**REINVENTING BUSINESSES**

**WITH WORKFORCE FORMALIZATION**

To drive: Longevity, Performance and Productivity

TeamLease™
Putting India to Work

Fast Moving Consumer Goods
Fast Moving Consumer Durables
Healthcare and Pharmaceuticals

# Contents

The Indian economy is beset with a stubborn, age-old problem of gigantic proportions – nearly **90%** of its workforce is informal. While the adverse impact this has on wages and livelihoods is well understood, its severely constraining effect on business transformation is not. When organizations make do with inferior quality people resources, just so they get penny-wise, they are setting themselves up for an inherent inability to achieve breakout growth.

Technology, new business models and staffing innovation are enablers of a transformation via formalization. Further, the GAPS framework (Ghost employee elimination; Attrition reduction; Productivity boost with Tech; Statutory compliance) provides a roadmap to formalization success. This report connects all these dots and outlines employer readiness to tap into the immense potential this avenue for reinvention holds.

In the course of delineating the approach, we employ a new metric – the Intent to Formalize: this is defined as the proportion of the employers (across and within sectors and cities) that are willing and able to formalize their workforce.

FORMALIZING THE WORKFORCE

Talent and technology are the fundamental tools to transform the way business is done – today, and, for a long time to come. Technology is a common denominator today. It is available for the asking and has become indispensable as a business enabler, especially with the onset of Covid-19. Talent, on the other hand, does not come easy – or cheap – although it is equally, if not more, indispensable.

Informality has surged through the global economy as the pandemic struck. For decades, on the other hand, since India gained independence, we have remained a predominantly informal economy. The share of the informal unorganized sector in India is greater than **50%** and the proportion of the informal workforce is estimated to be **88%.** These statistics are not just worrisome from the macroeconomic standpoint, they have become an invisible albatross around the neck of each business that, in turn, contributes to informality.

TeamLease is pioneering a unique and a hitherto untapped approach to business transformation via workforce formalization. Our research brings together an employer readiness metric which we have termed "Intent to Formalize" and a conceptual framework that is named "GAPS". This first-of-its-kind initiative is aimed at providing a roadmap for businesses to leverage workforce formalization to reinvent themselves and discover breakout growth. We hope that our thought leadership in this area is as beneficial to you, our reader, as we believe it will be for the Indian economy.

Onwards and upwards!
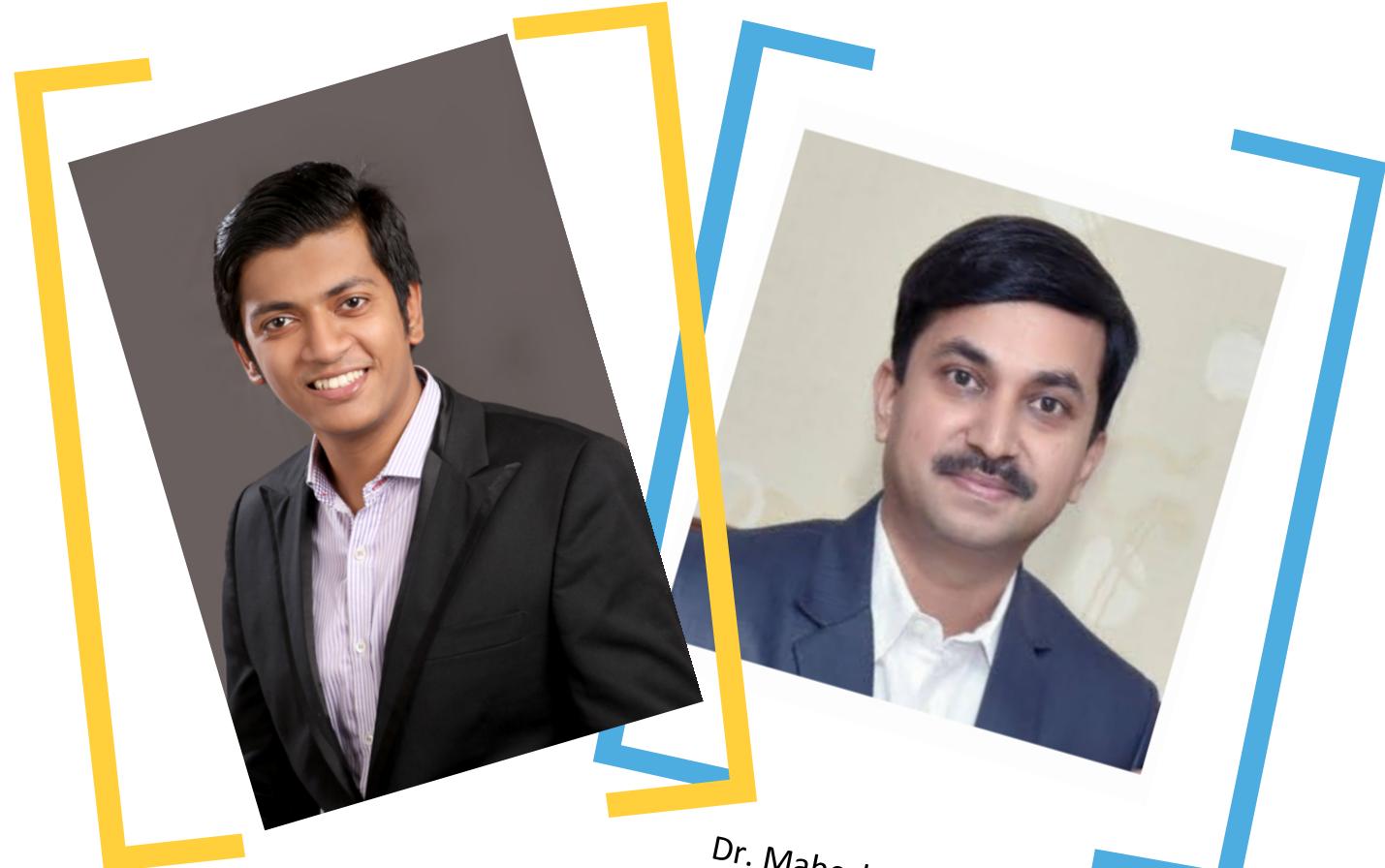
Balasubramanian A
VP & Business Head - Consumer & Healthcare
TeamLease Services

Dr. Mahesh Bhatt
Chief Business Officer - Manufacturing
TeamLease Services

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TeamLease Services is one of India's leading human resource companies offering a range of solutions to **3500+** Clients across **60+** Industries, **7500** Pincodes across **28** States, **20+** Offices with Training & Hiring Centres for their hiring, productivity and scale challenges. A Fortune India 500 company listed on the NSE & BSE, TeamLease has hired **18 lac** people over the last **20 years** and has **2 lac+** open jobs every day. One of India's fastest growing employers, TeamLease also operates India's first Vocational University and India's fastest growing PPP National Apprenticeship Program. The company offers solutions to large, medium and small clients across the 3Es of employment (2.5 lac+ Associates & Apprentices), employability (2 lac+ students) and Ease-of-doing Business (1000+ employers).

TeamLease set in motion the larger company mission of 'Putting India to Work' by focusing on its vision of 3 E's – Employment, Employability and E-Workforce.

**FORMALIZING THE WORKFORCE**

# Executive Summary

FORMALIZING THE WORKFORCE
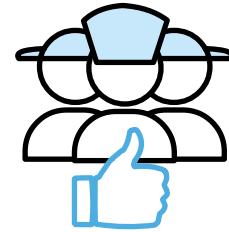
**A majority of employers from the FMCG, FMCD and Healthcare and Pharmaceuticals sectors are willing to formalize**

- More than half of all employers surveyed (**59%**), across the three sectors, intend to formalize the informal part of their workforce.

  ....................

- Of all the employers who want to formalize informal part of their workforce, **37%** & **36%** are from FMCG & FMCD sector respectively. Healthcare & pharmaceuticals has a representation of **27%** of employers who are in favour of workforce formalization.

**Managing an informal workforce is challenging, employers concede**

- A majority of the employers surveyed, across the three sectors, **(65%)** admit that managing informal workforce is significantly to highly challenging.

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- The topmost challenge in engaging with informal workforce is managing their wages as indicated by **45%** of the employers.

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- This is followed by skill gap (**21%**) & frequent absenteeism (**15%**)
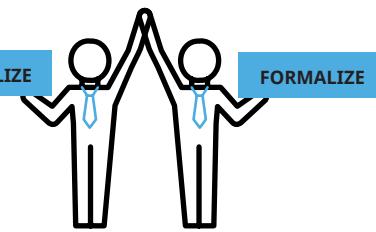
**Employers are split equally on the levels of priority they accord to Workforce formalization**

- **20%** of the employers surveyed have already initiated major steps towards formalization and **26%** intend to do so between less than a year and 2 years.

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- **24%** of the employers say that, currently, workforce formalization is not a priority for them.

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**Informal workers suffer most on account of the absence of social security, employers believe**

- About a third of the employers surveyed (**32%**) state that absence of social security is a major challenge faced by informal workers.
  ........................

- **26%** of the employers believe Low wages and **25%** believe lack of medical & leave benefits are the other challenges.



**Approaches and steps to formalization**

- **27%** employers across FMCG, FMCD and Healthcare would adhere to statutory compliance as a step towards workforce formalization; Other employers in these sectors would provide social security benefits (**25%**) and automate workforce management (**22%**).

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- Nearly half of the employers (**47%**) would adopt third party contractual engagement as a step towards workforce formalization; A slightly smaller proportion (**42%**) prefer direct contractual employment.
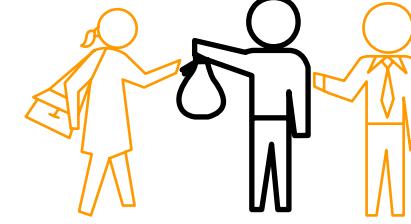


- Slightly more than a third of all employers surveyed (**35%**) are open to third party payroll outsourcing, while **7%** have already done so; The remainder (**58%**) are not yet ready to take the outsourcing route to workforce formalization.
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- Of those who do not want to prioritize workforce formalization, majority of the them (**46%**) state that complex regulatory requirement & cost as a significant reason for not prioritizing workforce formalization.

**FORMALIZING THE WORKFORCE**
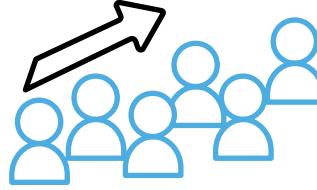
**Business outcomes from workforce formalization**

- **61%** of the employers in these three sectors expect attrition reduction to be the topmost business benefit as a consequence of formalization.

  ....................

- This is followed by enhanced business productivity, as indicated by **58%** of the employers and workforce optimization (**41%**)

**Top roles employers in the FMCG, FMCD and Healthcare and Pharmaceuticals sectors intend to formalize**

- **29%** of the employers voted for the "Sales Executive" role as the top job role they wish to formalize.

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- Other job roles employers wish to formalize: Electrician, Community health workers (**9%** each), Marketing Executive (**7%**) and Supply Chain Executive (**5%**).

**Value perception of the GAPS framework: what employers from the three sectors think**
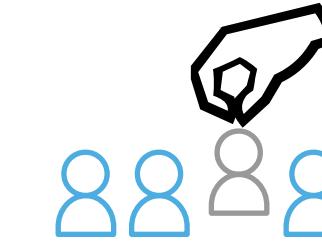
**Ghost employee elimination is cited to be valuable for workforce formalization**

- Nearly half of the employers surveyed (**48%**) strongly agree on the significance of ghost employee elimination for formalization.

.....................

**Employers believe workforce formalization greatly reduces attrition**

- A majority of employers (**60%**) believe that workforce formalization can lead to significant, or even great reduction in attrition.

**Productivity enhancement through technology is perceived to be a great aid in formalization**

Nearly three out of four employers (**58%**) believe that formalization can be greatly accelerated and supported through technology aided productivity enhancement

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**Employers attach great significance to compliance with legal framework with respect to formalization**

A majority of the employers (**70%**) believe that compliance with legal framework has a significant to very significant impact on formalization.

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Are employers willing to **adopt** formalization?

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# Do employers intend to formalize their informal workforce?

**Proportion of employers intending to formalize their informal workforce**

[across FMCG, FMCD and Healthcare and Pharmaceuticals sectors]

**59%** Yes

**41%** No
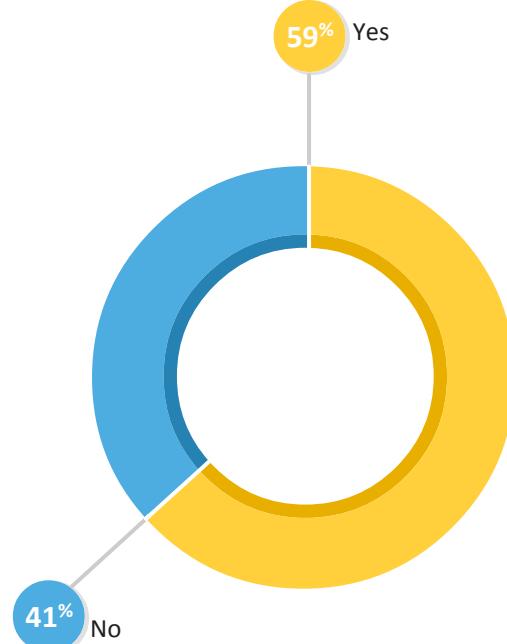
A majority of the employers across the three sectors are willing to formalize the informal part of their workforce. The FMCG (37% of employers willing) and FMCD (35% of employers willing) sectors have a significantly higher proportion of employers willing to formalize compared with the Healthcare and Pharmaceuticals sector (27%).

**Sector-wise: Employers who intend to formalize their informal workforce**

[across FMCG, FMCD and Healthcare and Pharmaceuticals sectors]



**37%** FMCG
**36%** FMCD
**27%** Healthcare and Pharmaceuticals

% of respondents — Sector
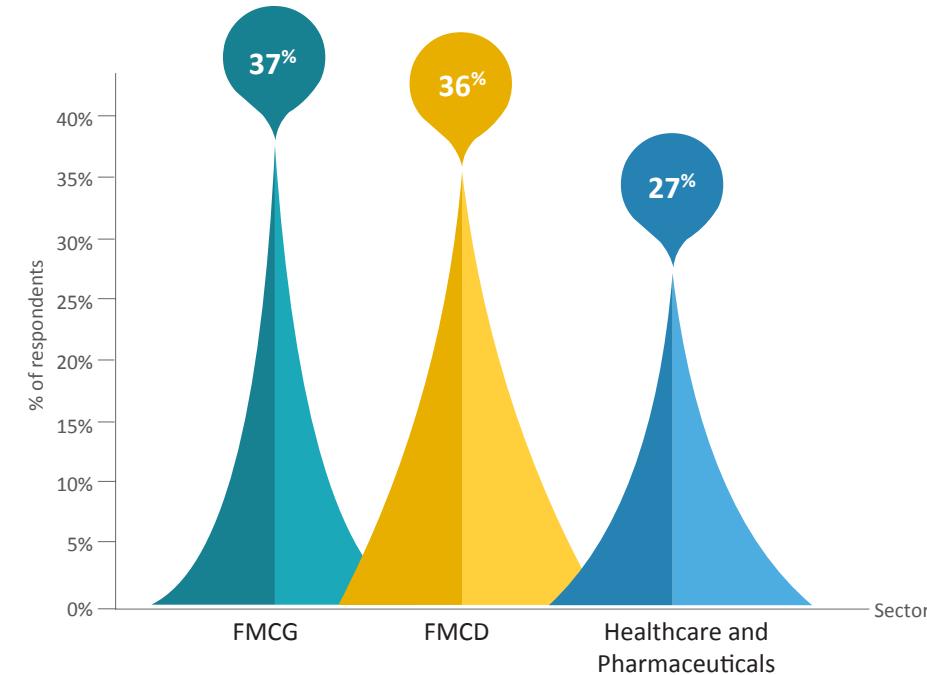
"Formalization is the process of bringing informal workers and economic units under the coverage of formal arrangements, while ensuring opportunities for income security, livelihoods and entrepreneurship."

