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Understanding the compliance challenges faced by employers

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Abstract

This research paper investigates the compliance challenges experienced by employers in implementing the New Labour Code 2025 in India. The study, conducted by Ankita, a freelance researcher based in India, employs a quantitative survey approach to gather comprehensive data from 200 employers across diverse sectors and firm sizes. Stratified random sampling was used to ensure representation from manufacturing, IT/services, retail, and construction industries. The findings reveal that only 20% of employers were fully aware of the Labour Code provisions, while 50% were partially aware, 25% minimally aware, and 5% not aware at all. Key compliance issues identified include increased administrative burden, legal interpretation difficulties, and financial constraints, lack of training or guidance, and inadequate digital infrastructure. Sector-wise, manufacturing and construction firms reported higher compliance difficulties, with more employers indicating significant challenges compared to retail and IT/services. Micro and small enterprises were more financially burdened, with more respondents reporting cost-related issues compared to large enterprises. Employers strongly supported remedial measures such as government-led training programs, simplified compliance tools, and sector-specific implementation guidelines. Data was analyzed using Microsoft Excel to identify quantitative patterns. The results suggest a substantial implementation gap that must be addressed through enhanced legal clarity, structured support mechanisms, and sector-specific policy interventions. This research contributes to understanding ground-level compliance realities and offers actionable recommendations for improving the effectiveness of the Labour Code 2025.

Keywords: Labour code 2025, employer compliance, labour law reforms, regulatory challenges, policy implementation

1. Introduction

The New Labour Code 2025 in India is a big change in the way labour laws work. It combines and streamlines existing laws into four comprehensive codes: the Code on Wages, the Industrial Relations Code, the Code on Social Security, and the Occupational Safety, Health, and Working Conditions Code. The changes are meant to make it easier to follow the rules, make things more clear, and make it easier to do business. They offer long-term benefits for both businesses and employees. But moving to this new legal system hasn't been easy, especially for businesses who have to deal with a complicated web of procedural changes, technical improvements, and unclear interpretations ^[1, 3]. From a business point of view, it's important to understand and evaluate these compliance problems in order to judge how well the New Labour Code 2025 works in practice.

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Fig 1: Employers under the New Labour Code

Employers, especially small and medium-sized businesses (SMEs), find it very hard to follow the new code's structural and procedural rules. The goal of the reforms is to make the compliance process more unified and efficient. However, in fact, this often means figuring out how to interpret complicated legislative language, training HR and legal teams, and updating compliance systems to meet the needs of digital reporting. For example, the move towards online registration, digital record keeping, and electronic filing of returns is a step forward, but it might be hard for organisations that don't have a lot of technology or workers who aren't very good at using it. The four codes also include overlapping duties and timeframes that might be confusing, especially in fields where the border between formal and informal work is still not clear.

One of the biggest problems for employers is that the definitions of important terminology like wages, workers, and contractor are not clear. This makes it hard to set up payroll, classify employees, and meet social security obligations^{[4], [5]}. The Code on earnings 2019, which is part of the integrated labour rules, has a broader definition of earnings. This affects how the provident fund, gratuity, and bonus are calculated, which means that employers will have to pay more money. Also, the fact that compliance regulations change often without enough transitional support or awareness campaigns makes things even harder. This is especially true for businesses that work in more than one state, since labour inspectors and state rules may interpret the codes differently, which goes against the central legislation's guarantee of consistency. Another thing that worries me is the amount of effort that needs to be done to make sure that contract workers and gig workers follow the rules^{[6]-[8]}. The New Labour Code 2025 tries to cover these groups with social security, but employers often don't know what their responsibilities are when it comes to contributions and benefits. Also, the fear of fines and legal action for not following the rules makes firms less likely to hire people, which goes against the code's goal of making the labour market more flexible^[9]. Having to register many times, have regular audits, and keep extensive records makes things harder for firms, especially those with few employees. The New Labour Code 2025 is a good step towards bringing India's labour laws up to date, but how effectively it works depends a lot on how well businesses can follow its rules. Looking at the specific compliance problems they confront not only shows the differences

between policy and practice, but it also gives policymakers the information they need to create support systems that make the transition easier and improve the overall effects of the changes.

