# Labour Codes may spur hiring as firms get more flexibility to restructure

ET **economictimes.indiatimes.com**/news/economy/policy/labour-codes-may-spur-hiring-as-firms-get-more-flexibility-to-restructure/printarticle/126311923.cms

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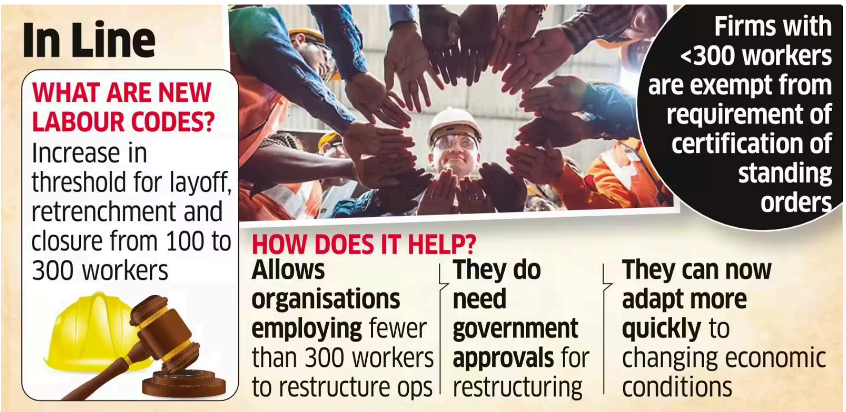
New Delhi: The new Labour Codes are likely to boost the hiring appetite across manufacturing, logistics, hospitality, and micro, small and medium enterprises (MSMEs) as they will now have more room to restructure operations without needing complex government approvals, experts said.

Under the Industrial Relations Code of the Labour Codes, establishments employing fewer than 300 workers do not require prior government approvals for layoffs, retrenchment and closure of operations. Previously, this threshold was 100 workers.

Among MSMEs, hiring will be more prevalent in labour-intensive sectors such as textiles, auto components, food processing and construction, they said.




ET Bureau

"The raised threshold will benefit MSMEs and mid-sized firms, with greater flexibility to restructure and resize, enabling a quicker response to market demand and seasonality," former labour and employment secretary Sumita Dawra told ET. "The provision will also be greatly helpful for startups in electronics and IT, logistics, hospitality, etc., with greater space to adjust their labour force requirements."

By raising the threshold, the code reduces procedural delays and compliance requirements, enabling small and midsize businesses to make timely decisions on workforce restructuring and operational adjustments, according to experts.

"This agility allows employers to scale operations confidently, knowing they can respond to market changes without lengthy approval processes," said Sonu Iyer, national leader, people advisory services - tax at EY India.

This gives them greater flexibility in workforce planning, which may encourage increased hiring of contract workers for non-core activities, said Iyer.

The codes in fact allow state governments to prescribe a larger limit, said Atul Gupta, partner, labour and employment, at law firm Trilegal. "State governments who increase this threshold from 300 to a larger number may potentially attract investment for establishment of bigger plants with a larger workforce."

Within manufacturing, sectors like FMCG, garment, leather and footwear, electronics and pharma will benefit the most, said KR Shyam Sundar, labour economist and professor of practice at MDI, Gurugram. "Even export-oriented units and labour-intensive sectors will now get economies of scale with the flexibility to use fixed-term employment or non-regular workers," said Sundar.

Arup Mitra, professor, Faculty of Economics at South Asian University, added a word of caution. "We must remember one thing that hiring and firing freedom can raise the labour turnover," he said. "The duration of employment in a given unit can be short...may result in greater volatility in the labour market and deteriorating wage income."