**D**efinition

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**Challenges** in managing an informal workforce

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# How challenging is it to manage an informal workforce?

**Employers' opinion: How challenging is it to manage informal workforce**



5%

9%

21%

29%

36%

1 — Rating scale:
2
3 — 1 stands for "Not challenging at all" and 5 stands for "Highly challenging"
4
5
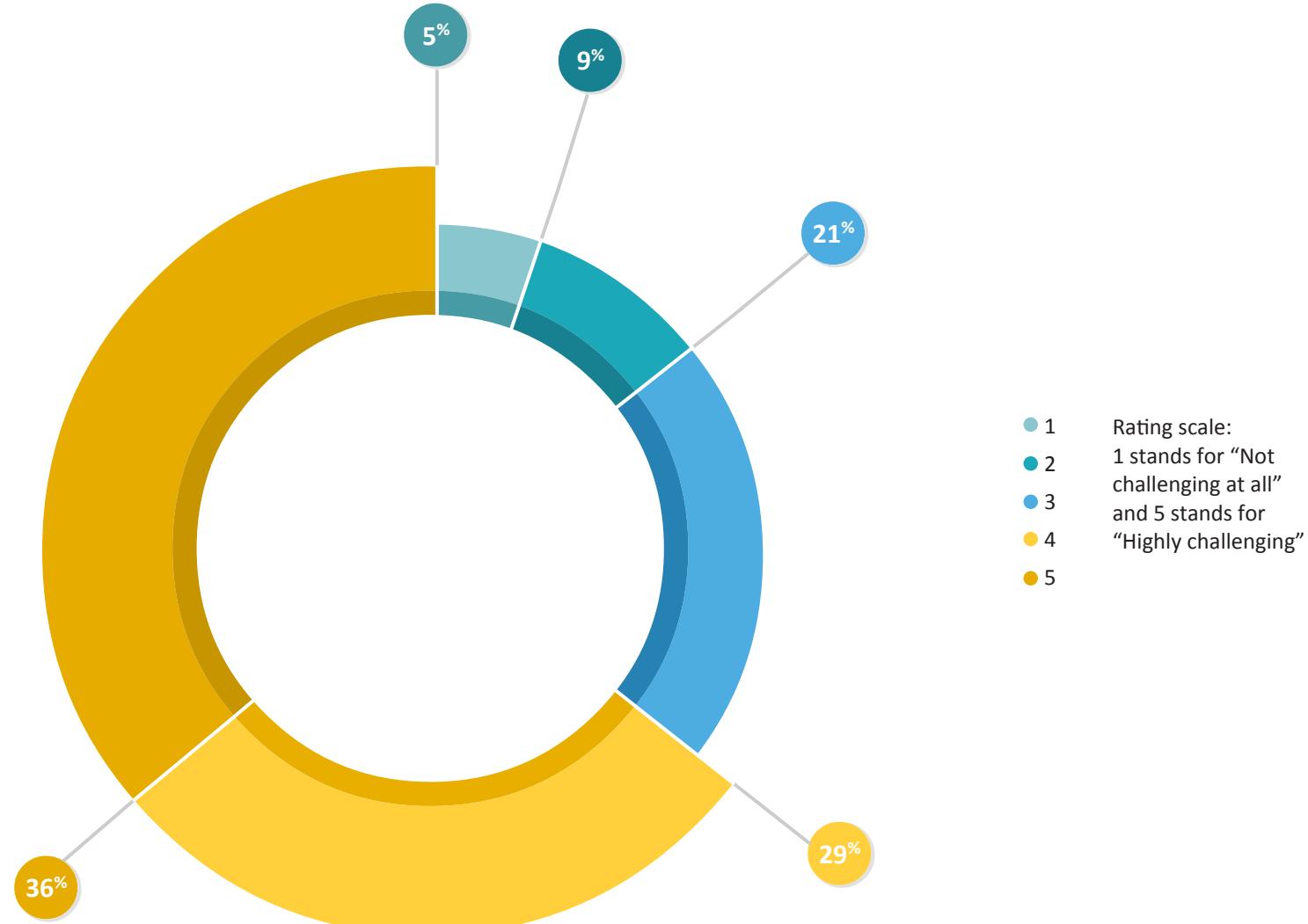
Nearly two-thirds of all employers surveyed **(65%) across the three sectors admit that it is challenging to manage an informal workforce;** with 36% believing that it is "highly" challenging. About one in five employers (21%) find it moderately challenging while the remainder (14%) do not consider it challenging.

*Respondent sample: 230 HR and Compliance Managers(mid-level) respondents across India*

# How challenging is it to manage an informal workforce? By sector

## FMCD

1% 0% 26%

28%

45%

## FMCG

9% 17%

26% 23%

26%

## Healthcare & Pharmaceuticals

6% 11%

11%

34%

37%
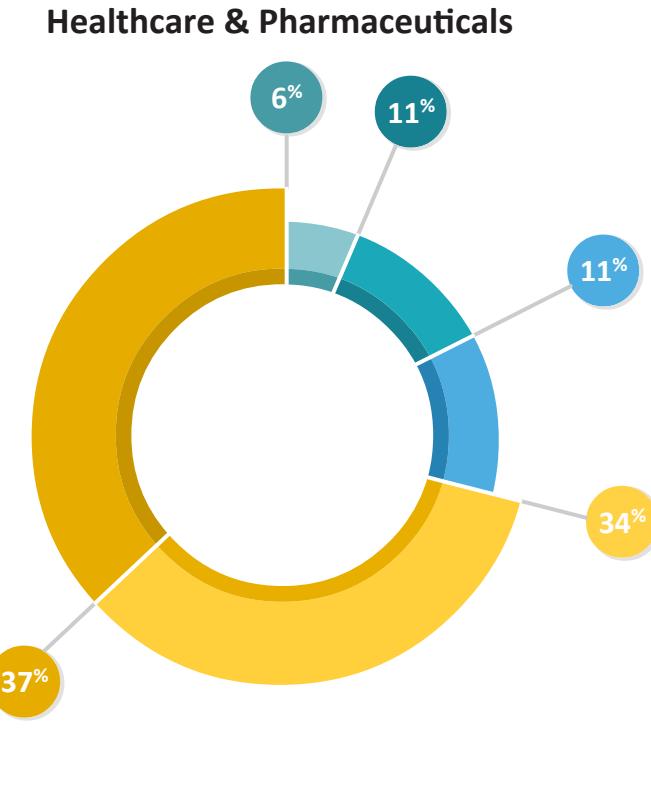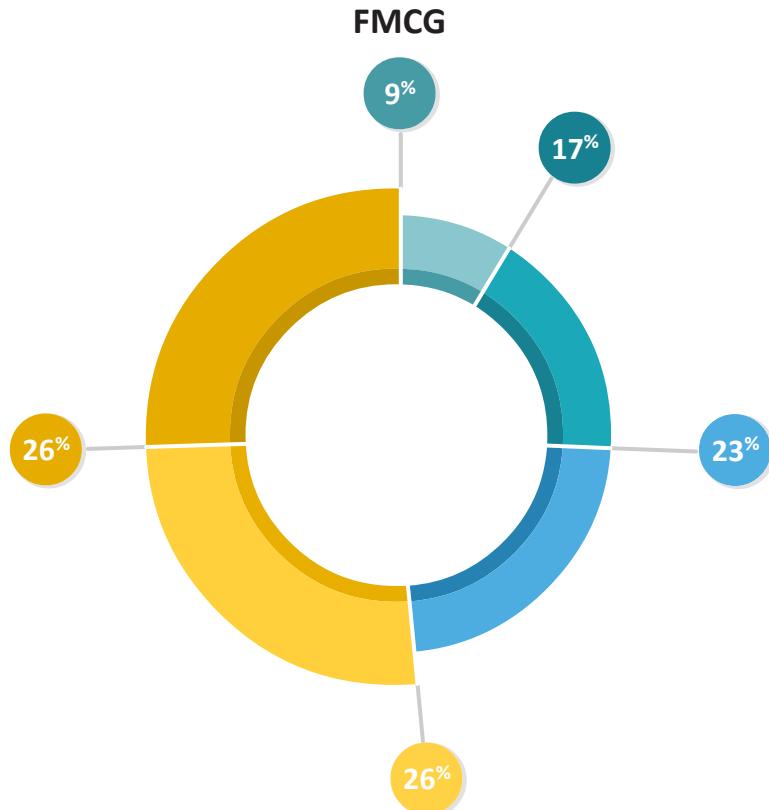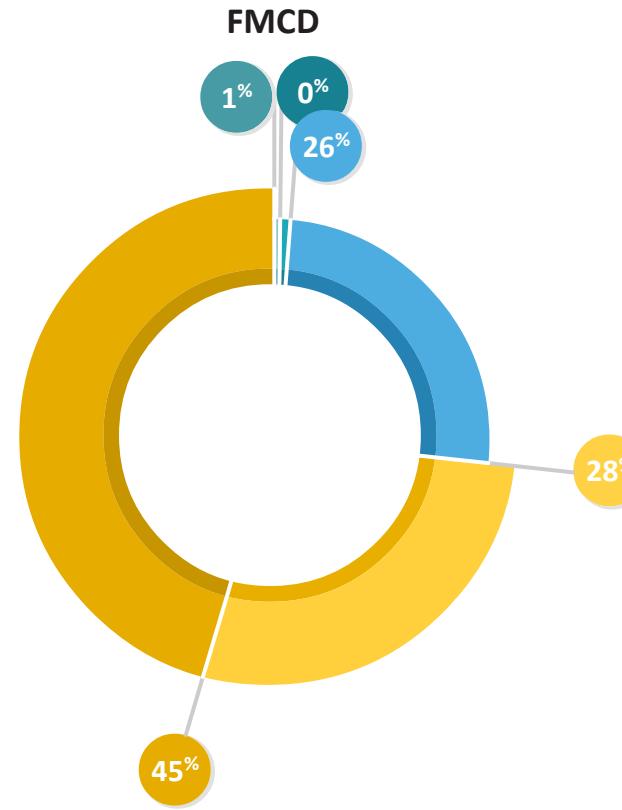
At least 50% of the employers in each of the three sectors share a common perception that managing an informal workforce is challenging (significantly to highly). The FMCD sector has a large proportion of this group (73%, with 45% stating that it is "highly" challenging). Likewise, 71% of the Healthcare & pharmaceuticals employers perceive managing informal workforce to be significantly to highly challenging. The FMCG sector has employers nearly equally distributed between moderately, significantly and highly challenging, in terms of managing an informal workforce.

1    Rating scale:
2    1 stands for "Not
3    challenging at all"
     and 5 stands for
4    "Highly
5    challenging"

*Respondent sample: 230 HR and Compliance Managers(mid-level) respondents across India*

# How challenging is it to manage an informal workforce? By Organizational Size

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**Large**
- 3%
- 0%
- 17%
- 51%
- 29%

**Small**
- 10%
- 24%
- 8%
- 31%
- 27%

**Medium**
- 3%
- 0%
- 29%
- 16%
- 52%

**MSMEs**
- 2%
- 5%
- 46%
- 15%
- 32%

**Startups**
- 7%
- 17%
- 2%
- 39%
- 34%

Rating scale:
1 stands for "Not challenging at all" and 5 stands for "Highly challenging"

- 1
- 2
- 3
- 4
- 5

Owing to the sheer size of their workforce, an overwhelming majority of Large organizations (80%) perceive managing an informal workforce to be significantly to highly challenging. Startups (73%) are a close second. On the other hand, slightly more than half of the employers from Medium sized organizations (52%) perceive the management of an informal workforce to be "highly" challenging.

*Respondent sample: 230 HR and Compliance Managers(mid-level) respondents across India*

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# Challenges faced by employers in managing & engaging with informal

**Top 3 challenges in engaging with informal workforce**
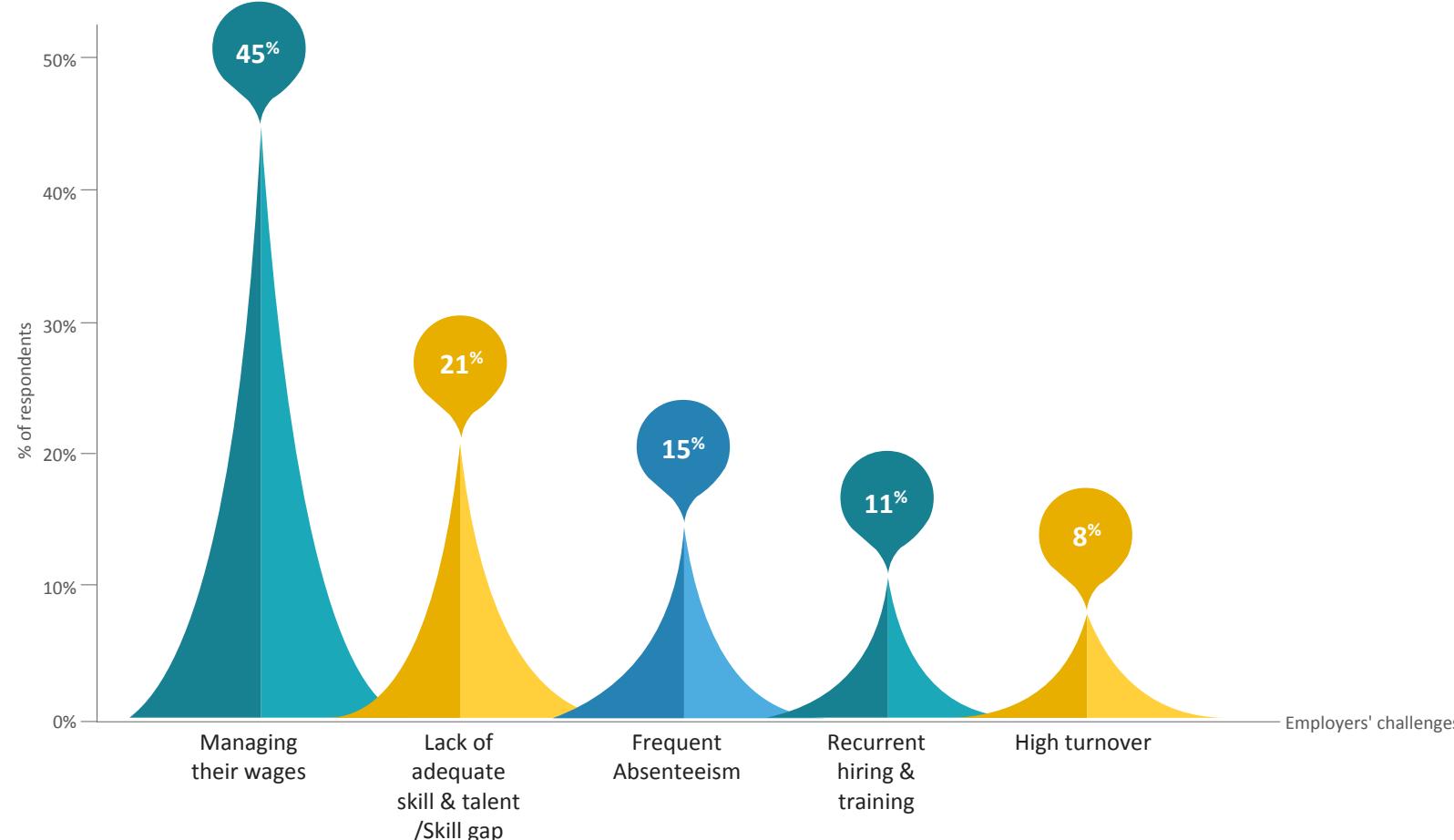


Employers in the three sectors associate the informal workforce with a variety of challenges - the topmost of these being the managing of wages (as indicated by 45% of the employers surveyed).
Inadequate skills and skill gaps is cited as a challenge by 21% of the employers, followed by frequent absenteeism (15%), recurrent hiring and training (11%) and high turnover (8%).