2. Literature Review

Bushway 2025 *et al.* looked into whether direct incentives could help employers be less hesitant to hire people with criminal backgrounds. We did two big tests with 1,000 people who made hiring decisions. The first test was like a normal recruiting process, when criminal records are shown right away. The second test was like Ban-the-Box, where records are shown later. In all cases, granting a \$2,400 tax credit or \$25,000 insurance against dishonest employees made it much less likely that employers would be hesitant to recruit people with criminal records, whether they were misdemeanors or felonies. Rehabilitation certificates also worked well, especially in situations when people couldn't see the box. Our results show that incentives work in a variety of employment situations and for different sorts of criminal records. The Opportunity Tax Credit and the Federal Bonding Program offer similar help, but not enough people use them. We suggest that more people learn about these programs and use them, and that their coverage be expanded. Promoting rehabilitation certificates could help people with criminal records get jobs even more by giving them a real opportunity to get back into the economy and helping society as a whole^[10].

Krekó 2025 *et al.* analyzes Hungary's disability employment quota policy, which requires firms exceeding a specified size threshold to either employ individuals with disabilities or pay a financial penalty. In 2010, the government significantly increased the quota tax to 170% of the minimum wage cost in an effort to incentivize compliance. Following this policy change, data shows that firms responded by hiring an average of 0.24 to 0.29 additional disabled workers per firm, with conservative estimates ranging between 0.12 and 0.17. Despite the tax now exceeding the estimated cost of hiring a disabled worker, around two-thirds of the quota continues to go unmet. This suggests that financial disincentives alone may not be sufficient to drive inclusive hiring and that substantial hiring-related barriers such as workplace accessibility, required accommodations, or lack of information could be inhibiting firms from employing disabled individuals. Moreover, the policy had a weaker effect in areas with fewer disabled residents, underscoring the need for complementary supply-side strategies, such as skill development, education, and placement support, to enhance labor market outcomes for people with disabilities^[11].

Lalioti 2025 *et al.* The 2008-2009 global financial crisis and COVID-19 pandemic exposed major gaps in social protection systems for self-employed individuals, highlighting their heightened vulnerability compared to wage earners. Using Greece as a case study—where self-employment levels remain structurally high—this research investigates challenges in accessing social protection within a fragmented labor market. Drawing from literature and interviews, findings indicate weak trade union representation and limited institutional trust among self-employed workers, shaping their negative perceptions of available social protection measures. These perceptions contribute to low participation, reducing system effectiveness and undermining sustainability. Results

emphasize urgent need for reform to address non-standard employment and shifting labor dynamics. Expanding inclusive coverage, strengthening engagement mechanisms, and improving communication with self-employed populations are essential strategies for building a more equitable and resilient welfare model. As labor markets evolve, inclusive reforms become critical for supporting diverse worker categories and ensuring comprehensive protection in future economic disruptions^[12].

Maclean 2024 *et al.* explored how a state-owned enterprise (SOE) in South Africa's Western Cape successfully met its employment equity targets for hiring people with disabilities, despite widespread national gaps in representation. Using interviews with HR staff and employees with disabilities, along with policy document reviews, the research identified effective recruitment, orientation practices, and inclusive participation as key enablers. Strategies fostered a supportive work environment

and contributed to the SOE's success. findings offer practical insights for other organizations seeking to improve disability inclusion and meet employment equity goals, adding value by highlighting actionable steps toward a more diverse workforce^[13].

Zambon 2024 *et al.* Every company presents a dual personality regarding its workforce. On one side, the organization crafts a carefully curated image aimed at attracting and retaining talent—through branding, promises of culture, growth, and benefits. On the other side lies the actual lived experience of employees, which may or may not align with that crafted image. Divide can impact engagement, satisfaction, and retention. If the company's projected identity differs significantly from employees' real experiences, it can lead to distrust and disengagement. Bridging the gap between perception and reality is crucial for building authentic, long-lasting relationships with employees and fostering workplace loyalty^[14].

