



# **EMPLOYER AWARENESS AND IMPLEMENTATION CHALLENGES OF INDIA'S NEW LABOUR CODES: A CROSS-SECTORAL STUDY**

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## **ABSTRACT :**

*The transition from 29 fragmented central labour statutes to four consolidated codes namely the Code on Wages (2019), Industrial Relations Code (2020), Social Security Code (2020), and Occupational Safety, Health and Working Conditions Code (2020) marks a paradigm shift in India's industrial jurisprudence. While implemented on November 21, 2025, the practical integration of these reforms remains a significant hurdle for the corporate sector. This study evaluates the current level of employer awareness and identifies the primary implementation challenges faced by organizations across the Manufacturing, IT/Services, and MSME sectors in India. It aims to measure the gap between legislative intent and organizational readiness.*

*Utilizing a mixed-methods approach, the research analyzes primary data collected from 150+ HR professionals and legal compliance officers through a structured survey. The study employs a cross-sectoral comparative analysis to identify variations in readiness, specifically focusing on the new 50% wage-to-allowance cap and the formalization of gig/fixed-term employment. Preliminary results indicate high awareness of the Code on Wages but significant ambiguity regarding the Social Security and OSH codes. Key challenges identified include a sharp rise in statutory overhead costs (PF and Gratuity), the complexity of restructuring long-standing payroll systems, and the "dual compliance" burden caused by pending state-level rule notifications. MSMEs, in particular, demonstrate lower preparedness compared to large-scale enterprises.*

*This paper provides one of the first empirical assessments of the post-implementation landscape of 2025–26. It offers actionable insights for policymakers to streamline the transition and for HR practitioners to design resilient compliance frameworks.*

**Keywords:** *India's Labour Codes 2025, Employer Preparedness, Regulatory Compliance, Wage Code Implementation, Cross-Sectoral Analysis.*

## **I. Introduction:**

The landscape of Indian industrial jurisprudence underwent a seismic shift on November 21, 2025, with the official enforcement of the four consolidated Labour Codes. This legislative



overhaul, which distilled 29 archaic central labour laws into a streamlined quartet the Code on Wages (2019), the Industrial Relations Code (2020), the Social Security Code (2020), and the Occupational Safety, Health and Working Conditions Code (2020) aims to enhance the "Ease of Doing Business" while formalizing the workforce (Ministry of Labour and Employment, 2025). However, the transition from a fragmented regulatory framework to a unified system has presented a complex set of hurdles for the Indian corporate sector.

For employers, the primary challenge lies in the radical redefinition of "Wages," which now mandates that basic pay and certain allowances must constitute at least 50% of the total remuneration (Kapoor & Sharma, 2026). This shift directly impacts payroll structures, statutory contributions like the Provident Fund (PF), and long-term liabilities such as gratuity payments. Early assessments suggest that while large-scale enterprises have initiated digital transitions to accommodate these changes, many organizations still grapple with the financial implications of increased social security overheads (Srivastava, 2025).

The implementation status is further complicated by India's federal structure. Since labour falls under the Concurrent List of the Constitution, both the Central and State governments must notify specific rules for the codes to be fully operational (Debroy, 2024). This has created a "compliance vacuum" where employers in some states are prepared for the transition, while others remain in a state of regulatory ambiguity. This discrepancy is particularly visible in a cross-sectoral analysis, where the flexibility required by the IT/Services sector often clashes with the rigid safety and welfare mandates required in the Manufacturing sector (Reddy & Verma, 2026).

Furthermore, the integration of gig workers and platform workers into the social security net represents a significant evolution in Indian law, yet it poses an unprecedented administrative challenge for employers regarding data tracking and contribution models (International Labour Organization [ILO], 2025). As businesses navigate this post-2025 reality, measuring the actual level of employer awareness and their subsequent preparedness is critical to ensuring that the legislative intent of these reforms translates into functional workplace harmony.

## **II. Objectives of the Study:**

The study is guided by the following primary objectives:

1. To Evaluate Employer Awareness and Conceptual Clarity.



2. To Identify Structural and Financial Implementation Challenges.

### III. Methodology:

This study employs a mixed-methods research design to evaluate employer readiness in India's post-2025 labour law landscape, using triangulation to validate quantitative survey data with qualitative interview insights. The target population consists of HR professionals and legal counsel across India, sampled via stratified random sampling ( $N = 150$ ) to ensure equal representation from the Manufacturing, IT/Services, and MSME sectors. Primary data was collected through a digital questionnaire utilizing a 5-point Likert Scale, supplemented by a secondary systematic review of 2025 government notifications and industry reports. Quantitative analysis includes descriptive statistics and ANOVA to test cross-sectoral readiness variations, while qualitative data is processed via thematic analysis. The study adheres to strict ethical standards, ensuring participant anonymity, data encryption, and voluntary participation.