*Respondent sample: 230 HR and Compliance Managers(mid-level) respondents across India*

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# Challenges faced by informal workers

**Employers' opinion: Top 3 challenges faced by informal workers**
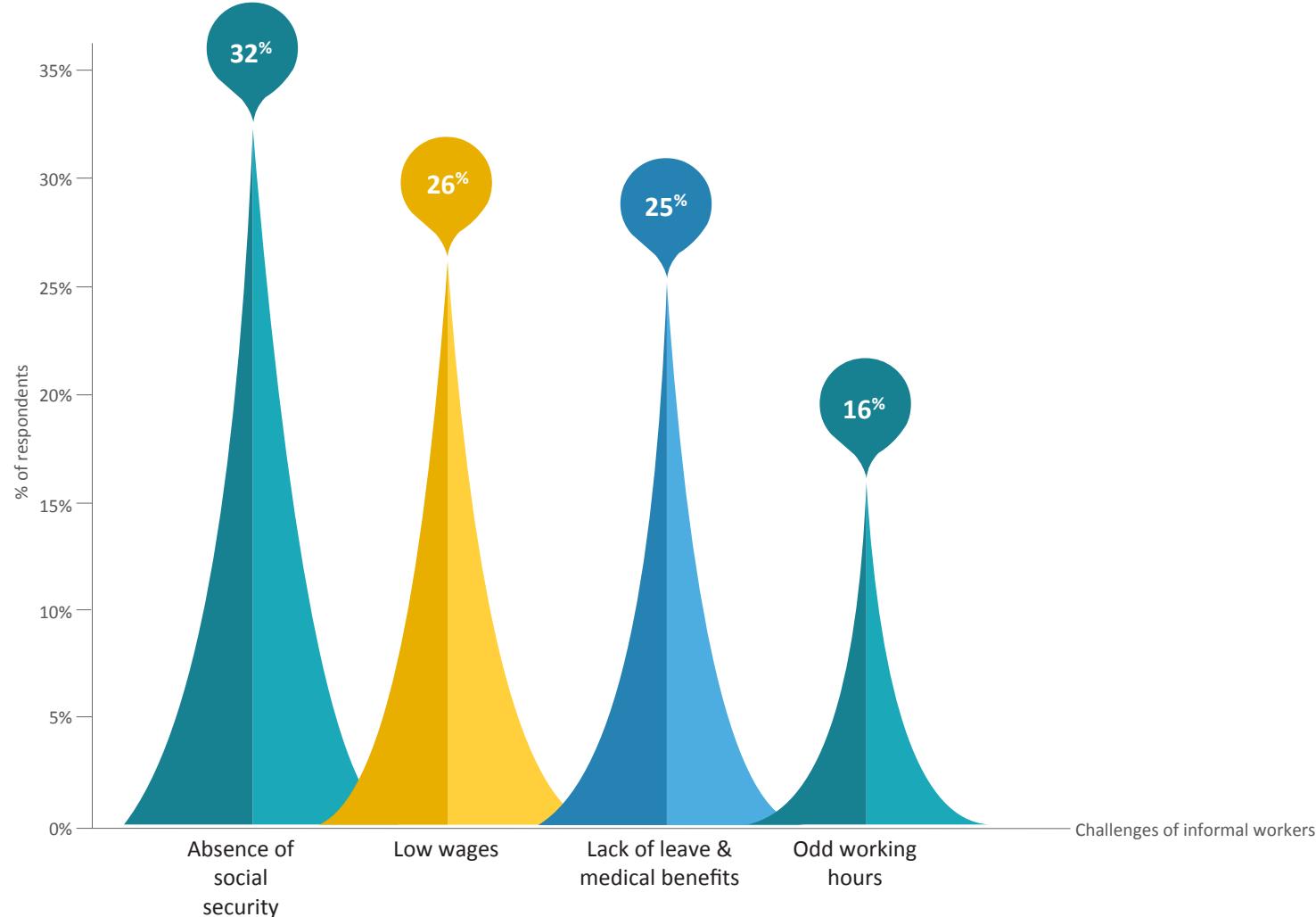


Employers also believe that informal workers face a number of challenges – a majority of the employers (32%) opine that absence of social security is most challenging aspect for Informal workers. Despite having to put in long working hours, employers believe, wages for informal workers are mostly on the lower side. The other major challenges faced by informal workers, as per employers, are low wages (26%) and lack of leave & medical benefits(25%).

*Respondent sample: 230 HR and Compliance Managers(mid-level) respondents across India*

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Employer's readiness
for formalization:
Overview of
**timeline & measures**

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# What timeline are employers aiming for adopting formalization

**Timeline status for formalizing informal workforce**



- 21% Major steps initiated
- 10% Less than a year
- 16% Within 1-2 years
- 29% More than 2 years
- 24% At present, it is not a priority

With nearly half of all employers treating it as priority (47%) and the other half deprioritizing it (53%), employers across the three sectors are split right down the middle on the question of priority accorded to formalization. One in five (21%) have initiated major steps towards formalization, while about one in four employers (26%) will have completed formalizing their informal workforce within two years from now. For 29%, the timeline for formalization exceeds 2 years while, for 24% of the employers, formalization is not an immediate priority.

*Respondent sample: 230 HR and Compliance Managers(mid-level) respondents across India*

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## Reasons for not prioritizing workforce fomalization



Regulatory barriers are the primary obstacle to workforce formalization. Complex regulatory requirements and costs are a significant reason for nearly half of the employers (46%) who do not want to prioritize workforce formalization. 32% of those who do not want to prioritize workforce formalization lack awareness about policies pertaining to workforce formalization. One out of three respondents (27%) also do not see a favourable cost-benefit trade-off involved in workforce formalization. And, barely one out of eight employers (12% ) concede that their business requirement is for informal workers.

*Respondent sample: 230 HR and Compliance Managers(mid-level) respondents across India*

*Note: This computation is based on respondents(Sample: 122)  who do not want to prioritize workforce formalization. The percentages add up to more than 100 since each respondent is allowed multiple responses*

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# What timeline are employers aiming for adopting formalization: Sector-wise



**FMCG**

- 50%
- 22%
- 15%
- 5%
- 8%

**FMCD**

- 2%
- 20%
- 30%
- 27%
- 21%

**Healthcare & Pharmaceuticals**

- 3%
- 2%
- 13%
- 50%
- 32%

Legend:
- Major steps initiated
- Less than a year
- Within 1-2 years
- More than 2 years
- At present, it is not a priority
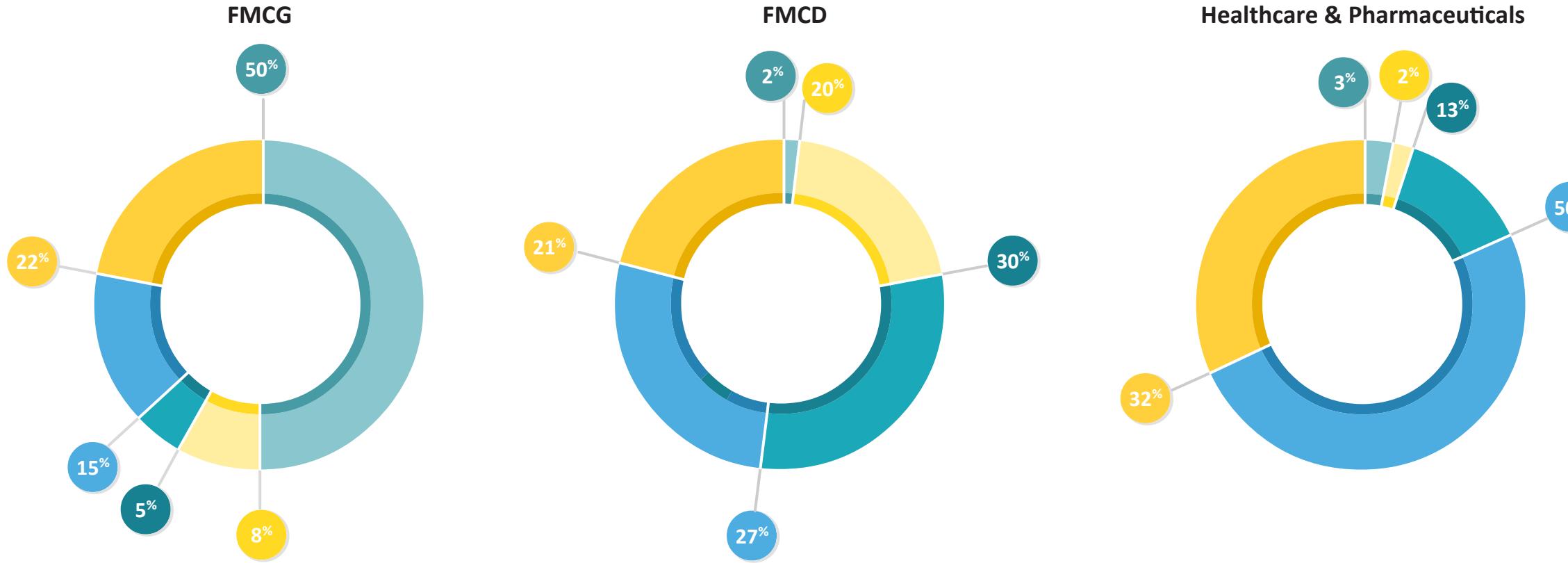
With a majority (50%) having already initiated major steps, the FMCG sector seems markedly ahead in setting a high priority for formalization. On the other hand, however, 37% of the employers in the sector also seem to have deprioritized formalization. Half of all employers in the FMCD sector (50%) are likely to complete formalization within two years from now, and the other half (48%) have deprioritized it. Only 15% of the Healthcare and Pharmaceuticals sector are set to formalize their informal workforce within the next two years, while as much as 82% of the sector seem to have deprioritized formalization in the immediate term.

*Respondent sample: 230 HR and Compliance Managers(mid-level) respondents across India*

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# What timeline are employers aiming for adopting formalization: By Organization Size

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**Timeline employers aiming for workforce formalization: Org-Size-Wise**



% of respondents

**Large**
- 80%
- 3%
- 6%
- 6%
- 5%

**Medium**
- 25%
- 19%
- 6%
- 18%
- 32%

**Small**
- 5%
- 18%
- 35%
- 24%
- 20%

**MSMEs**
- 2%
- 2%
- 27%
- 59%
- 10%

**Startups**
- 3%
- 2%
- 5%
- 41%
- 49%

Organization size

● Major steps initiated  ● Less than a year  ● Within 1-2 years  ● More than 2 years  ● At present, it is not a priority
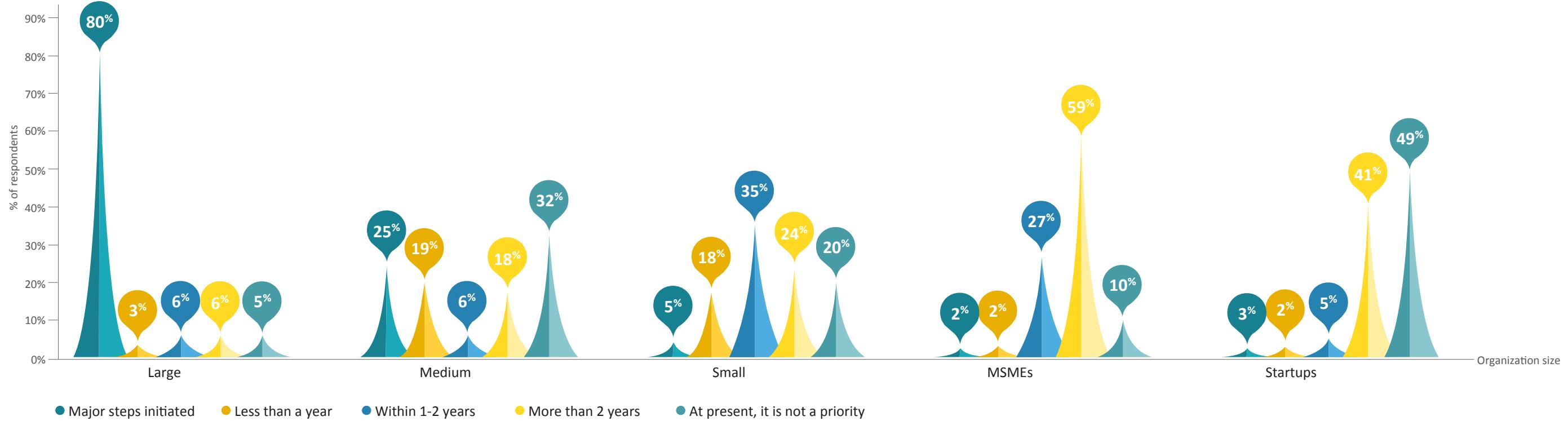
Employers of large organizations report to be greatly inclined towards prioritizing adopting formalization. An overwhelming proportion of this group (80%) have already initiated major steps in this direction. This intent is also visible among medium sized organizations albeit, with a relatively lower intensity, as 25% of medium sized organizations have initiated major steps and an equal proportion intend to do so in a span of 1-2 years. Adopting formalization does not seem to be an immediate priority for MSMEs (69%) and Startups (90%) as majority of these two categories either opt for a timeline of more than 2 years or indicate that its not a priority for them.

