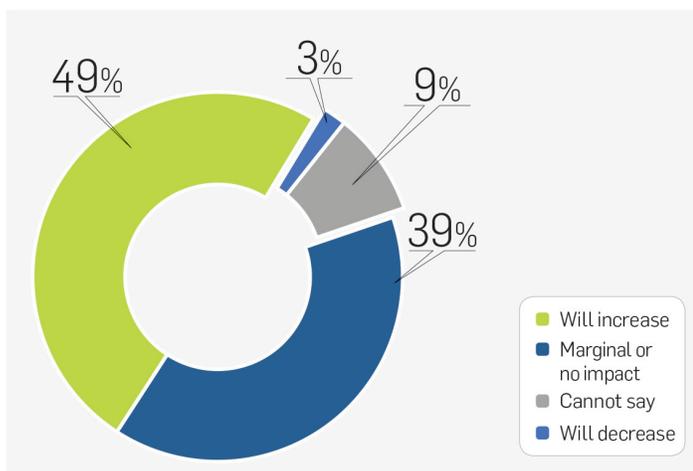


Figure 11: Change in engagement level of contract workers

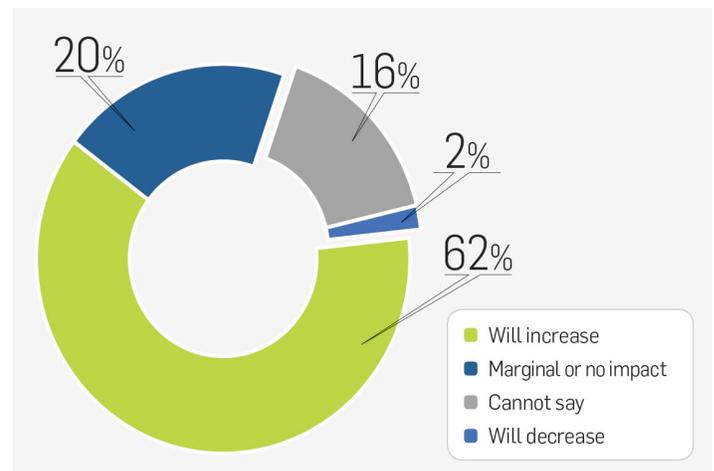


Figure 12: Flexing of workforce based on demand & seasonality

IMPACT ON CONTRACT LABOUR

Greater focus of principal employer obligations towards contract labour

More people are positive that the new labour laws will have a high impact on employer obligation towards contract labour. People from retail, IT & ITES and healthcare sectors are more positive that it will have high impact, while those in manufacturing and logistics are divided on the opinion — 38 per cent from manufacturing are sure of high impact and 40 per cent of low impact, whereas in the logistics sector, 17 per cent each have voted for high and low impact. The hospitality sector (78 per cent) believes it will have low impact, with only 11 per cent from this sector saying the impact could be high.

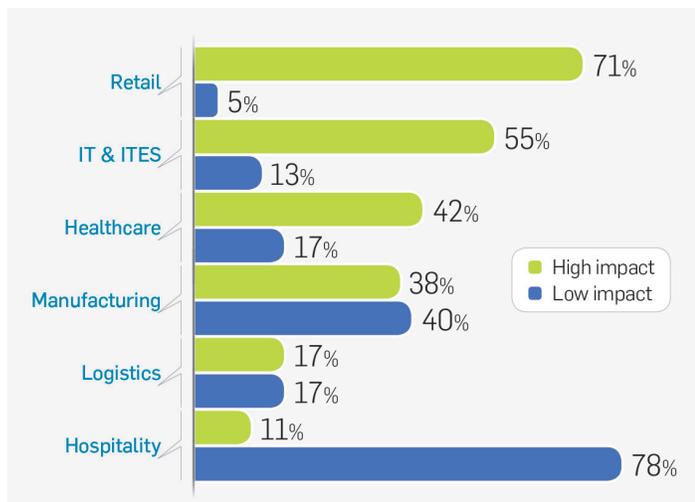


Figure 13: Sectorwise impact of new labour laws on employee obligation towards contract labourers