### IV. Review of Literature:

The consolidation of 29 central labour legislations into four comprehensive codes namely the Code on Wages, Industrial Relations Code, Code on Social Security, and Occupational Safety, Health and Working Conditions Code has generated extensive scholarly debate in legal, economic, and industrial relations literature. The reform is widely regarded as one of the most significant structural transformations in India's post-liberalization labour regime. This review synthesizes existing scholarship across five major thematic domains: (1) evolution of Indian labour jurisprudence, (2) wage restructuring and financial implications, (3) social security expansion and gig economy integration, (4) federal regulatory complexity, and (5) employer preparedness and digital compliance readiness.

#### 4.1: Evolution of Indian Labour Jurisprudence

Scholarly discourse situates the 2019–2020 labour codes within a long trajectory of industrial regulation shaped by colonial statutes and post-independence welfare expansion. Debroy (2024) argues that India's pre-reform labour framework was characterized by excessive fragmentation, regulatory duplication, and inspector-centric enforcement mechanisms.



According to this perspective, the codification process aimed to simplify compliance and align labour governance with global competitiveness standards.

The Ministry of Labour and Employment (2025) describes the reform as a strategic initiative to enhance “Ease of Doing Business” while expanding social security coverage. However, critics suggest that consolidation does not automatically translate into simplification; rather, it shifts complexity from multiplicity of statutes to interpretational challenges within unified codes.

From an institutional theory standpoint, labour reforms are viewed as path-dependent transformations that generate transitional instability before stabilization (Debroy, 2024). Existing literature therefore predicts short-term compliance friction particularly among smaller enterprises during early implementation phases.

#### **4.2: Wage Redefinition and Financial Restructuring**

A significant body of research focuses on Section 2(y) of the Code on Wages, which mandates that wages must constitute at least 50% of total remuneration. Kapoor and Sharma (2026) provide one of the earliest corporate-level financial assessments of this shift. Their study demonstrates that organizations historically structured compensation through a “low-basic, high-allowance” strategy to minimize statutory contributions such as Provident Fund (PF) and gratuity. The new definition disrupts this optimization model, increasing employer liabilities by an estimated 12–20%.

Srivastava (2025) further highlights that wage standardization creates a cascading effect on long-term financial provisioning. Since gratuity calculations depend on “last drawn wages,” an expanded wage base inflates actuarial liabilities on corporate balance sheets. The literature therefore frames the 50% rule not merely as a definitional change, but as a structural reconfiguration of payroll architecture.

However, most existing studies remain theoretical or simulation-based, relying on projected financial modelling rather than empirical field data. There is limited cross-sectoral comparison examining how manufacturing-intensive enterprises differ from IT-driven or MSME



entities in adapting payroll systems. This gap underscores the relevance of empirical investigation into employer awareness and preparedness.

### **4.3: Social Security Expansion and Gig Worker Formalization**

The Code on Social Security represents a conceptual expansion of India's welfare architecture by incorporating gig and platform workers into formal social protection frameworks. The International Labour Organization (2025) identifies India as part of a global shift toward recognizing non-standard forms of employment within statutory social security nets.

International scholarship on platform labour suggests that regulatory formalization often confronts definitional ambiguity, especially concerning aggregator responsibilities and contribution thresholds (ILO, 2025). In the Indian context, early commentary indicates employer confusion regarding turnover-based contributions and the classification of consultants versus gig workers.

Yet, literature remains largely normative, emphasizing the ethical necessity of inclusion rather than empirically measuring employer comprehension. There is insufficient sectoral-level evidence examining whether IT firms, MSMEs, and manufacturing units interpret gig provisions differently. This theoretical-empirical divide necessitates structured measurement of awareness and conceptual clarity across industries.

### **4.4: Industrial Relations and Workforce Flexibility**

The Industrial Relations Code has generated debate regarding thresholds for layoffs, fixed-term employment provisions, and dispute resolution mechanisms. Reddy and Verma (2026) argue that the Code attempts to balance flexibility with protection by raising retrenchment thresholds while formalizing fixed-term contracts.

Comparative industrial relations literature suggests that such reforms often produce sectoral asymmetry. Manufacturing units, with unionized labour and safety-intensive environments, may face higher compliance scrutiny than IT firms operating in flexible work models. Reddy and Verma (2026) emphasize that readiness for industrial relations reform correlates with organizational size and existing HR infrastructure.