*Respondent sample: 230 HR and Compliance Managers(mid-level) respondents across India*

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**Measures undertaken by employers for formalization**
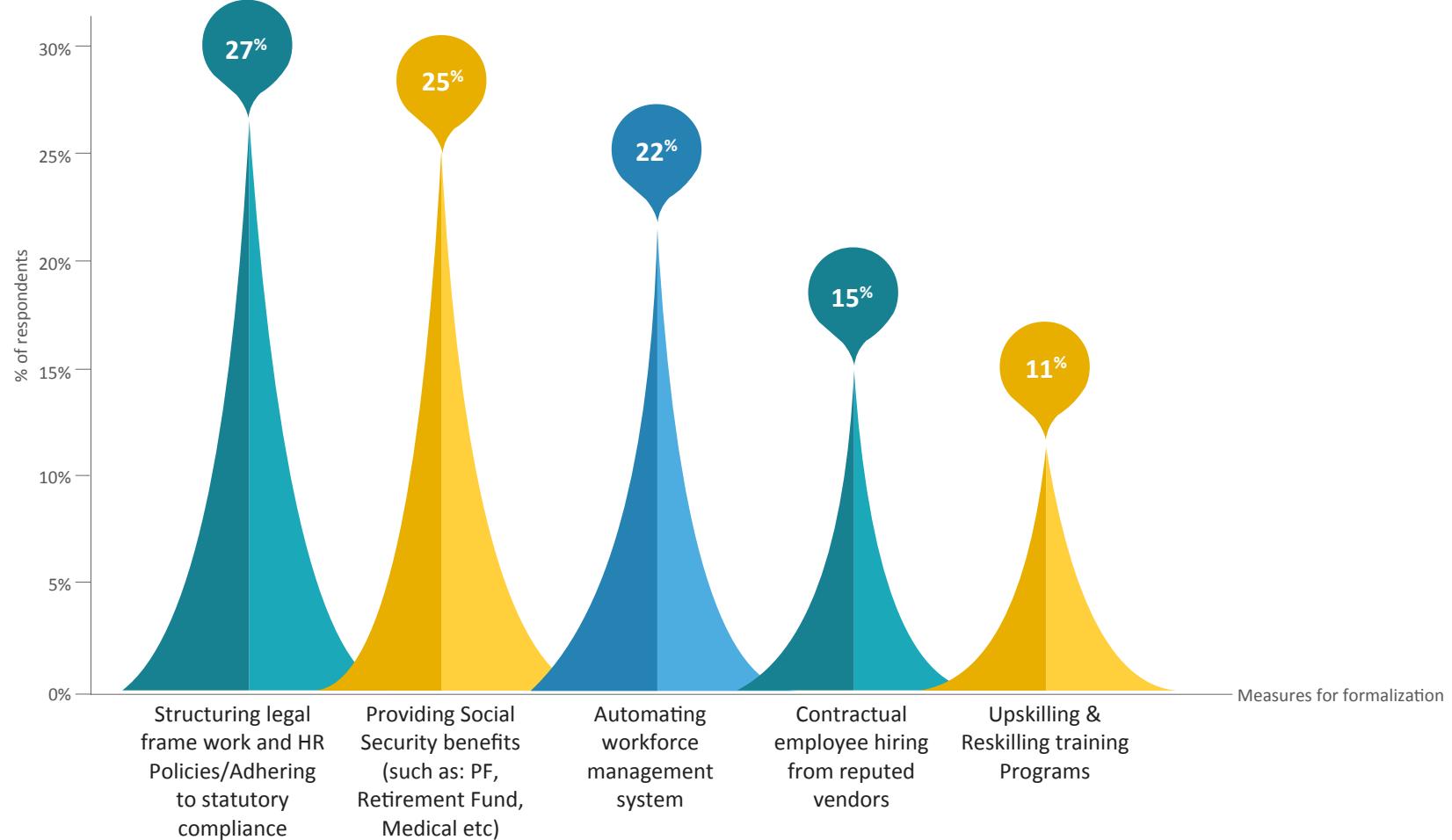


% of respondents

| | | | | |
|---|---|---|---|---|
| 27% | 25% | 22% | 15% | 11% |

Structuring legal frame work and HR Policies/Adhering to statutory compliance | Providing Social Security benefits (such as: PF, Retirement Fund, Medical etc) | Automating workforce management system | Contractual employee hiring from reputed vendors | Upskilling & Reskilling training Programs

Measures for formalization

Statutory compliance and provisioning social security benefits are seen by employers as an imperative for formalization. Nearly three in ten employers (27%) would adhere to statutory compliance as a major step towards formalization. An almost equal proportion of employers (25%) would emphasize on providing social security benefits. 22% of all employers surveyed emphasize on technology playing a vital role in the process of formalization. Measures which involve reskilling & upskilling is advocated by 11% of the employers.

*Respondent sample: 230 HR and Compliance Managers(mid-level) respondents across India*

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# Preferred formal engagement type : A step towards formalization

## Employers' preference for engagement type



% of respondents

- Third party Contractual employment: 47%
- Direct contractual employment: 42%
- Engagement of gig workforce: 36%
- Engagement of apprentices: 19%

Engagement type
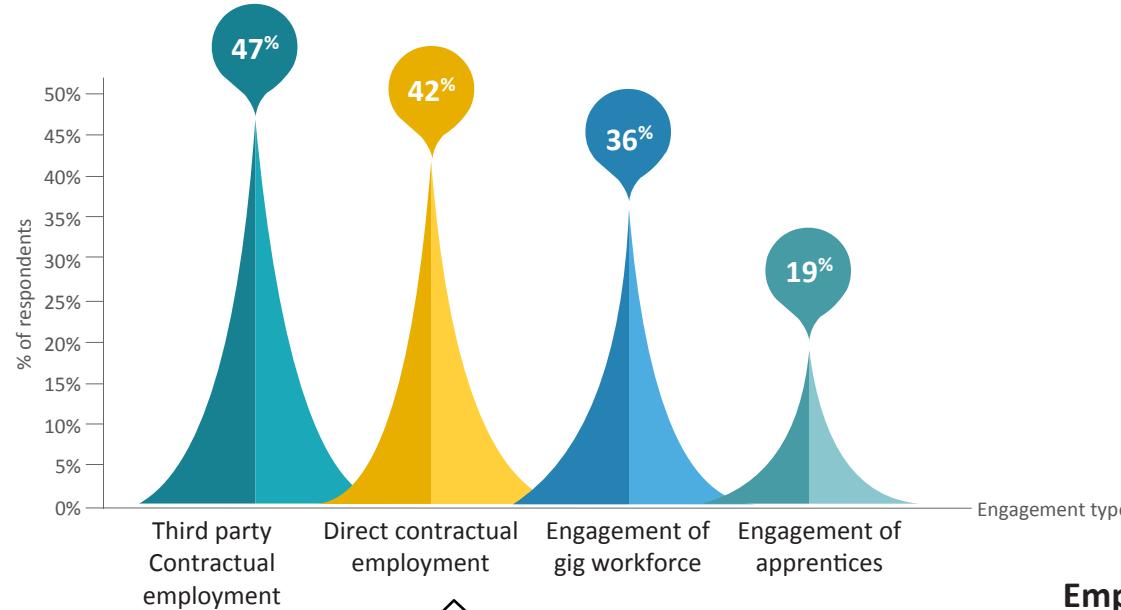
> "Gig workers are independent contractors, online platform workers, contract firm workers, on-call workers and temporary workers. Gig workers enter into formal agreements with on-demand companies to provide services to the company's clients"
>
> **D**efinition

Nearly half of all employers (47%) identify third party contractual employment as the most preferred engagement type as a step towards formalization, and a slightly lower proportion (42%) indicate a preference for direct contractual employment. FMCG sector employers overwhelmingly (74%) prefer the Gig workforce route while 68% lean towards contractual employment (either direct or contractual form). On the other hand, the Healthcare and Pharmaceuticals sector (77%) prefers direct contractual employment the most whereas 62% of the FMCD sector employers prefer third party contractual employment the most.

● Third party Contractual employment   ● Direct contractual employment   ● Engagement of gig workforce   ● Engagement of apprentices

## Employers' preference for engagement type: Sector-wise
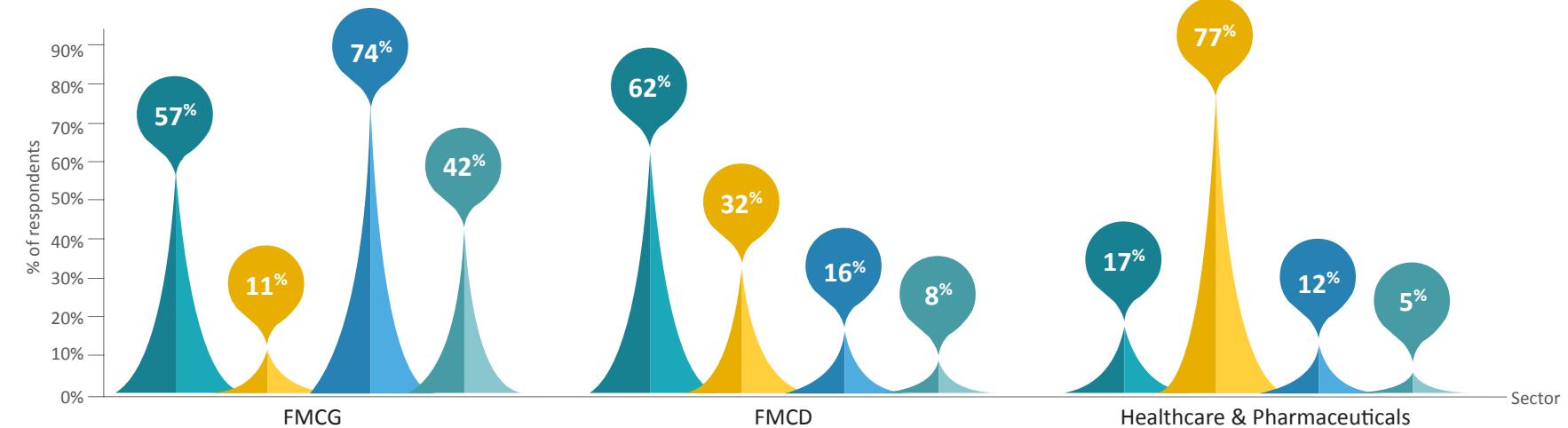


% of respondents

**FMCG:** 57%, 11%, 74%, 42%
**FMCD:** 62%, 32%, 16%, 8%
**Healthcare & Pharmaceuticals:** 17%, 77%, 12%, 5%

Sector

*Source: Gig Worker, Wikipedia, July 2022*
*Note: the percentages add up to more than 100 since each respondent is allowed multiple responses*

*Respondent sample: 230 HR and Compliance Managers(mid-level) respondents across India*

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**Employers' preference for engagement type: Org-size -wise**



● Third party Contractual employment    ● Direct contractual employment    ● Engagement of gig workforce    ● Engagement of apprentices
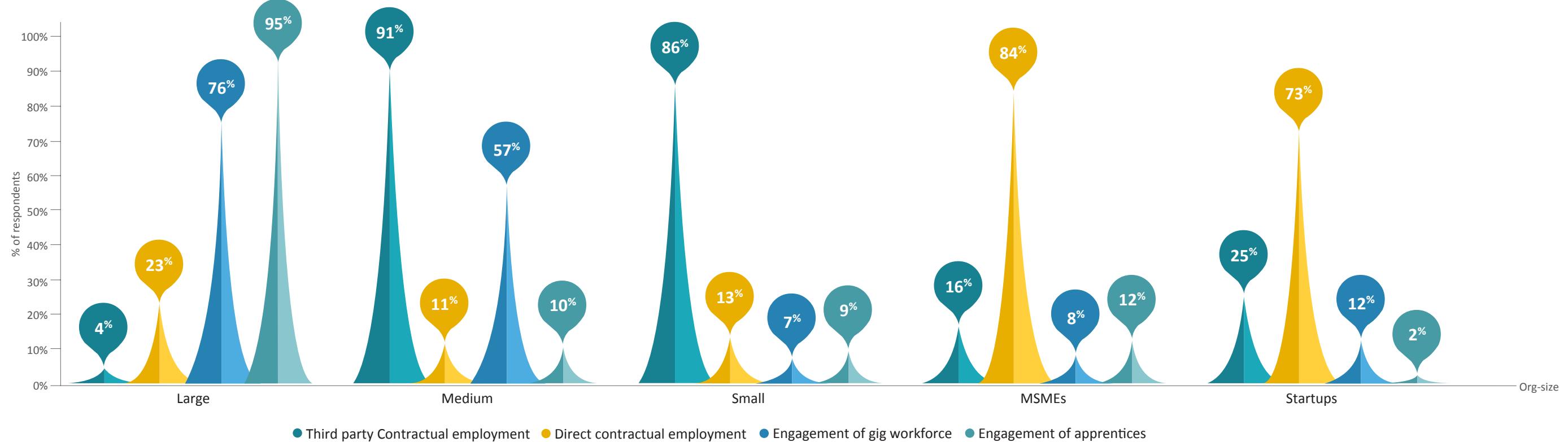
91% of the Medium and 86% of the Small organizations favour third party contractual employment as a route to formalization. 84% of the MSMEs and 73% of the Startups surveyed indicate a preference for direct contractual  employment. An overwhelming proportion of employers (95%) from large organizations surveyed would engage apprentices and 76% would engage gig workers.