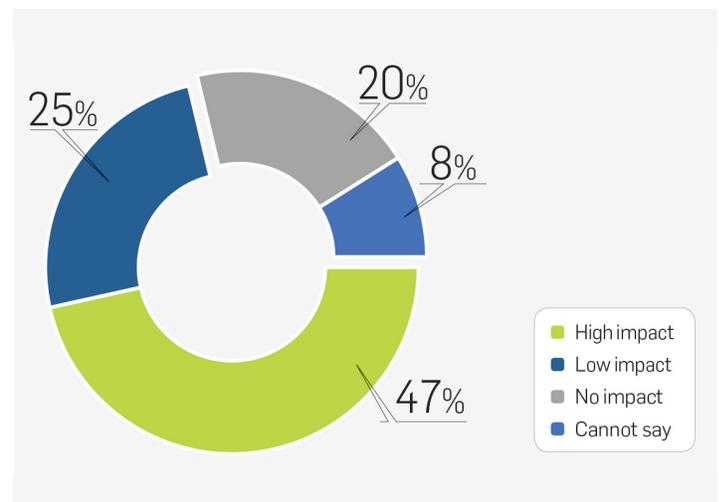


Figure 14: Impact of new labour code on principal employee obligations towards contract labourers



IMPACT ON CONTRACT LABOUR

Contract workforce to benefit most by change in labour laws

The Occupational Safety, Health, and Working Conditions Code, 2020 recognises the rights of contractual workers. The industrial relations code now lays down a statutory framework for fixed-term employment.

Any business can now hire such employees if they're engaged for a fixed period under a written contract and are governed by same conditions relating to working hours, allowances and other benefits as given to permanent workers. Businesses will also have to pay gratuity to such employees if the fixed contract is for a duration of one year.

This is a reason why contractual workforce will be most benefited by the new law, and 58 per cent of respondents have agreed to this.

Next in line are the on-roll employees — both at non-supervisory level and supervisory level — and 51 per cent and 49 per cent respondents opine that these two workforce segments will be affected.

The mandate also goes that remote working and gig workers will be least impacted by the new rules. [H](#)

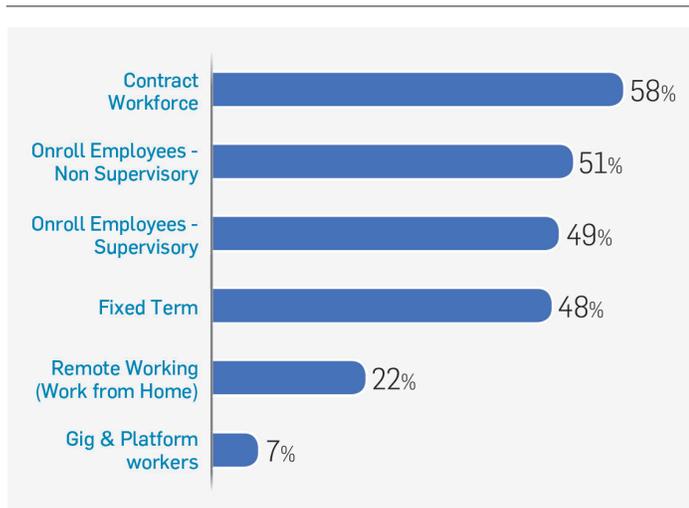


Figure 15: Impact of new labour codes on workforce segments



IMPACT ON WORKPLACE POLICIES

Labour Codes may drive policy making differently across sectors

Opinion seems completely divided on the impact of labour codes on policy making. Around 17 per cent of the respondents said ‘no impact’; 38 per cent said ‘low impact’ and another 38 per cent said ‘high impact’. The remaining seven per cent of respondents weren’t sure.

Over 90 per cent of people from healthcare and 81 per cent respondents from retail believed the new law will have high impact on workplace policies, while 90 per cent from hospitality opined it will have low impact. In case of manufacturing and IT & ITES, the response was mixed – almost the same number of people said it will have low impact and high impact, respectively.