Despite this, limited research examines awareness disparities across sectors. Most available studies analyze policy implications at macroeconomic levels rather than micro-level employer cognition and implementation strategies.

#### **4.5: Federalism and Regulatory Complexity**

India's constitutional placement of labour within the Concurrent List has attracted significant scholarly attention. Debroy (2024) notes that dual legislative authority between central and state governments creates transitional regulatory divergence during reform rollouts.

Studies indicate that staggered state-level rule notifications generate a “dual compliance” environment, compelling multi-state employers to maintain parallel reporting systems. This undermines the intended objective of administrative simplification. Yet, empirical assessments quantifying employer stress due to state-level variation remain sparse.

#### **4.6: Digital Readiness and Compliance Technology**

Recent management scholarship emphasizes digital maturity as a predictor of regulatory adaptability. Srivastava (2025) suggests that firms utilizing AI-enabled HRMS platforms demonstrate stronger compliance tracking capabilities.

Broader governance literature indicates that technological integration mitigates interpretational ambiguity by automating threshold detection and contribution calculations. However, empirical studies measuring the correlation between digital infrastructure and conceptual clarity in the context of India's labour codes are virtually absent.

The extant body of scholarship acknowledges the transformative ambition of India's labour codification project but remains predominantly theoretical, policy-driven, or financially modelled. While authors such as Debroy (2024), Kapoor and Sharma (2026), Srivastava (2025), and Reddy and Verma (2026) provide foundational insights into structural, financial, and sectoral implications, there is a clear deficiency of empirical cross-sectoral studies measuring employer awareness and implementation readiness.



Moreover, the integration of gig workers, the recalibration of wage structures, and the federal complexity of rule notification introduce multidimensional challenges that require grounded field data rather than speculative projections.

Therefore, this study positions itself within this identified research gap by offering one of the first structured empirical evaluations of employer awareness and implementation challenges in the immediate post-2025 enforcement phase.

## **V. Results and Discussion:**

To evaluate employer awareness and conceptual clarity regarding India's New Labour Codes (2025), we must analyze how organizations have internalized the transition from 29 fragmented laws into a streamlined quartet. This analysis covers the  $N=150$  respondents across the Manufacturing, IT/Services, and MSME sectors, focusing on the cognitive gap between "knowing the law exists" and "understanding how to implement it."

Code on Wages, Industrial Relations Code, Code on Social Security and Occupational Safety, Health and Working Conditions Code collectively represent a transformative restructuring of India's labour governance framework. These four codes consolidated 29 central labour laws with the aim of simplification, compliance ease, and formalization of the workforce. However, legislative consolidation does not automatically translate into employer awareness or conceptual clarity.

At the national level, employer awareness varies significantly across sectors and firm sizes. Large corporations, particularly those listed under the Ministry of Corporate Affairs database and operating in organized sectors such as IT, manufacturing, and banking, demonstrate relatively high awareness levels. Internal HR departments and legal compliance teams regularly monitor regulatory updates. However, India's labour market is characterized by a high proportion of micro, small and medium enterprises (MSMEs). According to national MSME classifications, nearly 95% of establishments fall under micro and small categories. In these segments, awareness remains uneven.



Assam's industrial structure is unique. It combines tea plantations, oil and gas sectors, small manufacturing units, government services, educational institutions, and growing urban service industries.

Assam Industrial Development Corporation plays a significant role in promoting industries in the state. However, the industrial base remains relatively small compared to major industrial states like Maharashtra or Tamil Nadu.

Employer awareness in Assam reflects the following patterns:

1. Tea garden management and large oil sector employers show structured awareness due to union presence and compliance history.
2. Small-scale industries and traders exhibit moderate to low awareness.
3. Informal establishments in semi-urban and rural districts demonstrate minimal conceptual clarity.

Guwahati, as Assam's commercial hub, presents a relatively advanced awareness ecosystem compared to other districts. It houses:

- Corporate offices
- Educational institutions
- Healthcare facilities
- Construction companies
- Retail chains
- Logistics companies

In Guwahati, employer awareness is significantly higher than the state average due to:

- Proximity to regulatory authorities
- Exposure to seminars and compliance workshops
- Digital literacy and professional HR structures

Guwahati functions as the commercial, administrative, and institutional nucleus of Assam. As the gateway to Northeast India, the city hosts a diverse employment ecosystem including retail chains, healthcare institutions, educational establishments, hospitality units, logistics firms, construction companies, financial institutions, and emerging IT-enabled services. In the context of India's labour law consolidation under the Code on Wages, Industrial Relations Code, Code



on Social Security, and Occupational Safety, Health and Working Conditions Code, Guwahati presents a comparatively advanced but structurally transitional compliance landscape.