*Respondent sample: 230 HR and Compliance Managers(mid-level) respondents across India*

*Note: the percentages add up to more than 100 since each respondent is allowed multiple responses*

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**Third party**
payroll outsourcing –
readiness

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# Outsourcing to third party payroll vendors

**Employers' readiness for third party payroll outsourcing as part of formalization**

Have already outsourced third party payroll — **7%**

**35%** Yes

**58%** No
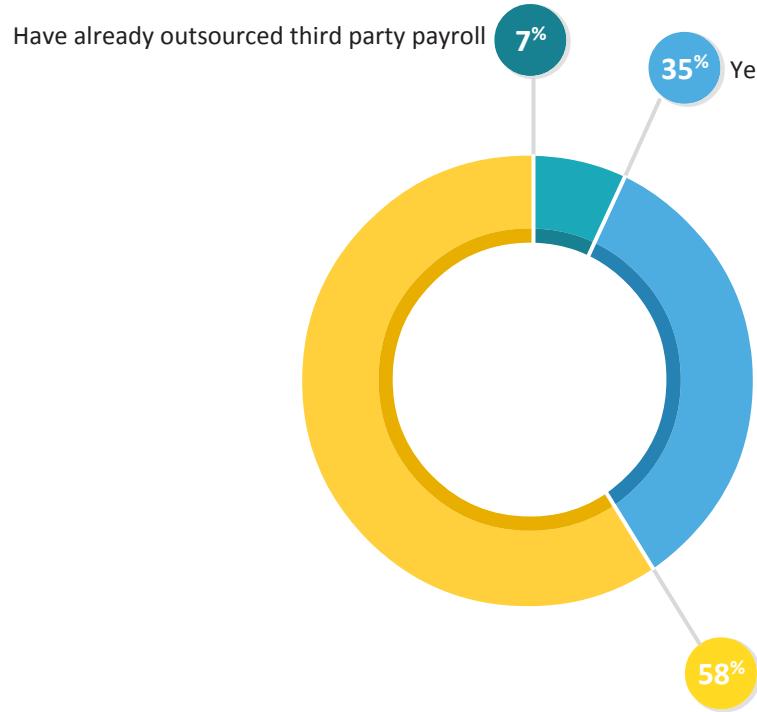
**Readiness to outsource to third party payroll vendors amongst employers who find managing informal workforce significantly to highly challenging**

### Significantly Challenging

Have already outsourced third party payroll — **8%**

**53%** Yes

**39%** No

### Highly Challenging

Have already outsourced third party payroll — **5%**

**30%** Yes

**65%** No
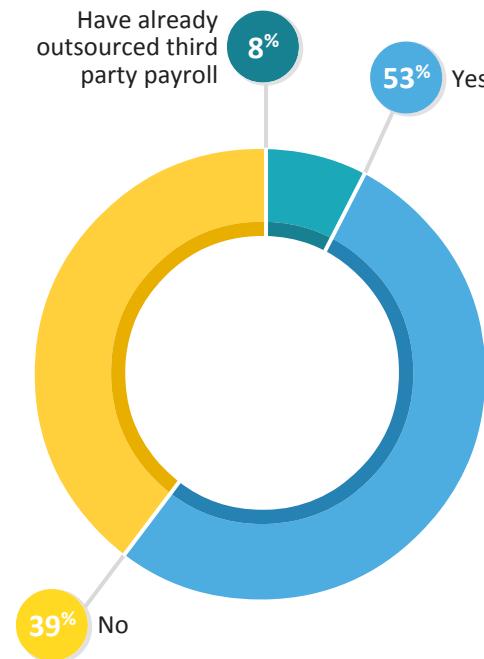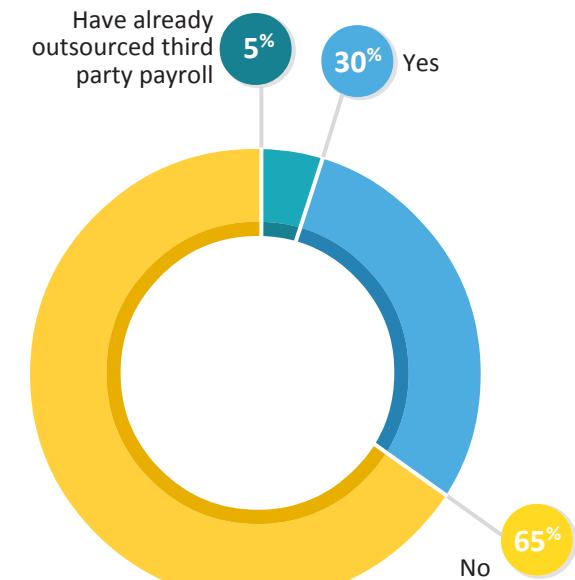
Taking cognizance of the benefits of third party payroll outsourcing, and realizing this could be an important step towards formalization, about 7% of the employers have taken this step, and about 35% are willing to do the same. However, this does not seem to be a priority for about 58% of the employers, who are not open to the very idea of outsourcing to formalize. 53% of the employers who find managing informal workers significantly challenging, and 30% who find it to highly challenging are ready and willing to take this route to formalization.

*Respondent sample: 230 HR and Compliance Managers(mid-level) respondents across India*

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# Outsourcing to third party payroll vendors: By Sector

**Readiness to outsource to third party payroll vendors: Sector-wise**



% of respondents

90%
50%
70%
60%
50%
40%
30%
20%
10%
0%

**FMCG** — 3%, 45%, 51%

**FMCD** — 11%, 37%, 52%

**Healthcare & Pharmaceuticals** — 5%, 18%, 77%

Sector

● Have already outsourced third party payroll    ● Yes    ● No
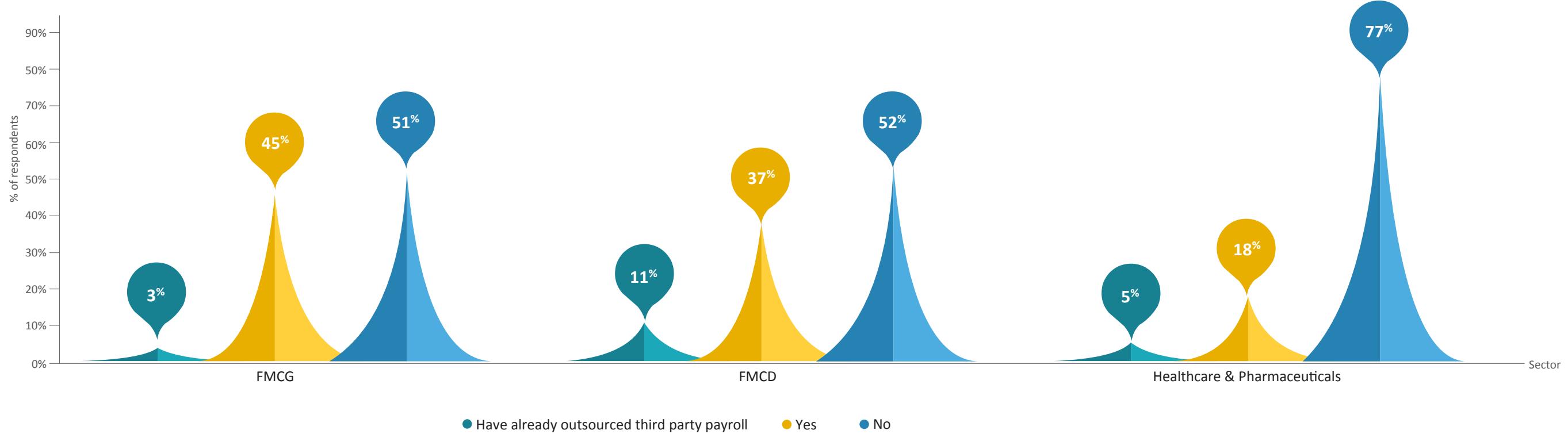
Nearly half (48% each) of the FMCG and FMCD sector employers are either willing to outsource to, or have already engaged with, third party payroll vendors as a step towards workforce formalization. The remainder in either sector state their unwillingness to initiate this step. The healthcare sector, on the other hand, is overwhelmingly opposed (77%) to the idea of outsourcing as a step towards workforce formalization. As observed from the survey, they prefer direct contractual employment.

*Respondent sample: 230 HR and Compliance Managers(mid-level) respondents across India*

# Is readiness to outsource third party payroll evident in those who prioritise workforce formalization?

**Readiness to outsource third party payroll amongst employers who prioritize workforce formalization**

**56%** Ready to outsource thrid party payroll vendor

**44%** Not ready to outsource thrid party payroll vendor
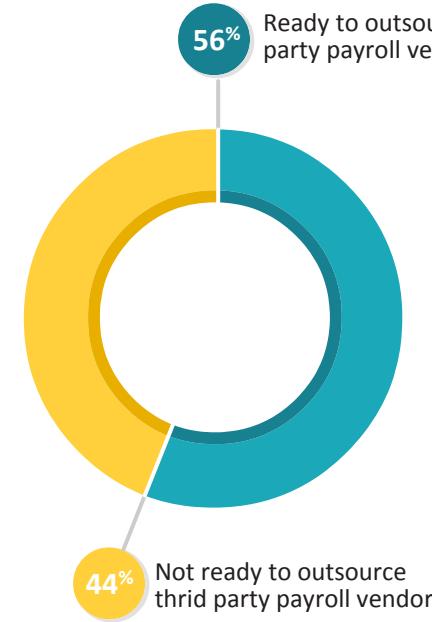
**Timeline for workforce formalization Vs readiness to outsource third party payroll vendor**



- ● Not ready to outsource thrid party payroll vendor
- ● Ready to outsource thrid party payroll vendor

| | Major steps initiated | Less than a year | Within 1-2 years | More than 2 years | At present, it is not a priority |
|---|---|---|---|---|---|
| Not ready | 64% | 67% | 41% | 23% | 34% |
| Ready | 36% | 33% | 59% | 77% | 66% |

Of all the employers who want to prioritize workforce formalization, **more than half (56%) are willing to outsource to third party payroll vendors as a step towards workforce formalization.** The remaining (46%), however, are unwilling to initiate this vstep. Also, of those who have already initiated major steps towards formalization, 64% are willing to outsource to third party payroll vendors. And, of those who plan for workforce formalization in less than a year, 67% are ready for outsourcing.

*Respondent sample: 230 HR and Compliance Managers(mid-level) respondents across India*

*Note: This computation is based on respondents who want to prioritize workforce formalization.*

**FORMALIZING THE WORKFORCE**

# Is readiness to outsource third party payroll evident in those who prioritise workforce formalization? Sector wise

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## FMCG

**61%** Ready to outsource thrid party payroll vendor

**39%** Not ready to outsource thrid party payroll vendor

## FMCD

**58%** Ready to outsource thrid party payroll vendor

**42%** Not ready to outsource thrid party payroll vendor

## Healthcare & Pharmaceuticals

**27%** Ready to outsource thrid party payroll vendor

**73%** Not ready to outsource thrid party payroll vendor

Of the employers from FMCG sector who want to prioritize workforce formalization, 61% are willing to outsource to third party payroll vendors as a step towards workforce formalization. In the FMCD sector this proportion stands at 58%, and in the Healthcare & Pharmaceutical sector it stands at 27%.

*Respondent sample: 230 HR and Compliance Managers(mid-level) respondents across India*

*Note: This computation is based on respondents who want to prioritize workforce formalization.*

**FORMALIZING THE WORKFORCE**

**Job roles**
employers intend
to formalize

FORMALIZING THE WORKFORCE

# Informal job roles which employers intend to formalize



**Top 10 Informal job roles employers intend to formalize**

*y-axis: % of respondents (0% to 35%)*

| Job Role | % |
|---|---|
| Sales Executive | 29% |
| Electrician | 9% |
| Community Health Workers | 9% |
| Marketing Executive | 7% |
| Supply Chain Executive | 5% |
| Production Assistant | 4% |
| Technical Assistant | 4% |
| Medical Representative | 3% |
| Customer Service Representative | 3% |
| Electronics Technician | 3% |
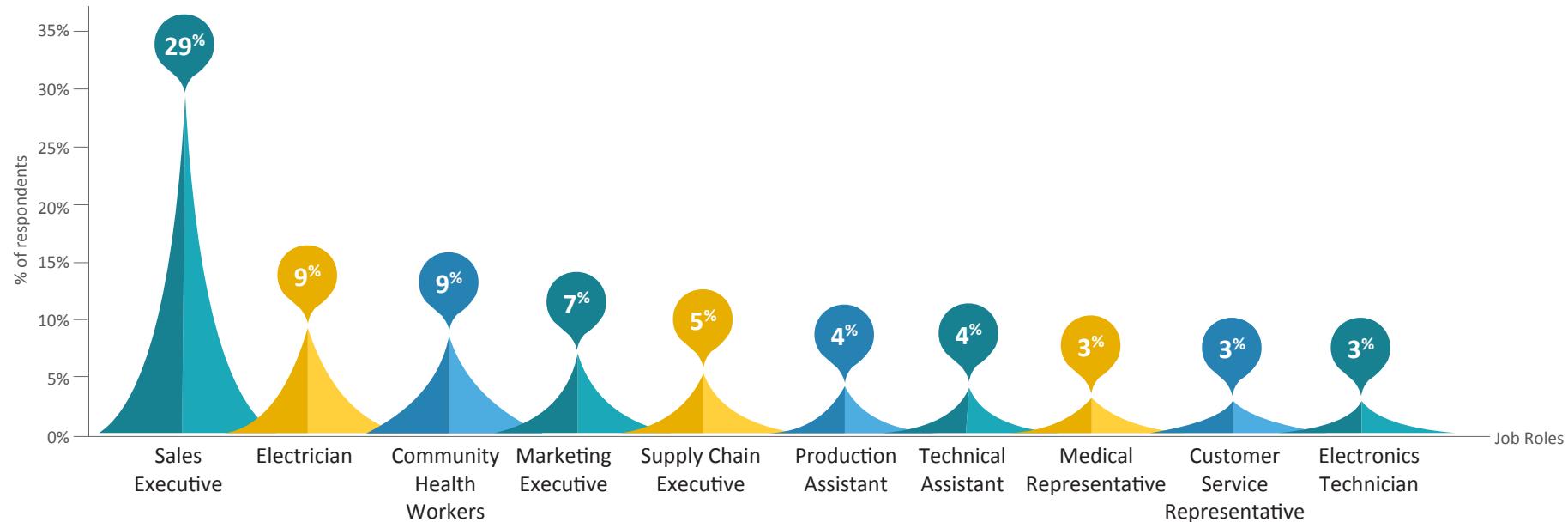
**Workforce categories employers intend to formalize**

- Blue Collar: 28%
- Others: 16%
- White Collar: 13%
- Channel Workforce: 43%
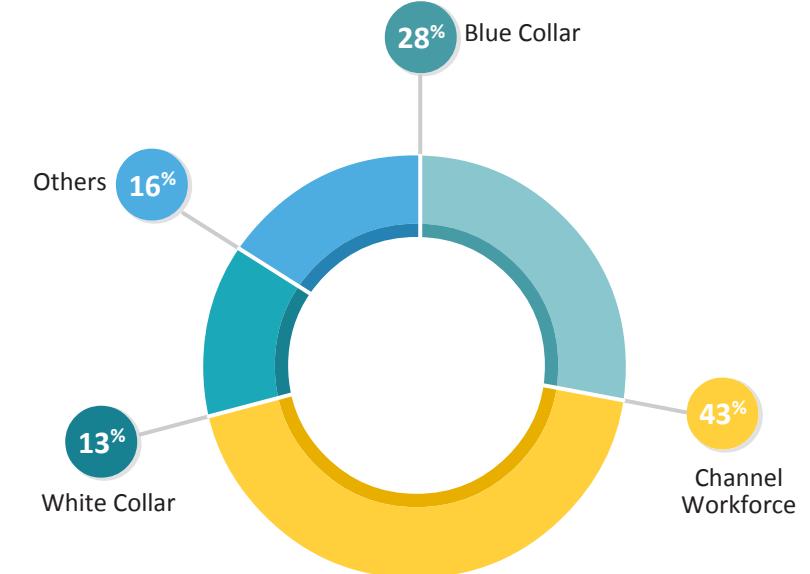
A substantially high proportion of employers, across sectors (29%) are in favour of formalizing the "Sales Executive" role. Besides this, the top roles list is comprised of disparate roles, each preferred by a small proportion of employers. The Channel workforce is a category about two out of five employers (43%) are keen to formalize, followed by the Blue Collar category (28%).