Table 1: Literature Summary

Authors/year	Methodology	Research gap	Findings
Fleming/2024 ^[15]	Toolkit implemented to improve Pre-ETS evaluation and data-driven decisions.	Lack of practical evaluation tools for Pre-ETS program effectiveness.	Toolkit improved accountability, service impact understanding, and data-informed decision-making.
Dassler/2022 ^[16]	Toolkit improves Pre-ETS evaluation effectiveness.	Lack of evaluation tools hinders effective Pre-ETS program assessment.	Toolkit improved accountability, service tracking, and decision-making in Pre-ETS programs.
John/2018 ^[17]	Qualitative case study using interviews, literature, and conceptual framework development.	Lack of structured guidance for Master's students securing thesis/jobs.	Developed guide aligns employer needs with students' skills and competencies.
Singh/2017 ^[18]	Design science methodology developing cloud-based platform, evaluated by stakeholders' needs.	Lack of integrated platform linking academia with evolving employer needs.	Developed cloud system aligns educational content with recruiters' expectations effectively.
Baxter/2017 ^[19]	Legal-ethical analysis using case law, literature review, and policy evaluation.	Limited analysis beyond flu vaccine mandates in diverse workplaces.	Broader vaccine mandates raise complex legal and ethical employer concerns.
Davenport/2016 ^[20]	Qualitative evaluation using interviews, document analysis, and thematic coding framework.	Ineffective training methods for adult learners in compliance seminars.	Training lacked engagement, critical thinking, and adult learning principles.

3. Research methodology

The goal of this study is to look at the problems that companies have with following the New Labour Code 2025. Because the code makes big changes to pay, working conditions, and relationships between workers and employers, businesses in many fields are having trouble putting it into action. The study uses a quantitative approach, which means it uses structured surveys to provide a whole picture of the data. Stratified random selection makes sure that people from diverse industries and business sizes are included. The study looks at the legal, financial, and administrative problems that businesses face. The results will assist find the most important problems and give evidence-based suggestions on how to make policy implementation and employer compliance support better.

3.1 Research Design

This study uses a quantitative research design, which means it uses structured questionnaires to get numerical data on how employers have dealt with compliance issues. This design is both exploratory and descriptive. It tries to find out not only how often problems are, but also how they vary across sectors. Using this approach makes sure that the data obtained can be measured statistically and has a lot of context for interpretation and policy relevance.

3.2 Sampling Method

We shall use a stratified random sample procedure to make sure that employers from all sectors and sizes are fairly represented. The demographic includes Indian enterprises that are registered and are affected by the Labour Code 2025. We split the sample into groups based on the type of business (e.g., IT, manufacturing, and retail) and the size of the business (small, medium, large). To eliminate bias, individuals are chosen at random from each stratum. The goal is to get about 150 to 200 people to reply, including HR managers, compliance officers, and business owners. This strategy makes sure that the results are representative, which makes it possible to compare across sectors with confidence.

3.3 Data Collection Techniques

Structured questionnaires will be used to gather primary data. The questionnaire will have Likert-scale and multiple-choice questions about how well employers know the law, how much it costs, how hard it is to follow, and how clear it is. Google Forms will be used to send these out online. We will also look at secondary data sources including government announcements, labour code documents, and published legal studies. By using more than one point of

view and source, this triangulation makes the data more trustworthy.

3.4 Data Analysis Methods

We will look at the data using quantitative methods only. Microsoft Excel will be used to process quantitative data from surveys to find descriptive statistics (means, frequencies, percentages) and do simple inferential analysis. This can help find big disparities in compliance problems between different industries and business sizes. This analytical methodology helps us understand measurable outcomes and the reasons driving employers' experiences as a whole

3.5 Ethical Considerations and Reporting

There will be strong ethical rules for all scientific activity. People who want to take part in the study will be told what it is about and asked for their permission first. We will keep all data private and secret, and participants will be able to leave at any time. The final report will have extensive results, statistical graphics, and suggestions for policies that will make it easier for people to follow the rules. Suggestions will be made based on the size and type of business. The report will be sent to policymakers, labour departments, and employer groups to assist them understand

and improve how the New Labour Code 2025 is put into practice.

4. Results and Discussion

The results reveal that a lot of firms are having trouble adjusting to the New Labour Code 2025. Most of the people who answered said that their administrative work had gotten harder and that they had trouble understanding the legal requirements. Many businesses, especially small and medium-sized ones, were worried about money because of the costs of updating systems and training employees. There were disparities between sectors: the manufacturing and construction sectors had more problems than the IT and service sectors. Interviews showed that people need more government help and direction. These results show that for effective implementation, it is important to have clearer legal frameworks, easy-to-follow compliance processes, and systematic training programs.