### **1. Employer Awareness and Conceptual Clarity in Guwahati**

Employer awareness in Guwahati is significantly higher than in rural Assam due to multiple structural advantages. First, the city has greater proximity to state labour authorities, enabling easier access to official circulars and notifications. Second, professional services such as chartered accountants, labour consultants, and HR advisory firms are concentrated in urban areas. Third, digital literacy levels are relatively high among medium and large enterprises.

In large institutions such as private hospitals, universities, banks, and corporate offices, HR departments actively track legislative developments. These establishments demonstrate strong awareness of wage restructuring norms, gratuity provisions, and social security compliance obligations. Conceptual clarity is particularly visible in understanding the revised definition of “wages,” which affects calculation of provident fund contributions and gratuity payments.

However, awareness does not uniformly translate into conceptual clarity across all business categories. Retail establishments, small restaurants, construction contractors, and micro-enterprises often possess surface-level awareness (“new labour codes are coming”) but lack detailed understanding of compliance mechanisms such as:

- The 50% cap on allowances under the wage definition
- Fixed-term employment provisions
- Digital register maintenance requirements
- Social security extension to gig and platform workers

Thus, Guwahati displays a dual structure: high awareness among institutional employers and moderate-to-fragmented clarity among small and medium enterprises (SMEs). A landmark feature of the Social Security Code (2020) is the formalization of the gig economy. However, conceptual clarity here is the lowest across all metrics. In the IT/Services sector, 68% of respondents expressed confusion over the definition of an “aggregator.” Many mid-sized tech



firms are unsure if their "on-call" consultants qualify as gig workers requiring social security contributions (1–2% of turnover).

Among MSMEs, 74% of respondents believe that gig worker provisions "do not apply to them," viewing this as a regulation intended solely for large delivery and ride-sharing platforms. This reflects a dangerous lack of clarity regarding the broad reach of the new social security safety net.

The implementation of the new labour codes faces a significant structural hurdle known as the "State-Central Divergence," which stems from labour's position on the Concurrent List of the Indian Constitution. This dual jurisdiction requires both central and state governments to notify their respective rules for the codes to become fully operational. The resulting delay in state-level notifications has fostered a pervasive "wait-and-watch" approach among employers. Many organizations are hesitant to overhaul their internal policies or payroll structures while state-specific nuances remain unconfirmed, leading to a state of regulatory paralysis that undermines the objective of swift national reform.

In contrast to these structural delays, the study identifies Digital Readiness as a primary driver of organizational preparedness. There is a statistically significant correlation ( $r = 0.78$ ) between an entity's Digital Maturity and its level of Conceptual Clarity. Findings reveal that organizations leveraging AI-driven compliance dashboards and automated HRMS (Human Resource Management Systems) demonstrate a 35% higher understanding of complex mandates, such as the OSH Code, compared to those relying on manual legal updates or traditional record-keeping. This suggests that the transition to the new codes is as much a technological shift as it is a legal one, where digital adoption acts as a critical buffer against regulatory ambiguity.

To bridge the existing gap between legislative awareness and conceptual clarity, a multi-pronged strategic approach is required. First, organizations must prioritize Simulation Audits, involving the execution of "shadow payrolls" to model the fiscal impact of the new 50% wage-to-allowance cap. This proactive step allows firms to recalibrate their compensation structures and assess increased gratuity and provident fund liabilities before the next fiscal audit cycle.



Furthermore, there is an urgent need for the development of Sectoral Toolkits by government and regulatory bodies. These resources should include sector-specific FAQs, particularly for the IT and Services industries, to clarify ambiguous mandates such as "Work from Home" safety standards under the OSH Code. Finally, to protect the most vulnerable segment of the economy, MSME Subsidies and targeted awareness programs are essential. By providing financial support for digital compliance tools and legal training, the government can prevent a "compliance shock" for small businesses, ensuring that the transition to the new labour regime fosters industrial harmony rather than administrative distress.

### **Structural Obstacles: Payroll and Operational Restructuring**

The transition to India's New Labour Codes represents a seismic operational shift for the corporate sector, primarily driven by the redefinition of "Wages" under Section 2(y). This structural overhaul necessitates a complete dismantling and rebuilding of the traditional Indian payroll architecture, impacting everything from daily administrative workflows to long-term financial forecasting.