*Respondent sample: 230 HR and Compliance Managers(mid-level) respondents across India*

**FORMALIZING THE WORKFORCE**

# Informal job roles which employers intend to formalize

**Top 5 Informal job roles employers want to formalize: FMCG**

- Sales Executive: 34%
- Supply Chain Executive: 10%
- Marketing Executive: 9%
- Technical Assistant: 6%
- Production Assistant: 6%

*% of respondents / Job roles*

**Top 5 Informal job roles employers want to formalize: FMCD**

- Sales Executive: 35%
- Electrician: 23%
- Marketing Executive: 10%
- Electronics Technician: 6%
- Branch Incharge: 6%

*% of respondents / Job roles*

**Classification of Workforce: FMCG**

- Blue Collar: 32%
- Others: 13%
- White Collar: 18%
- Channel Workforce: 37%

**Classification of Workforce: FMCD**

- Blue Collar: 26%
- Others: 11%
- White Collar: 23%
- Channel Workforce: 40%
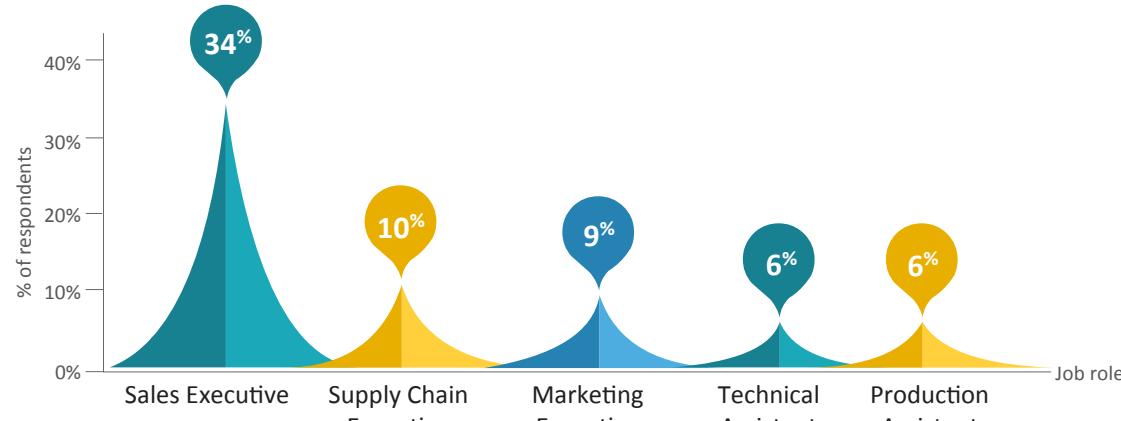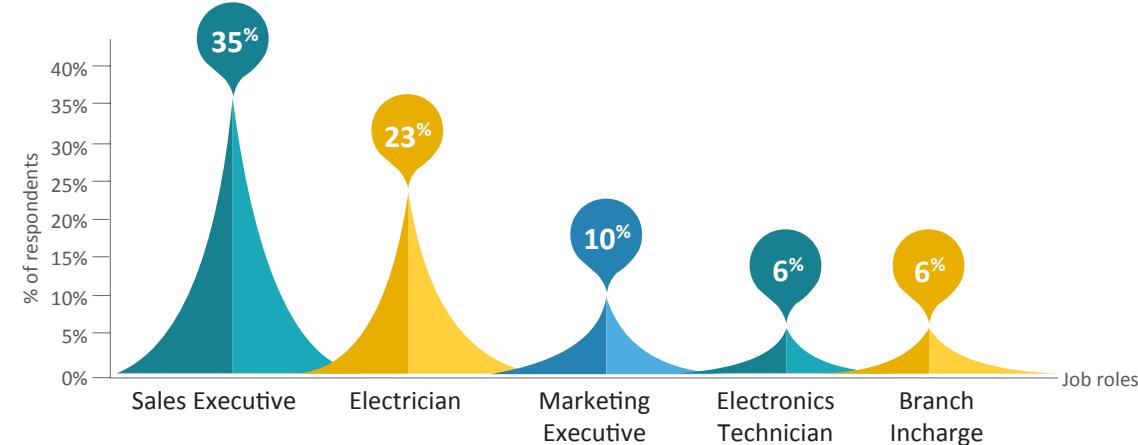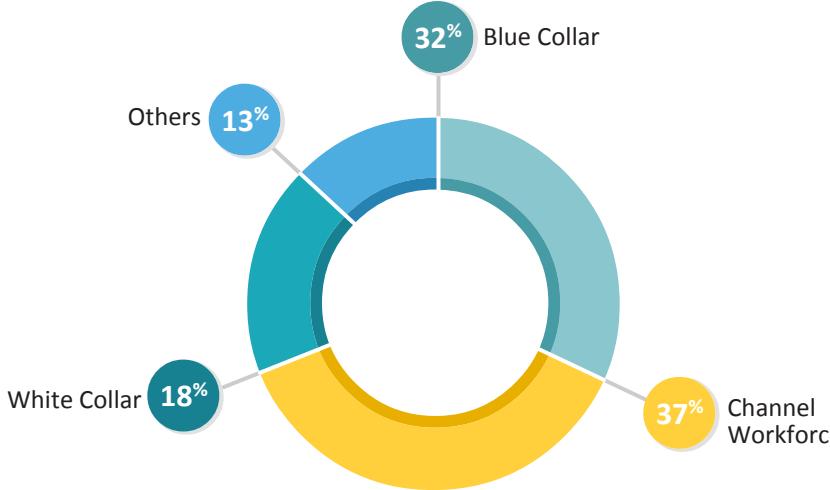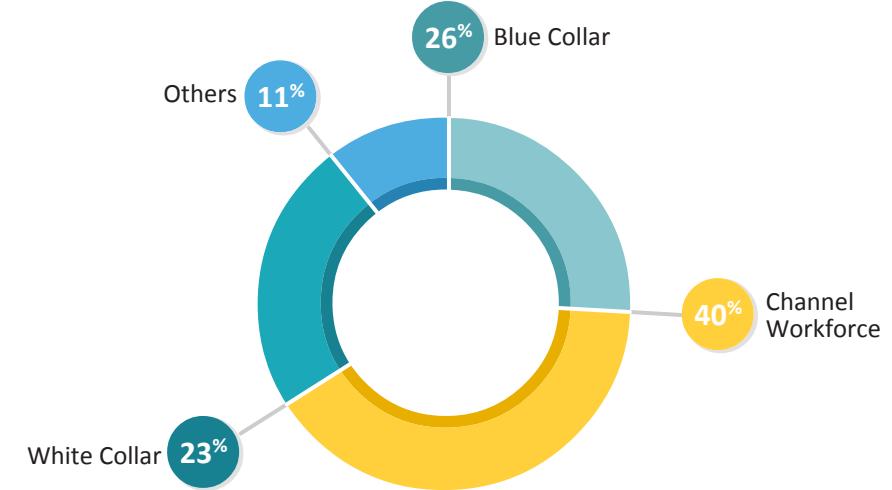
Across the FMCG and FMCD sectors, the "Sales Executive" role is the dominant favourite for formalization. The category preferences for both FMCG and FMCD reflect the overall trend – with the Channel workforce being the favourites.

*Respondent sample: 230 HR and Compliance Managers(mid-level) respondents across India*

FORMALIZING THE WORKFORCE

# Informal job roles which employers intend to formalize

**Top 5 Informal job roles employers want to formalize: Healthcare & Pharmaceuticals**



% of respondents

| 32% | 15% | 11% | 10% | 8% |

Community Health Workers · Sales Executive · Medical Representative · Customer Service Representative · Pharmacists

Job roles

The Healthcare and Pharmaceuticals sector is seen to put the "Community Health Worker" role on top of the formalize list. The Blue Collar workforce takes precedence in the Healthcare and Pharmaceuticals sector, followed by the White Collar category.

**Classification of Workforce: Healthcare & Pharmaceuticals**



- Others 9%
- Blue Collar 39%
- White Collar 31%
- Channel Workforce 21%

*Respondent sample: 230 HR and Compliance Managers(mid-level) respondents across India*

# What business benefit do employers expect as a result of workforce formalization

**Employers' expectations: Business benefits as a result of formalization**
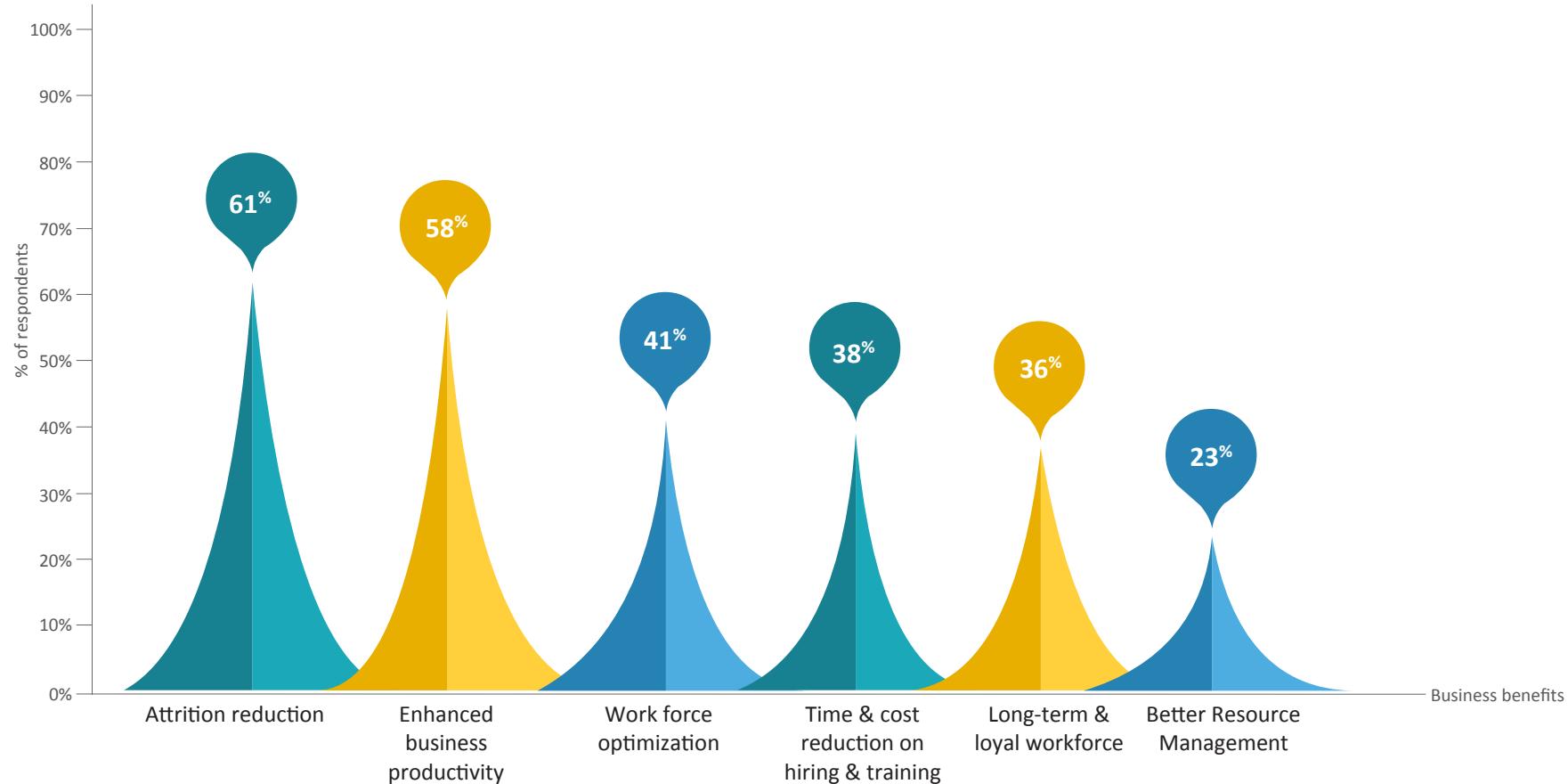


Three out of five employers surveyed **(61%) expect attrition reduction to be the Top Business Benefit with Formalisation of Workforce. Business productivity resulting from formalization,** is another important business outcome as indicated by **(58%)** of the employers. **Optimization of the workforce** is the third important business benefit **(41%)** of the employers expect.

*Respondent sample: 230 HR and Compliance Managers(mid-level) respondents across India*

**G**host Employee Elimination

A ghost employee is a person who is on an employer's payroll, but who does not actually work for the company. Formalization is expected to help eliminate this anomaly.

**A**ttrition Reduction

With the provisioning of social benefits, alongside market competitive compensation structures, formalization aids in the reduction of voluntary attrition.

**P**roductivity boost with technology

An empowered and better skilled workforce is capable of leveraging technology to perform at an elevated productivity level.