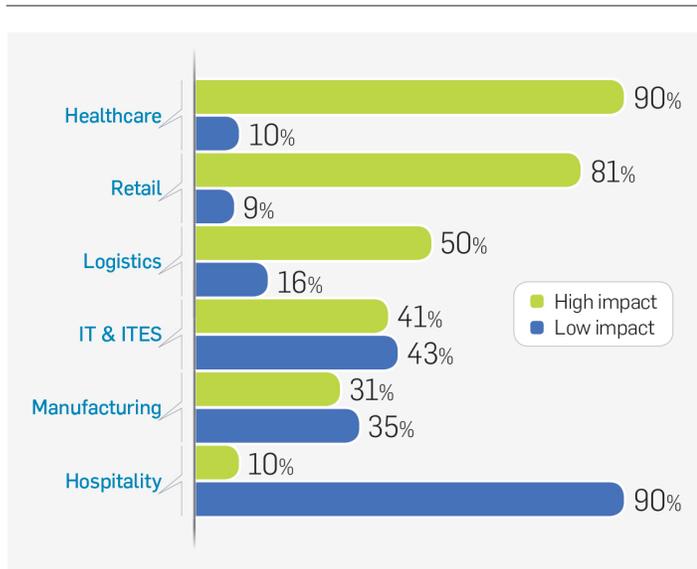


Figure 16: Sectorwise impact on workplace policies

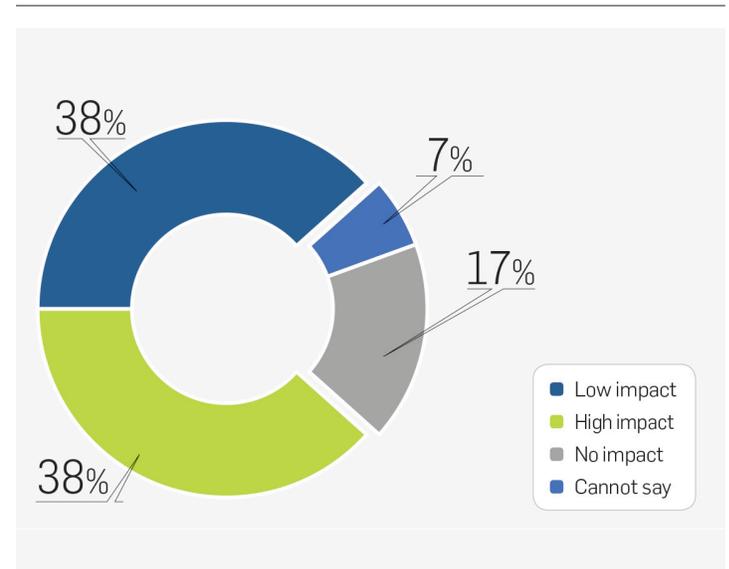


Figure 17: Impact of new laws on workplace policies

IMPACT ON DIGITISATION

Digitisation of workforce management process to get a push

Around 57 per cent of respondents believe that the new laws will have high impact on digitisation of workforce management process — 6 per cent say there will be no impact and 26 per cent think it will have low impact. Around 11 per cent of the respondents weren't sure what the impact will be like.

Seven out of 10 CXOs are of the opinion that digitisation of workforce management process will be highly impacted and get a push due to the new law. Among the senior management, the number is 58 per cent and among those in mid-management, it is 55 per cent.

Sectorwise, those from healthcare, hospitality, manufacturing and IT & ITES are positive around workforce management, while those from retail and logistics are not.

While some may feel these reforms should have happened long ago, others take comfort in the saying, 'better late than never'. After all, it does seem a win-win for gig workers who lacked any form of security till now, and also for contract workers, whose numbers will now grow no doubt. [H](#)