Historically, Indian organizations optimized their salary structures using a "low-basic, high-allowance" strategy. By keeping the "Basic Pay" component at a minimum often representing only 20% to 30% of the total Cost-to-Company (CTC) and padding the remainder with various non-statutory allowances, firms were able to strictly limit their financial exposure to statutory contributions. The new legislative requirement, which caps excluded allowances at 50% of the total remuneration, renders this model obsolete. If the sum of excluded allowances exceeds this threshold, the excess is automatically added back to the "Wage" base, effectively establishing a statutory floor for Provident Fund (PF), Gratuity, and ESI contributions.

Beyond the legal implications, organizations face significant operational hurdles in migrating legacy data to these new formats. Most Enterprise Resource Planning (ERP) and Human Resource Management (HRMS) systems were developed around fragmented, decades-old statutes. Restructuring these platforms requires an extensive audit of historical payroll data and the reconfiguration of complex calculation engines to detect allowance thresholds in real-time. This challenge is further complicated by the "State-Central Divergence," where varied



jurisdictional interpretations of "excluded allowances" during the rollout phase create a state of regulatory flux for multi-state operators.

The IT and Services sector face a unique paradox due to its reliance on Flexible Benefit Plans (FBP) and intricate performance-linked bonus structures. In this high-growth environment, variable pay often constitutes a significant portion of senior-level remuneration. Under the 2025 landscape, if these performance incentives push the excluded portion of the salary above 50%, the employer's statutory liability spikes unexpectedly. HR departments are currently struggling to "compress" these diverse components into a structure that remains tax-efficient for the employee while mitigating a sharp rise in corporate overheads. This tension often results in a downward pressure on "take-home" pay, as firms reallocate funds into the "Basic" component to maintain compliance.

Finally, this transition is not merely administrative; it demands a fundamental strategic redesign of the employment contract. Organizations must now evaluate the utility of tax-saving tools that no longer serve to reduce statutory liability. Furthermore, the structural increase in the wage base has a compounding effect on long-term liabilities, specifically Gratuity. Since Gratuity is calculated based on the "last drawn wage," the expansion of this base from 30% to 50% of the CTC triggers a massive, often unfunded jump in liability on the corporate balance sheet. Consequently, the standardization of wages, while advancing social security goals, introduces a "compliance shock" that challenges the financial liquidity and operational agility of the Indian corporate framework.

### **Financial Implications: The "Statutory Burden"**

Financially, the transition triggers a significant increase in non-discretionary costs. Because Provident Fund (PF), Gratuity, and Employees' State Insurance (ESI) contributions are now calculated on a larger "Wage" base, firms are witnessing a sharp uptick in employee-related overheads.

The impact is most severe here due to high labour density. The increase in Gratuity provisioning is estimated at 15–20%, as the base for calculation expands from "Basic Pay" to the broader "Wage" definition.



For small-scale enterprises, these financial burdens are compounded by the lack of "compliance capital." Many MSMEs operate on thin margins, and a 10–12% rise in statutory contributions directly threatens their liquidity and ability to maintain current employment levels.

### **3. Regulatory Complexity: State-Level Rule Variations**

A critical "Implementation Barrier" is the Concurrent List complexity, where both the Central and State governments have the power to legislate. As of 2026, the lack of uniformity in State-level rules has created a "Dual Compliance" trap. Companies operating across multiple states (e.g., Maharashtra, Karnataka, and Tamil Nadu) must navigate varying draft rules regarding working hours, overtime calculations, and leave encashment. This jurisdictional overlap forces HR departments to maintain parallel record-keeping systems one for central reporting and another to satisfy specific state inspectors thereby increasing administrative "red tape" and defeating the original legislative intent of "Ease of Doing Business."

## **VI. Conclusion:**

In conclusion, the study of Ram Gogoi's life and literature reveals a poet who was a profound chronicler of his era. By analysing his poetry as a reflection of society and time, we see a mirror held up to the face of Assam—showing both its historical scars and its enduring strength. Gogoi's legacy lies in his ability to transform the historical struggle of the common man into a timeless literary expression. The primary societal transition reflected in Gogoi's poetry is the shift from a feudal-colonial structure to what he termed the "Brown Raj," a transition that he navigated with sharp critical insight and unwavering empathy for the marginalized.

His work remains a foundational pillar for anyone seeking to understand the intersection of politics, history, and the human spirit in Assamese letters. Ultimately, Ram Gogoi proved that literature is most powerful when it remains rooted in the soil, ensuring that the voice of the dispossessed continues to resonate through the corridors of time.

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