**S**tatutory Compliances – Social security benefits & Compliances

A compliant organisation that values the contribution of social security benefits towards the wellbeing of its employees.
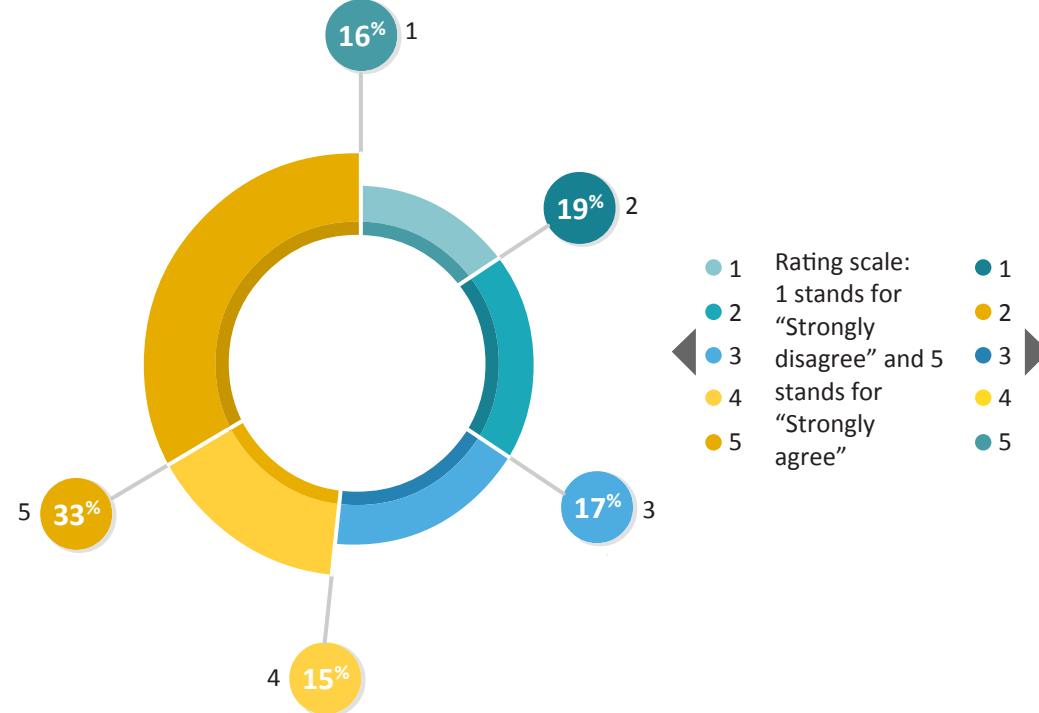
**FORMALIZING THE WORKFORCE**

# Employer rating: Impact of Ghost Employee Elimination on formalization

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## Ghost employee elimination can be valuable for formalization

1 — 16%
2 — 19%
3 — 17%
4 — 15%
5 — 33%

Rating scale: 1 stands for "Strongly disagree" and 5 stands for "Strongly agree"

1
2
3
4
5

## Ghost employee elimination can be valuable for formalization Sector-wise

% of respondents

**FMCG**
1 — 7%
2 — 36%
3 — 20%
4 — 9%
5 — 28%

**FMCD**
1 — 11%
2 — 6%
3 — 17%
4 — 28%
5 — 38%

**Healthcare & Pharmaceuticals**
1 — 34%
2 — 11%
3 — 15%
4 — 5%
5 — 35%

Sector
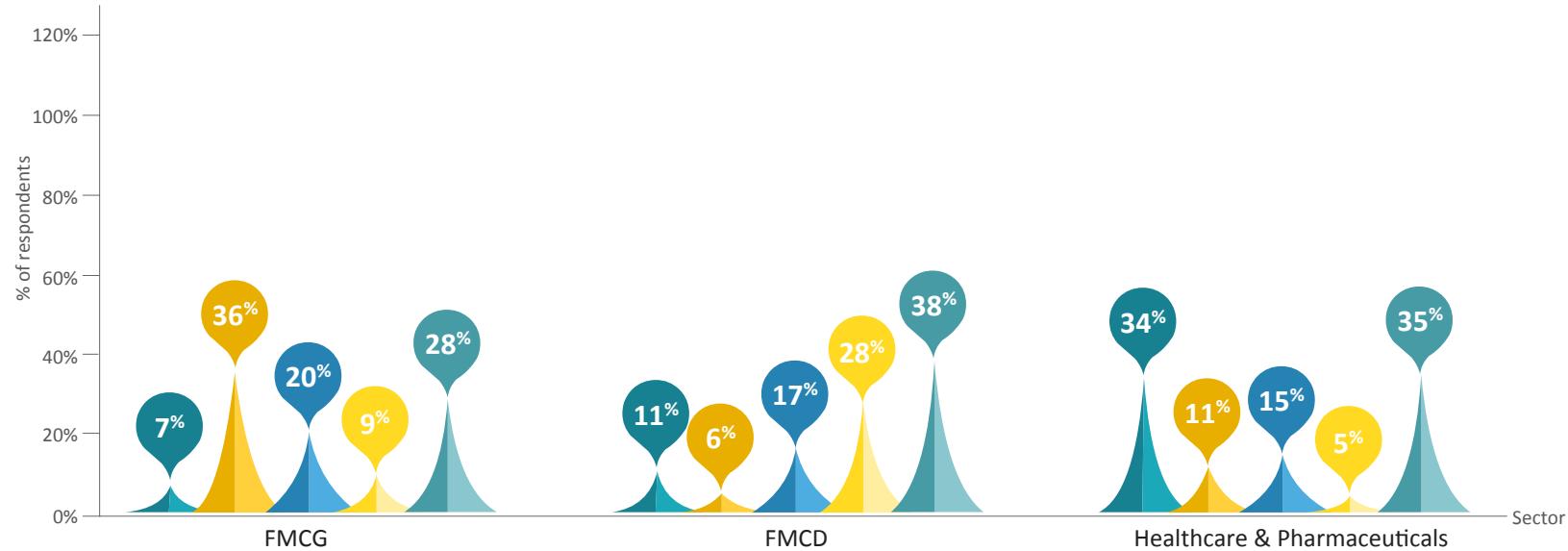
Employers believe that Ghost Employee Elimination can be valuable for formalization. Nearly half of all employers surveyed (48%) agree on the significance of this GAPS attribute, with 33% agreeing strongly. This includes two-thirds of employers (66%) from the FMCD sector, 40% of the employers from Healthcare and Pharmaceuticals and 37% of the employers from the FMCG sector. However, a significant proportion of employers – 43% from the FMCG sector and 45% from the Healthcare and Pharmaceuticals sector – do not seem to agree with Ghost Employee Elimination being a valuable contributor for formalization.

" A ghost employee is a person who is on an employer's payroll, but who does not actually work for the company. Someone in the payroll department creates and maintains a ghost employee in the payroll system, and then intercepts and cashes the paychecks intended for this person. "

**D**efinition

**FORMALIZING THE WORKFORCE**

**Employer Rating on "Workforce formalisation reduces employee attrition"**

21% 1

10% 2

9% 3

4 38%

5 22%
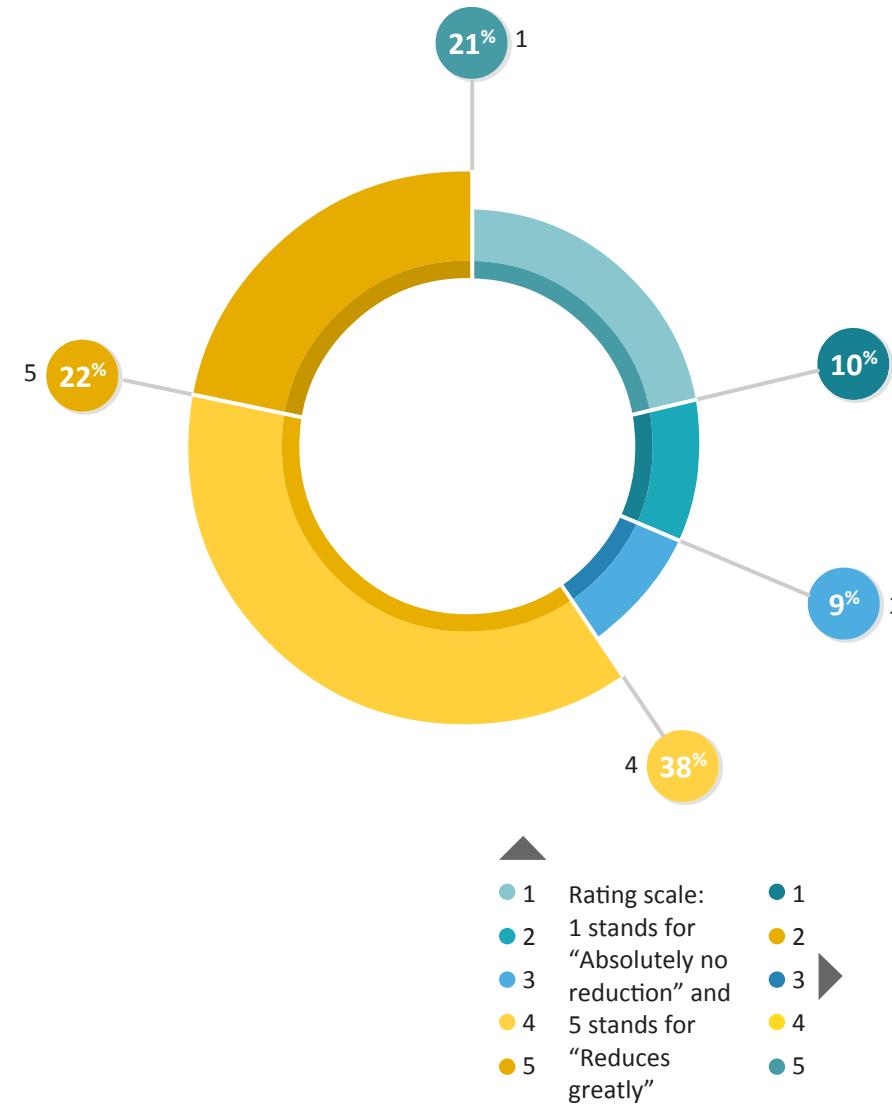
A significant proportion of employers (60%) believe that workforce formalization can significantly, or even greatly, reduce attrition. Between 56% - 63 % of the employers from each of the three sectors concur with the formalization-attrition reduction linkage .

Rating scale:
1 stands for "Absolutely no reduction" and 5 stands for "Reduces greatly"

- 1
- 2
- 3
- 4
- 5

- 1
- 2
- 3
- 4
- 5

**Employer Rating on "Workforce formalisation reduces employee attrition"- Sector-Wise**
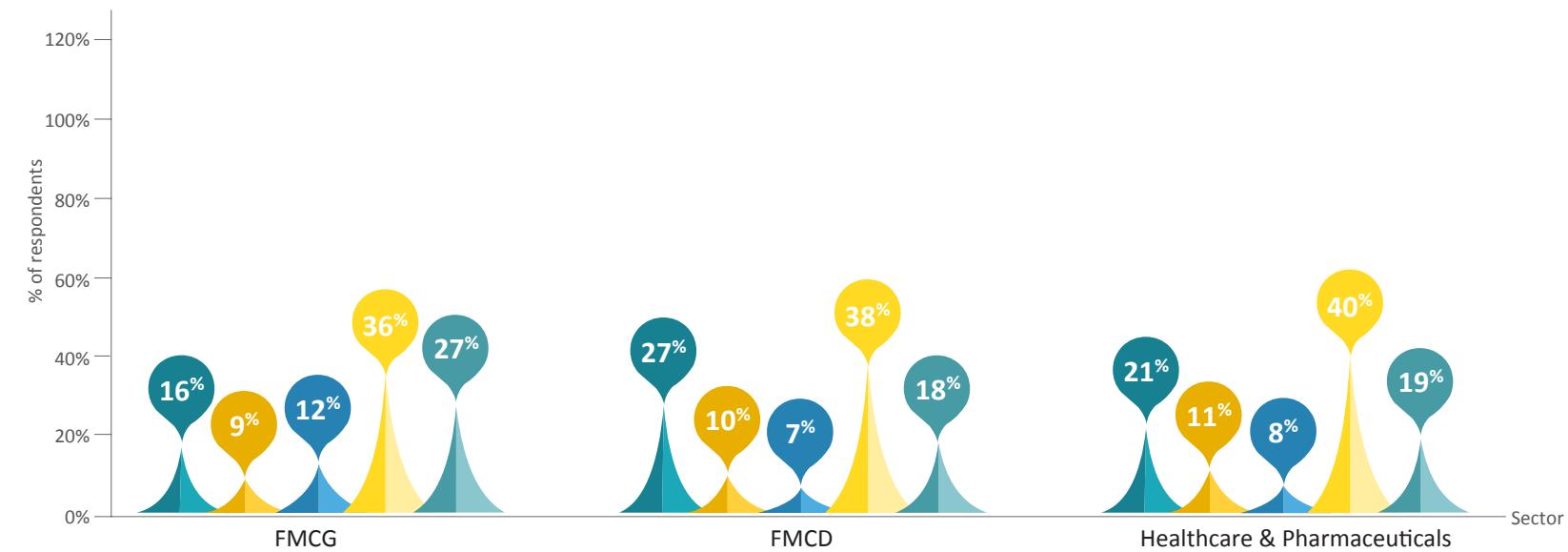
% of respondents

120%
100%
80%
60%
40%
20%
0%

**FMCG**
16%  9%  12%  36%  27%

**FMCD**
27%  10%  7%  38%  18%

**Healthcare & Pharmaceuticals**
21%  11%  8%  40%  19%

Sector

*Respondent sample: 230 HR and Compliance Managers(mid-level) respondents across India*

**FORMALIZING THE WORKFORCE**

**Employers' rating: Productivity Enhancement through technology aids in formalization**
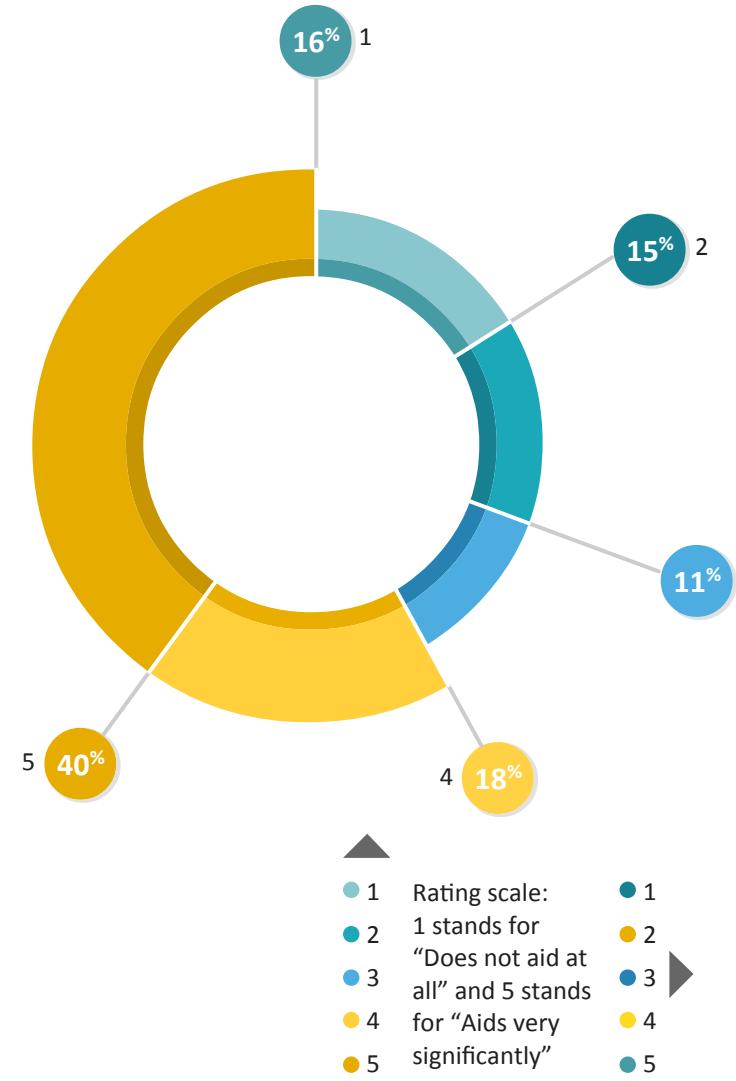


Productivity enhancement through technology is seen by nearly three out of five employers (58%) as a significant aid in formalization.
Almost an equivalent representation from across the 3 sectors (60% of FMCG, 57% of FMCD and 57% of Healthcare and Pharmaceuticals) reinforces the causal effect formalization has on tech-led productivity enhancement.