Table 2: Awareness Level of Employers about Labour Code Provisions

Awareness Level	No. of Employers	Percentage (%)
Fully Aware	40	20%
Partially Aware	100	50%
Minimally Aware	50	25%
Not Aware at All	10	5%
Total	200	100%

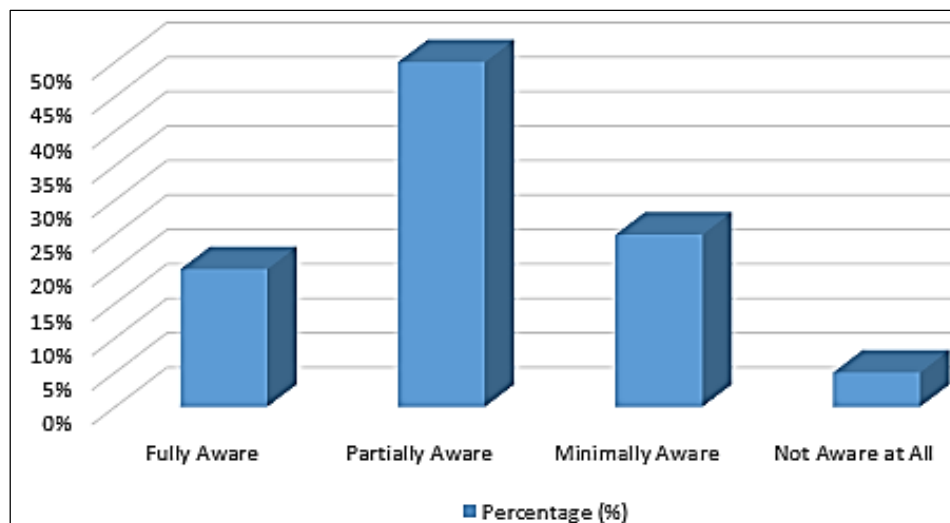


Fig 2: Awareness Level of Employers about Labour Code Provisions

Figure 1 shows how much employers know about the Labour Code 2025. Most employers simply know a little bit about the new rules, while a smaller number know

everything or nothing at all. This shows that regulatory bodies need to do a better job of communicating and raising awareness.

Table 3: Key Compliance Challenges Faced by Employers

Compliance Challenge	No. of Employers Reporting	Percentage (%)
Increased Administrative Burden	124	62%
Legal Interpretation Issues	110	55%
Financial Cost of Compliance	94	47%
Lack of Training/Guidance	86	43%
Digital Infrastructure Gaps	65	32.5%

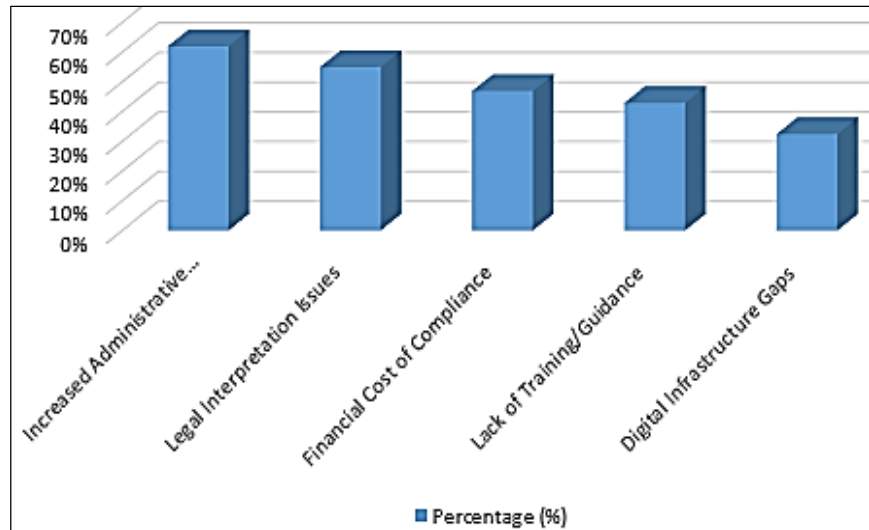


Fig 3: Key Compliance Challenges Faced by Employers

Figure 2 illustrates the main problems employers have to deal with when following the Labour Code 2025. The most common problems identified are too much paperwork, trouble understanding the law, and money problems. Other

problems include not having enough training and not having enough digital infrastructure, which shows that full assistance is needed to make compliance easier.