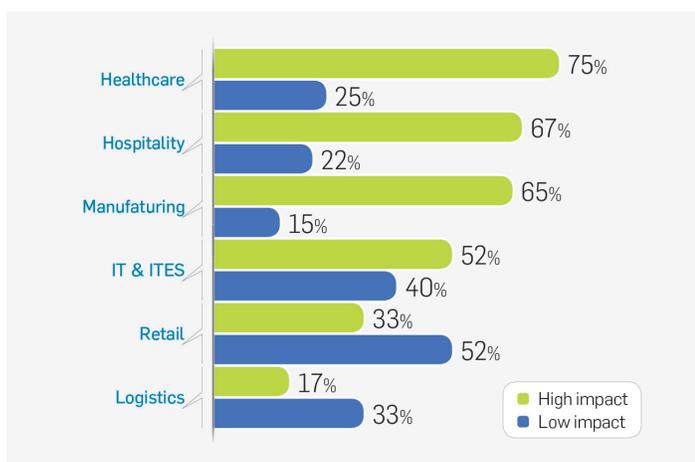


Figure 18: Sectorwise Impact of digitisation on workforce management

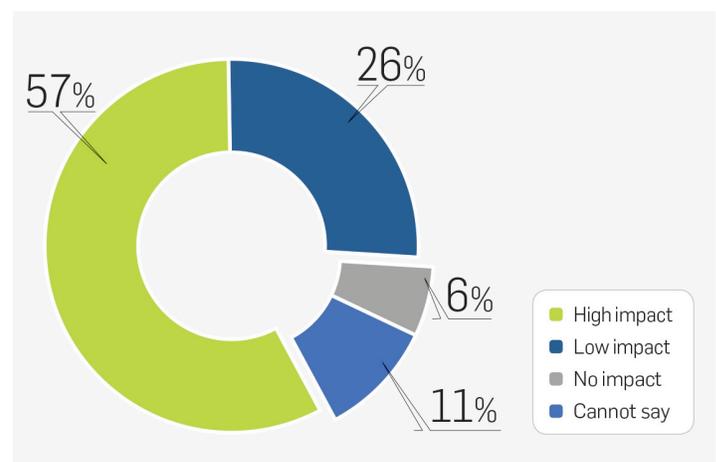


Figure 19: Impact of digitisation on the workforce

KEY CHANGES

Women working at night

Most respondents feel that the impact of women working at night in the new regime, will not only ease compliance but also increase productivity and the cost. Only 23 per cent of respondents from large size companies, with 5000 plus employee strength, felt women working at night will increase labour cost, but 35 per cent were of the opinion that it will increase productivity and a significant number, around 50 per cent of respondents, from these companies felt it will increase ease of compliance.

Among respondents from companies with an employee strength between 2500 and 5000, an equal number of people were of the opinion that women working at night would increase all three parameters — cost, productivity and ease of compliance.

Among respondents from companies with an employee strength between 500-2500, 46 per cent felt women working at night will increase productivity, but only 37 per cent were of the opinion that it would increase labour cost. Around 39 per cent of respondents from these companies also opined that women working at night would increase the ease of compliance.

Most respondents felt there could be a slight increase in labour cost (48%) and ease of compliance (51%), but a majority of respondents were of the opinion that that there will no impact on productivity (57%) by including white-collar and supervisory staff into worker definition.

Majority of respondents are of the belief that changes in wage definition in the new regime will impact cost and ease of compliance but not productivity. In fact, a larger share of respondents are of the opinion that it will have marginal or no impact.

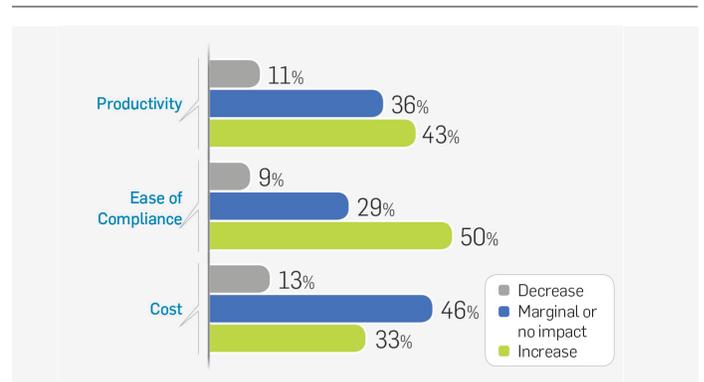


Figure 20: Impact of women working at night on productivity, ease of compliance & cost

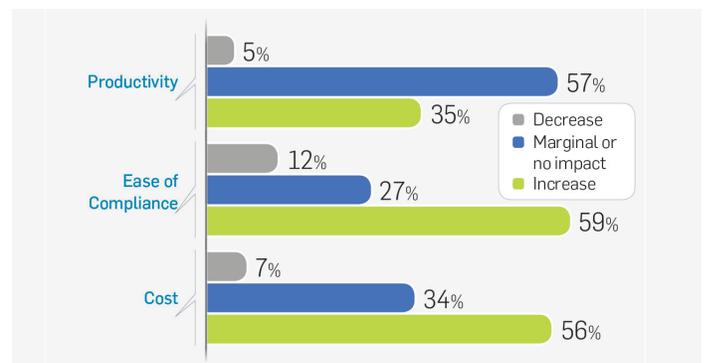


Figure 21: Impact of inclusion of white-collar and supervisory staff into worker definition on productivity, ease of compliance & cost