**Productivity Enhancement through technology aids in formalization: Sector-Wise**
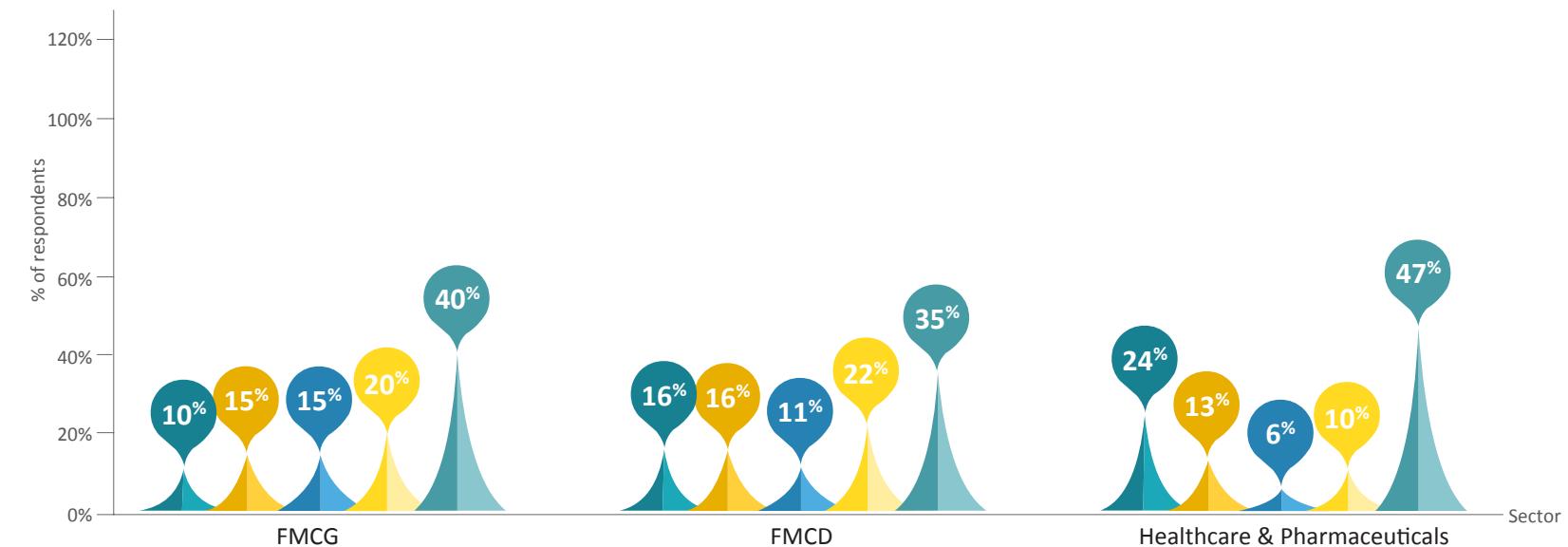


*Respondent sample: 230 HR and Compliance Managers(mid-level) respondents across India*

**FORMALIZING THE WORKFORCE**

# Compliance with the legal framework can facilitate formalization

**Compliance with legal framework can facilitate formalization**

18% 1
6% 2
7% 3
37% 4
33% 5
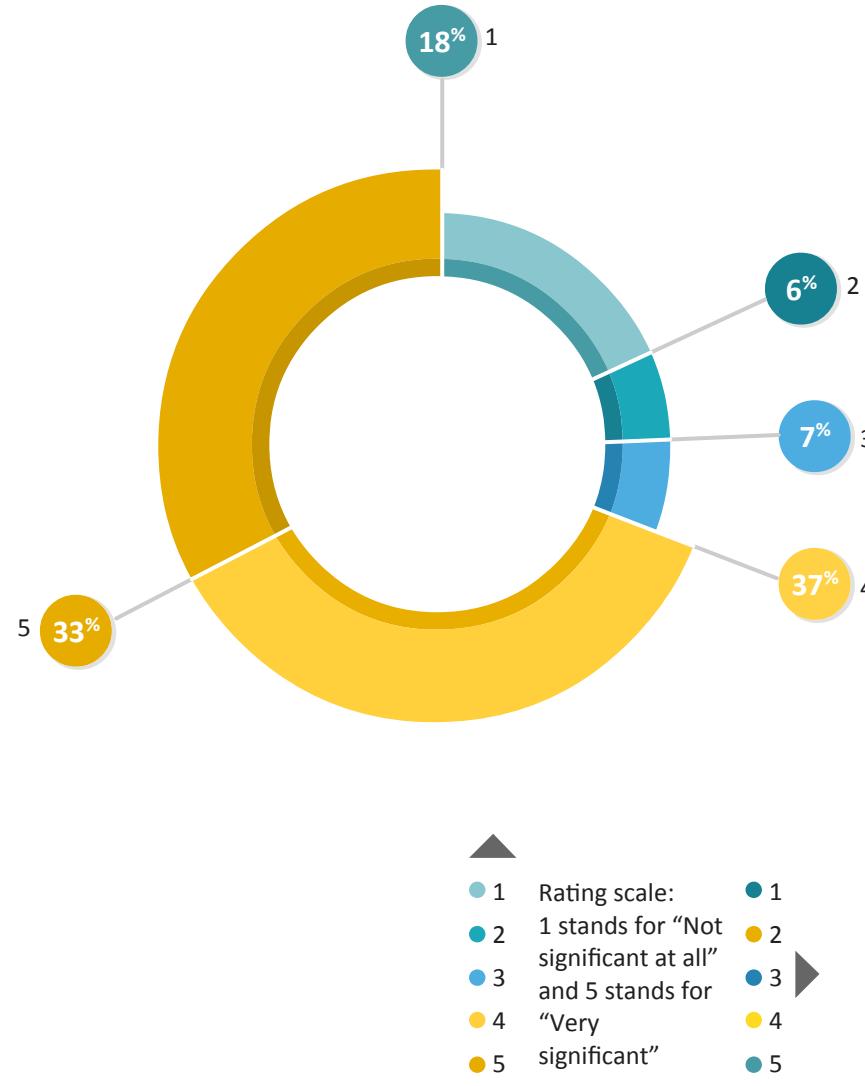
Employers attribute great significance to compliance with legal framework with respect to formalization. A majority of the employers (70%) believe that compliance with legal framework has a significant to very significant impact on formalization. Almost an equivalent proportion of the employers believe the same when looked at across all the three sectors.

**Compliance with legal framework can facilitate formalization: Sector-Wise**
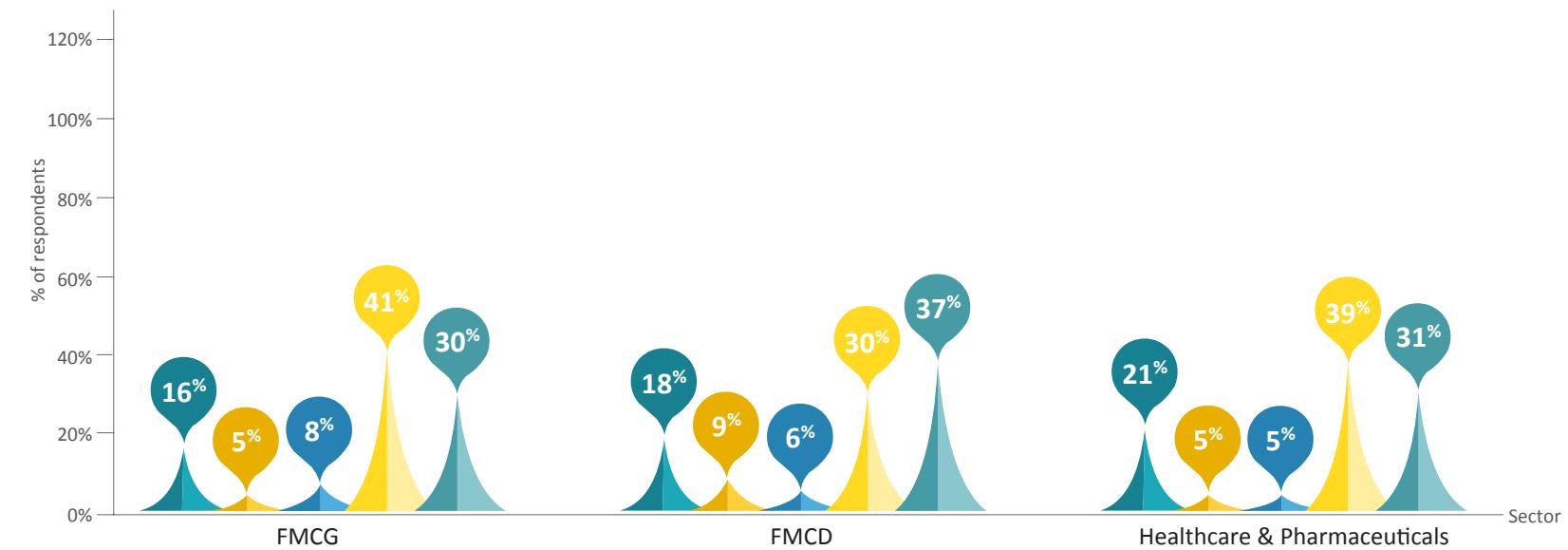
1   Rating scale:   1
2   1 stands for "Not   2
3   significant at all"   3
4   and 5 stands for   4
5   "Very significant"   5

### FMCG
16% 5% 8% 41% 30%

### FMCD
18% 9% 6% 30% 37%

### Healthcare & Pharmaceuticals
21% 5% 5% 39% 31%

% of respondents

Sector

*Respondent sample: 230 HR and Compliance Managers(mid-level) respondents across India*

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**Case Studies**
on Formalisation
of Workforce

# Case studies: Business outcome as a result of formalization
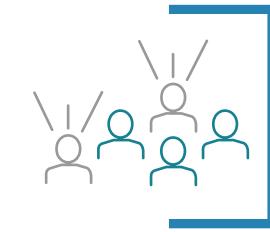
**Multinational consumer healthcare company**
**~ 5% of their workforce comprised of ghost employees**

**An Indian consumer goods major rapidly expanding its FMCG division**

**Key strategies implemented**
According Social Security benefits (especially PF)

Minimum wages assured for informal workers

Formalization of 500+ channel workforce across India

**Key strategies implemented**
- 1000+ distributor staff across regions formalized
- Variable pay and incentive schemes to balance costs

Case study **1**   Case study **2**

**Outcome**
80% reduction in attrition

20% increase in productivity
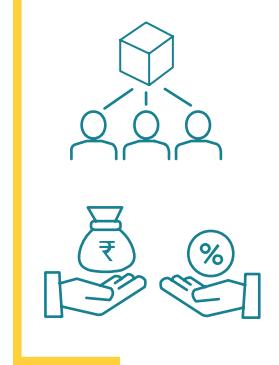
**Outcome**
- Reduced attrition
- Improved productivity
- Skilled resource pool
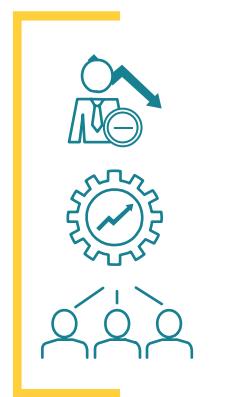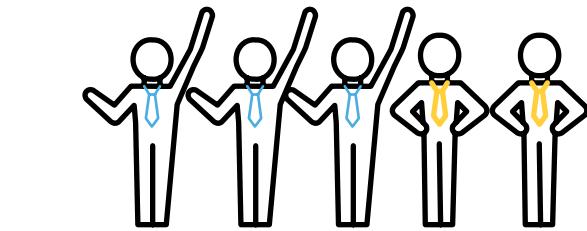
Six out of ten (**59%**) FMCG, FMCD and Healthcare and Pharmaceuticals sector employers are galvanizing their formalization initiatives. Nearly half of all employers in these sectors (**47%**) are progressing along the journey of readiness.

Employers have great clarity on what factors are at play – **27%** emphasize on Statutory Compliance and **25%** on Social Security benefits – and which roles and job categories to formalize.
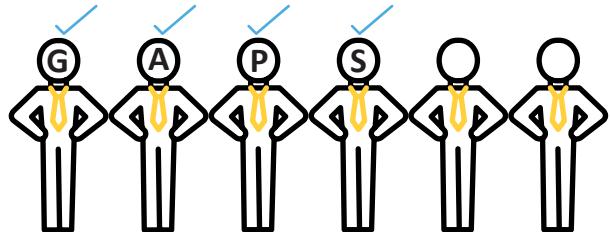
The GAPS framework is appreciated by more than half of all employers (between **48%** and **70%** across its attributes) and employers are able to attach value to the framework regardless of their priority for formalization.

Employers across these sectors recognize challenges – their own as well (managing wages: **45%**) as those faced by the informal workforce (lack of social security: **32%**) – and have formulated the business case for formalization.

G : Ghost Employee Elimination          A : Attrition reduction
P : Productivity boost with technology   S : Statutory Compliances –Social security benefits & Compliances

FORMALIZING THE WORKFORCE

# Annexure

FORMALIZING THE WORKFORCE

**Primary survey methodology**

**Sample size: 230**

> HR and Compliance Managers (mid-level)

**Questionnaire covering:**

- Employers willingness to formalize informal part of their workforce.
- To what extent is it challenging to manage informal workforce.
- Major challenges faced by employers in engaging with informal workers.
- Measures undertaken by employers towards workforce formalization
- Timeline employers are aiming at towards formalization
- Reasons for not prioritizing workforce formalization
- Informal job roles that employers intend to formalize
- Business benefit expected by employers as a result of workforce formalization
- Employers preference for formal engagement type towards workforce formalization
- Employers' readiness to outsource third party payroll as a step towards formalization
- Employers' opinion on the impact of ghost employee elimination towards formalization
- Employers perception on the role of workforce formalization in attrition reduction.
- Employers, opinion on the effect of compliance to legal framework towards workforce formalization
- Employers' opinion on the impact of technology aided productivity enhancement  with respect to workforce formalization
- Employers' opinion on the Impact of Ghost Employee Elimination on formalization

| Sector | Total No. of Respondents |
|---|---|
| FMCG | 86 |
| FMCD | 82 |
| Healthcare & Pharmaceuticals | 62 |
| | |

| Business Size | Total No. of Respondents |
|---|---|
| Large (greater than 1000 employees) | 35 |
| Medium (100 to 1000 employees) | 62 |
| Small (less than 100 employees) | 51 |
| MSMEs | 41 |
| Startups | 41 |

| City | Total No. of Respondents |
|---|---|
| Ahmedabad | 28 |
| Bangalore | 34 |
| Chennai | 30 |
| Delhi | 29 |
| Hyderabad | 29 |
| Kolkata | 24 |
| Mumbai | 29 |
| Pune | 27 |
| | |

**Sample size: 230** HR and Compliance Managers (mid-level)

FORMALIZING THE WORKFORCE

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