Table 4: Sector-Wise Compliance Difficulty

Sector	High Difficulty	Moderate Difficulty	Low Difficulty	Total Respondents
Manufacturing	45	20	5	70
IT/Services	10	20	20	50
Retail	25	15	10	50
Construction	30	10	5	45
Total	110	65	40	200

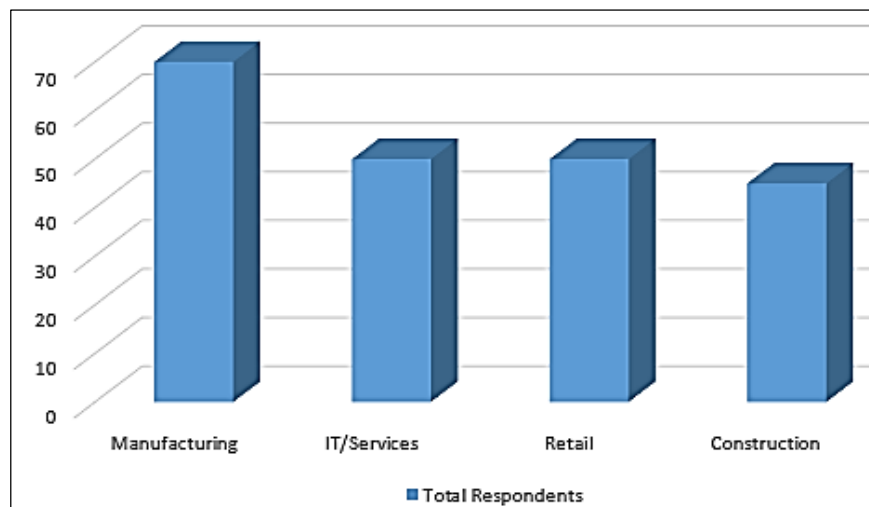


Fig 4: Sector-Wise Compliance Difficulty

Figure 3 demonstrates how hard it is for each sector to follow the Labour Code 2025. The manufacturing and construction industries had the most problems, followed by retail. The IT and service industries had less problems

overall. The research shows that there are differences amongst sectors, which shows that high-impact industries need support and policy changes that are particular to their needs.

Table 5: Firm Size vs Financial Burden of Compliance

Firm Size	Financial Burden Reported	Percentage (%)
Micro	30	75%
Small	40	66%
Medium	20	40%
Large	4	10%
Total	94	47%

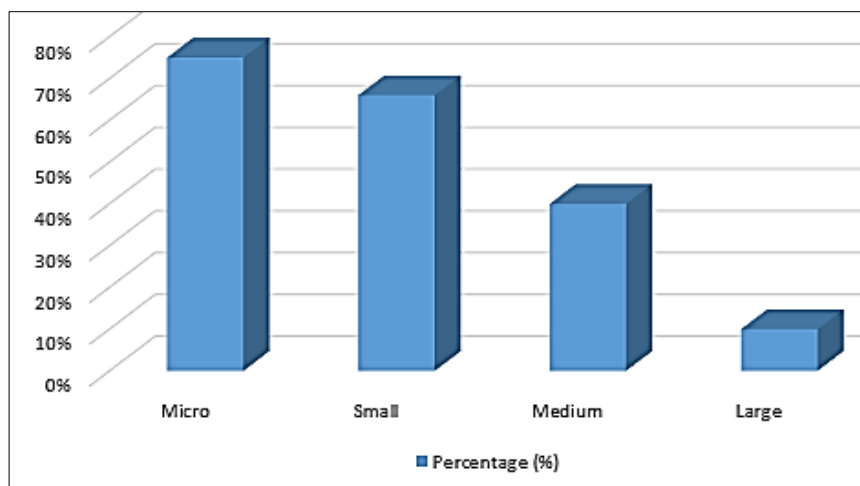


Fig 5: Firm Size vs Financial Burden of Compliance

Figure 4 depicts the relationship between firm size and the financial burden of compliance with the Labour Code 2025. Smaller firms, particularly micro and small enterprises, reported higher financial strain compared to medium and

large firms. This indicates that compliance costs disproportionately affect smaller businesses, requiring targeted financial and policy support.

