

HR Law Hotline

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IMPACT OF INDIA'S NEW LABOUR CODE ON FOREIGN COMPANIES DOING BUSINESS IN INDIA

India's labor landscape has undergone a significant transformation with the introduction of the new labour codes. These codes, aimed at simplifying and consolidating the myriad of existing labor laws, have profound implications for businesses, including foreign companies operating in India. The four new labor codes – the Code on Wages, Industrial Relations Code, Social Security Code, and the Occupational Safety, Health and Working Conditions Code – are designed to enhance ease of doing business, ensure compliance, and protect workers' rights. For foreign companies, understanding and adapting to these changes is crucial for maintaining smooth operations and compliance in India.

1. SIMPLIFICATION AND CONSOLIDATION OF LAWS

One of the most notable impacts of the new labor codes is the simplification and consolidation of numerous existing labor laws. Previously, India had over 29 national-level labor laws, which often created a complex and cumbersome regulatory environment for businesses. The new codes streamline these into four comprehensive laws, reducing ambiguity and simplifying compliance procedures. This consolidation is particularly beneficial for foreign companies, which often face challenges while understanding Indian labor regulations.

2. FLEXIBILITY IN HIRING AND FIRING

The Industrial Relations Code introduces significant changes in the hiring and firing practices. It allows companies with up to 300 workers to hire and fire workers without prior government approval, a threshold previously set at 100 workers (*called as 'workman' under the Industrial Disputes Act*). This increased flexibility is likely to attract more foreign investments, as companies can now scale their workforce according to business needs without facing stringent regulatory hurdles. However, this change also requires foreign companies to be mindful of ensuring fair and transparent practices in workforce management to maintain good industrial relations and avoid potential disputes.

3. ENHANCED SOCIAL SECURITY PROVISIONS

The Social Security Code extends the coverage of social security benefits to a broader section of the workforce, including gig and platform workers. The term 'gig worker' has been defined to mean a person who performs work or participates in a work arrangement and earns from such activities outside the traditional employer-employee relationship. The Social Security Code provides for framing of schemes on life and disability cover, accident insurance, health and maternity benefits, old age protection, etc, for gig/platform workers and that the aggregators of gig services may be required to contribute 1-2% to social security fund of their annual turnover (subject to terms of the schemes in respect of the same). For foreign companies, this implies an increased responsibility to contribute to social security schemes for their employees (*including gig workers*). While this may result in higher operational costs, it also ensures a more secure and motivated workforce, which can enhance productivity and reduce turnover rates.

Foreign companies must update their HR policies and systems to comply with these enhanced social security obligations and ensure timely contributions to relevant schemes.

4. EMPHASIS ON OCCUPATIONAL SAFETY AND HEALTH

The Occupational Safety, Health and Working Conditions Code mandates stricter norms for workplace safety and health standards. This includes provisions for mandatory health check-ups, safety committees, and adequate facilities for workers. Foreign companies operating in India must invest in improving their workplace conditions to meet these stringent requirements. While this may entail additional costs in the short term, the long-term benefits of a healthier and safer workforce are substantial. Companies should conduct regular audits and training programs to ensure compliance and foster a culture of safety and well-being.

5. IMPACT ON CONTRACTUAL WORKFORCE AND FIXED-TERM EMPLOYMENT

The new labor codes provide greater clarity on the use of contractual worker and introduce provisions for fixed-term employment. Foreign companies often rely on contractual workforce for flexibility and cost management. The new regulations ensure that fixed term employee (*i.e. employee engaged basis a written contract for a fixed period*) receive the same benefits as permanent employees, which may increase labor costs but also improve the quality of contract workforce. Additionally, the option of fixed-term employment allows companies to hire employees for specific projects or durations without the complexities associated with regular employment contracts. Foreign companies should leverage this flexibility to align their workforce strategy with business objectives while ensuring compliance with the new regulations.

6. COMPLIANCE AND PENALTIES

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The new labor codes introduce stricter compliance requirements and penalties for non-compliance. Foreign companies must ensure that their HR and legal teams are well-versed with the new regulations and implement robust compliance mechanisms. This includes maintaining accurate records, timely submissions of returns, and adherence to labor welfare measures. Non-compliance can lead to severe penalties, which can tarnish the company's reputation and result in legal challenges. Investing in compliance management systems and regular training for staff can mitigate these risks and ensure smooth operations.

CONCLUSION

The new labor codes represent a significant shift in India's labor regulatory framework, aiming to create a more business-friendly environment while safeguarding workers' rights. For foreign companies, these changes bring both opportunities and challenges. The simplification of laws and increased flexibility in workforce management can enhance operational efficiency and attract investments. However, the emphasis on social security, workplace safety, and compliance demands careful planning and adaptation. By proactively aligning their business practices with the new labor codes, foreign companies can not only ensure compliance but also contribute to a more sustainable and equitable labor market in India.

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Further reading: See '[Handbook on Labour Codes](#)' published by Nasscom with NDA.

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