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## Informalization of workforce in Manufacturing Sector: *Degeneration of Employment Standards*

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Informalization,  
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### Abstract

Since the beginning of Industrial Foundation in the second half of 20<sup>th</sup> century, Indian Manufacturing sector has emerged as a very important component of India's economic growth. Along with other contributions, the significance of manufacturing sector lies in its capacity to generate employment. From broader perspective, workers/employees can be classified into two categories: contract employees and regular employees. In the last 10 years, sharp rise has been observed in the share of contract workers. This increase in contractual employment is known as informalization of workforce. Mostly these contract workers are denied of advantaged of regular employment viz. job security, good working conditions, better salaries, and benefits of social security (PF, ESIC etc.). This article discusses and analyzes the potential of manufacturing sector with respect to job creation and the deteriorating standards of employment in the same.

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### An Overview

Indian manufacturing sector has acquired a significant share in the Indian economy, since the establishment of Industrial Foundation in 1950s. The most impressive contribution of manufacturing sector are nationwide employment generation; value adding to national income and 15percent growth in GDP between 2004-05, with average growth of 0.2 percent per annum in the past two years. Economy is expected to grow within the range of 5.4 – 5.9 percent in 2014–15, with expectation of improved balance of payments situation and modest global growth revival in

manufacturing sector<sup>1</sup>. Apart, petroleum products and chemicals together contribute over 34% of its export earning to manufacturing sector<sup>2</sup>. Textile industry contributes about 4 per cent to the country's GDP, 14 per cent of the industrial production, and 17 per cent to export earnings<sup>3</sup>. Indian pharmaceutical produced about 8 per cent of the global pharmaceutical supply in 2011 by value, including over 60,000 generic brands of medicines sold around the world<sup>4</sup>. Thus, approximately 50% of foreign exchange earnings are attributed to manufacturing sector indicating manufacturing sector of the country will flourish in near future. The manufacturing sector includes business entities engaged in transforming raw materials or components into new finished products. And these new products have to pass the test of marketability, to understand whether the product will appeal to consumers and sell at a certain price range to generate a profit.

The entire manufacturing sector can be subdivided into two parts – Factory (organized manufacturing) and Non-Factory sector (unorganized manufacturing) based on employment criteria (Bedi and Banerjee, 2007)<sup>5</sup>. Factory (organized manufacturing) is comprised of units registered under sec. 2m (i) (Factories employing 10 or more workers using power) and 2m (ii) (factories employing 20 or more workers without using power) of the Factories Act 1948. The Non-Factory sector, which is also referred as unorganized manufacturing sector retains the rest of manufacturing units where wages are not settled arbitrarily.

It is interesting to note that despite of impressive growth in manufacturing output during 2014, the growth of employment in the organized manufacturing sector was at slow pace. This mismatch ratio between employment and manufacture output is a matter of serious concern from various perspectives of human resource. There can be various reasons of this disconnect, some are indicated below:

- Emphasis on capital intensive technology to substitute laborers.
- Stringent labor regulations and laws.
- Rigid employment protection statutes.
- Increase in contractual/temporary employment instead of regular employment.

## Discussion

The past decade had observe a sharp upturn in the share of contract workers and the share of regularly employees in the organized manufacturing sector fall almost in the same proportion. The percentage of contractual workers/laborers in total employment in the organized manufacturing sector rose from 15.7 % in 2000-01 to 26.47 % in 2010-11, whereas the share of regularly employed laborers is decreased from 61.12 % in 2000-01 to 51.53 % in 2010-11<sup>6</sup>. This increase in

contractual employment refers to informalization of workforce as formal contract of employment is absent in case of workers employed through contractors. And this contract of employment is the primary instrument which creates standards of employment. And ensures compliance to various industrial and social security legislations

As far as informalization is concerned, the tough competition can be the probable reason for the increasing informalization. As contract workers do not come under the purview of labor laws, enterprises in organized manufacturing sector can save costs incurred on possible legal disputes (labor disputes) and other essential costs associated with regular employment. This reduced cost incurred on contract workers can improve competitiveness of an enterprise (Goldar & Aggarwal, 2012)<sup>7</sup>. And this cost proposition has led to informalization of industrial workers.

### **Regular Vs Contract Employees**

Most of the laborers in non-factory sector are deprived of the benefits of regular employment viz. job security, good working conditions, quality of work-life, better salaries, and benefits of social security (i.e. benefits as per the provisions of Provident Fund Act, Employee's State Insurance Corporation, Workmen's Compensation Act, Maternity Benefits Act etc.) etc.

Further, it is very disappointing to notice the new trend of increasing informalization of workforce even in the formal (organized) manufacturing sector and depriving the workers of benefits mentioned above.

There is no hidden fact for wage differential between the contract workers and regularly workers. Contract workers get relatively lower wages. This is a matter of serious concern as percentage of contract workers among organized sector workers has amplified since few years back. In 2010, about 35% of workers in organized manufacturing sector were employed through contractors<sup>8</sup>. Further, India's new National Manufacturing Policy brought out in 2011 and is focusing on increasing the share of Manufacturing in India's GDP from present 15 percent to 25 percent in next ten years<sup>9</sup>. Which means more jobs will be created to achieve this target in both organized as well unorganized manufacturing sector.

### **Recent Trend**

The important fact budding from the above discussion is that, in spite of fast growth of manufacturing sector contributing in employment generation, a considerable section of those jobs will be informal or contractual jobs in which wages and salaries paid to the workers are relatively low and not standardized. Enterprises in organized manufacturing sector offer higher wages, are more productive and provide job security, non-monetary benefits, improved working conditions and social security than enterprises in the unorganized manufacturing sector. However in the

recent years the change in wind can be noticed, as most of the India's top listed corporates are hiring contract employees, which account for 34% of the total workforce in an organization. These data is on the basis of empirical analysis by Ananthanarayanan of HT Mint collected from 82 participating organization that employ 2.12 million regular employees and 1.08 million contractual employees published. The samples have a 64% share of market capitalization and 46% of revenue among all listed companies<sup>10</sup>. The change in the trend can be prominently noticed during the economic meltdown of 2008. Another reason for contractual employees in Indian manufacturing sector is because of labor intensive in nature. Regular employees are given facility of employee welfare and work life balance. But the increasing informalization of workforce has deteriorated the standards of job being created, which reveals the increase of sustainability for contract workers in the recent trends.

## Conclusion

Organized manufacturing sector have characteristics to create productive employment and ensure higher standards. But the disgraceful circumstances under which the contract laborers work, even upsurge of jobs will surely not meet the challenge of productive employment generation. Especially, as the contract laborers can be easily laid off, the sustainability of employment growth through the growth of contract workers is doubtful. .

Therefore, in a labor intensive country like India the growth of organized manufacturing sector needs to be nurtured carefully and regulated moderately; else the benefits of productive employment generated through business excellence may not reach to the society as a whole. To control the situation a reform of strong labor laws should be enacted, to absorb more regular workforce, which giving them a greater sense of identity and job security. However, the employer retains the right to downsize or right size its employees, if business conditions demand it. Different HR policies and procedure can be brainstormed and implemented quality work life to the contract workers as well.

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