

# Impact Analysis of the New Labour Codes on Companies and International Subsidiaries in India

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## **Abstract**

With the new labour codes emerging, the same is paving a path for more global companies to establish business in India, including and especially subsidiaries of international companies, which will improve the ease of doing business in the country. This is because the codes are now aligned with global standards and the same is conducive to the preferred work structure that companies and international subsidiaries established in India wish to achieve.

For the above reasons, it is pertinent for international companies in India to analyse the impact of the codes prior to their implementation from a legal and regulatory, financial, operational and functional perspective. The goal of such impact analysis is to minimize the negative repercussion on possible non-compliance due to the change in the composition of the payment structure and other company practices *vide* the introduction of the new labour codes, and to maximize the positive ones. This article aims at aiding companies in making an informed decision by providing clear understanding of the potential impacts of a change during a possible and required re-structuring.

Each impact analysis suggested in this article endeavours to address an understanding of the following nature:

- Legal and regulatory impact analysis will primarily evaluate the effects of proposed regulations so that the potential costs do not outweigh the benefits. Further, the said analysis will also assess the promotion of the overall welfare of the company.

- Financial impact analysis ensures a careful consideration of revenue generation, reduction of cost and allocation of resources from which businesses can obtain a comprehensive understanding of the financial and economic impact of the re-structuring stemming from the intention of being compliant with the new and upcoming labour codes.
- Operational impact analysis in consonance with the other suggested forms of impact analysis discussed herein would aid in analysing the business continuity plan upon possible re-structuring to comply with the new codes and to track and remove prospective and foreseeable roadblocks which may occur during the process.
- Functional impact analysis in addition to the other impact analysis methods, will ensure in providing an effective assessment tool to maintain and keep up the environmental variables that will be conducive in maintaining any challenging behaviour upon the implementation of the new labour codes.

Hence, by aligning business practices prior to the implementation of the new labour codes, international subsidiaries can enable continued compliance in addition to contributing in maintaining and enhancing a sustainable workforce and growth in the labour market of India.

## **Impact Analysis**

### ***A Preliminary Study***

As the implementation of the codes may result in the alteration of the salary structure, a fair understanding of the floor wage's structure and its co-relation to minimum wages is essential.

This is to be determined based on the employee's lifecycle, company policies and operational processes, procedures and protocols – especially as the financial burden on small and medium scale industries may increase upon implementation of the new codes.

Further, as the new codes cater to larger workforces as well, chain and method of adequate and effective communication amongst the employees and the organization will be considered instrumental to the success of the survival of the organization.

Therefore, restructuring and re-evaluation of the current workforce, wages and other benefits (including gratuity), HR policies and other company policies/documentation may be considered by the companies. A comparative study during such restructuring may be conducted in order to identify the disparities and understand the organizational and financial implications the companies may face upon implementation of the codes.

Hence, considering that the existing international subsidiary companies in India are meticulous in their process of implementation of policies and methodologies within their workforce, it may be suggested that the impact analysis be administered at the earliest and the proposed alterations resulting from the same be considered as per the followed chain of command and subsequently implemented accordingly. This would facilitate them in enforcing the required changes in time with the implementation and effectiveness of the new codes.

As companies and international subsidiaries in particular, are known for their discipline and efficient compliance, the same would remain upheld if the process of internal implementation as per the new codes is commenced with now.

Such pre-execution initiatives would benefit in appreciating the amalgamation of all the statutes which have been reconstituted and further formulated into codes thus resulting in the reduction of administrative procedures, upkeep and maintenance of registers and records, and filing of returns thereon.

### ***Legal and Regulatory Analysis - Prospective Restructuring***

Legal and Regulatory impact analysis would entail a critical process within administrative law, thus, aiding as a structured approach in order to evaluate the repercussions of regulatory actions. This analysis will also assist in substantiating information to policy makers and stakeholders of the organization, about potential economic, social and legal results and outcomes. This will help facilitate a comprehensive deduction of the proposed regulations and upcoming reformations.

Given that the new codes aspire to establish the ease of doing business in India, companies and international subsidiaries in India would benefit from reshaping the way they compensate, manage and regulate their workforce. This proactive preparation will help the

companies adapt to the new regulations and frameworks quickly and continue to remain competitive in the market.

Further, the new codes have led to proficient digitization of compliances thus ensuring quicker action upon implementation of the codes. Hence, the re-structuring as per the new codes should also be evaluated keeping the same in mind, therefore meeting on of the crucial essence and intent of establishing ease of conducting business.

### ***Analysing the Codes and its Financial Impact***

As described earlier in this article, the codes do have a financial implication on the companies and the same is required to be addressed and assessed.

Uniformity in the definition of wages and benefits & schemes for categories such as fixed term employees, gig workers and platform workers entail a detailed assessment of the existing compensation structure, contributions, benefits payable and whether the same attracts any changes to accommodate the alterations introduced by the new codes.

Analysing the direct financial impact of alterations introduced by the new codes would further aid in assessing upcoming business modules and plans by evaluating the main compensation elements such as gratuity, provident funds, maternity benefits, overtime and leave encashments.

### ***Analysing the Operational Impact***

HR policies will now be required to be altered with respect to crucial aspects such as working hours, overtime, leave encashments, grievance redressal, appointment, contractual workers, fixed term employees, full and final settlements, health benefits provisions.

Compliance processes may warrant upgradation with respect to technology and training of the employees for smooth transition. Such impact analysis will also lead to an efficient and less complicated hiring system and a better and updated workforce and business environment.

### ***Analysing the Functional Impact***

In order to ensure that functionality of the organization continues even after the transition, review and modification of HR policies pertaining to collective bargaining and dispute resolution must entail a progressive approach.

Functional Impact Analysis will promulgate the disentanglement of the labour management system and improve the ease of conducting business which would in turn attract more foreign investment and an influx in international subsidiaries in India thus promoting economic prosperity.

### **Conclusion**

Post all the above facets of impact analysis, all companies and international subsidiaries may consider conducting a preliminary evaluation of the current compensation and HR policy structures and revise the same along with the current service manuals and employment agreements in order to smoothly ensure the transition once the implementation of the new codes is made effective.

Although it has been observed that various corporations await the actual implementation of the new labour codes, it is suggested that preparation for the same should be prior to the codes becoming effective as on an overall front, the resulting changes and re-structuring is of a positive nature.

Hence, further evaluation of pertinent aspects such as gratuity and statutory bonus is necessary for effective and productive planning, in addition to which awareness initiatives amongst HR professionals and administrative staff is encouraged for being preparedness.

Considering that the new labour codes are expected to have a complete coverage of all possible implications on an employees' lifecycle and not only wages, revisiting the compensation structure, policies, practices, procedures and compliances is strongly propagated.

As the new labour codes upon implementation will levy stricter compliances and penalties in the event such compliances are not ensured will also be stern, companies, especially

international subsidiaries, are recommended to ensure that the HR department and their legal advisors and consultants are well versed and efficiently updated with the new regulations and labour codes. Such practices and proactiveness will also result in safeguarding any unwanted penalty and negative financial implications, thus preventing tarnishing of the entity's goodwill and legal challenges.

Therefore, establishing in a well-planned compliance management mechanism and system will help attain the aforementioned goal with structured training resulting from the same.