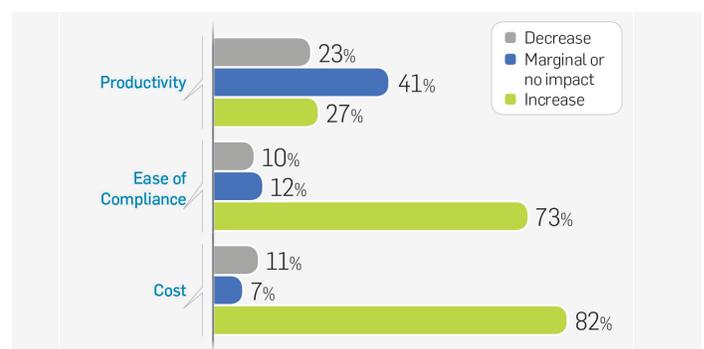


Figure 22: Impact of changes in wage definition on productivity, ease of compliance & cost

KEY CHANGES

PROVISION FOR REGISTERS AND ROUTINE FILINGS TO BE MAINTAINED DIGITALLY

- 46%** say it will not have any major impact on productivity
- 42%** are of the opinion it will increase ease of compliance slightly or significantly
- 38%** believe it will not have any major impact on costs
- 32%** opine that it will not have any major impact on ease of compliance
- 24%** agree that this clause can bring down the cost slightly

CHANGES IN THE WAGE

- 82%** believe it will increase cost
- 73%** opine that it will increase the ease of compliance
- 41%** per cent feel it will have no impact on productivity

GIG AND PLATFORM WORKERS' INCLUSION IN THE SOCIAL SECURITY NET

- 49%** feel it will have no impact on productivity
- 40%** believe it will have no impact on cost
- 39%** opine that it will have no impact on the ease of compliance
- 34%** predict it will increase cost

WOMEN WORKING AT NIGHT

- 50%** opine that it will increase ease of compliance
- 46%** say no impact on cost
- 43%** say it will increase productivity

RESTRICTIONS ON STRIKES AND LOCKOUTS

- 45%** say it will not have any major impact on productivity
- 44%** say no major impact on ease of compliance either
- 35%** say it will bring down labour cost

EMPLOYEE CONSENT FOR OVERTIME AND LATE NIGHT WORKING

- 45%** are also of the opinion it will increase ease of compliance slightly or significantly
- 41%** believe it will not have any major impact on costs
- 37%** say it will not have any major impact on productivity
- 32%** opine that it will not have any major impact on ease of compliance

KEY CHANGES

OVERTIME RELAXATION

- 57%** feel it will increase costs
- 52%** say it will increase productivity
- 40%** opine it will increase ease of compliance slightly or significantly
- 40%** also opine that it will not have any major impact on ease of compliance
- 33%** believe it will not have any major impact on costs

LEAVE ENCASHMENT

- 60%** opine it will increase ease of compliance
- 56%** feel it will increase costs
- 42%** say it will not have any major impact on productivity

FULL AND FINAL SETTLEMENT

- 41%** predict no major impact on ease of compliance
- 38%** say no major impact on cost either
- 31%** opine it will increase productivity
- 31%** of respondents also say it will not have any major impact on productivity



UKG INSIGHTS

Implications and Impact

SHIFTING FOCUS FROM COST TO EFFICIENCY TO STAY COMPETITIVE

The new labour codes come with many short-term challenges that organisations need to resolve, chief amongst them being the increase in workforce costs. While costs are bound to increase due to the wage definition changes, there are a number of options for greater flexibility in running the workforce that organisations can look at implementing in order to realise long-term benefits around productivity. However, with the opinion on the productivity impact deeply divided across industries, India Inc. will need to focus more on innovative workforce practices and technology to drive greater productivity in order to stay competitive in world markets.

EVOLVING WORKFORCE CATEGORIES ADD BOTH FLEXIBILITY AS WELL AS ADMINISTRATIVE OVERHEADS

The composition of the workforce is likely to change with new workforce types coming into the mix. These different workforce types need to be looked at less from a cost perspective and more in terms of how they can provide organisations with a greater ability to flex the workforce based on market and business conditions. Organisations that move towards adopting these different employment models could find policy making becoming more divergent and complex. However, the greater business agility they provide would more than offset any administrative disadvantages.

DIGITISATION TO PROVIDE AN IMPETUS TO BUILDING A FUTURE-READY WORKFORCE

With compliance getting easier but more stringent, organisations, will also need to look at how they can enforce rules and regulations seamlessly across locations, especially keeping in mind state-wise variations that are bound to arise. By taking advantage of the shift towards digitalisation of workforce management processes and implementing modern workforce management practices, the labour codes could provide an impetus to India to build a future-ready workforce.



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Disclaimer: The Labour Code Survey was done in February-March 2021 and the data was analysed in April-May 2021