Table 6: Preferred Support Measures from Employers

Suggested Support Measure	No. of Respondents	Percentage (%)
Government-led Training Programs	130	65%
Simplified Compliance Tools	120	60%
Centralized Helpdesk	90	45%
Sector-specific Guidelines	110	55%
Transitional Grace Periods	85	42.5%

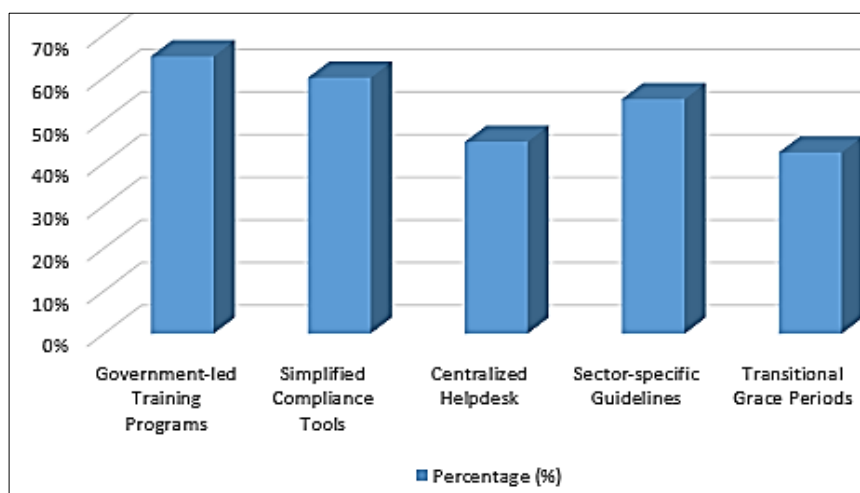


Fig 6: Preferred Support Measures from Employers

Figure 5 highlights the support measures preferred by employers to ease compliance with the Labour Code 2025. Most employers suggested government-led training programs, simplified compliance tools, and sector-specific guidelines. Others recommended centralized helpdesks and transitional grace periods, indicating a strong demand for structured, accessible, and industry-focused support mechanisms.

4.2 Discussion

This study reveals significant legal and administrative challenges faced by employers in implementing the New Labour Code 2025. Legally, vague definitions of key terms like “wages” and “worker” create confusion in payroll,

employee classification, and compliance with social security obligations. Variations in interpretation across states add to this complexity. Administratively, employers struggle with increased documentation, digital reporting, and overlapping timelines, particularly SMEs with limited resources. Survey findings show 124 employers reporting administrative burden and 110 citing legal interpretation issues. The lack of structured training, sector-specific guidelines, and consistent government support has hindered smooth implementation. Additionally, obligations concerning contract and gig workers remain unclear, increasing compliance risks. Manufacturing and construction sectors reported higher difficulty due to informal labor dynamics. These findings highlight a gap between policy and practice, suggesting a

need for clearer legal language, standardized processes, and comprehensive support mechanisms to help employers meet compliance requirements and achieve policy objectives effectively.

5. Conclusion

In conclusion, the study effectively explored the compliance challenges faced by employers under the New Labour Code 2025 using a structured quantitative survey approach. Data from 200 employers provided a detailed understanding of measurable difficulties in awareness and compliance. Out of 200 employers surveyed, only 40 were fully aware of the new provisions, while 100 were partially aware, indicating a substantial knowledge gap. Key compliance issues included increased administrative burden reported by 124 employers, legal interpretation difficulties by 110, financial constraints by 94, lack of training by 86, and digital infrastructure limitations by 65. Sectoral analysis revealed that the manufacturing and construction industries faced the most challenges, whereas IT/services experienced comparatively fewer issues. Firm-size analysis showed that micro and small enterprises were most financially affected, with 30 and 40 employers respectively reporting high compliance costs, while only 4 large firms reported the same. When asked about preferred support mechanisms, 130 employers suggested government-led training programs, 120 called for simplified compliance tools, and 110 supported sector-specific guidelines. These findings clearly demonstrate that despite the intent of the Labour Code 2025 to simplify and streamline labour regulations, implementation challenges remain significant. There is a pressing need for improved awareness campaigns, clearer legal documentation, accessible digital tools, and sector-wise support measures. By addressing these issues through targeted policy interventions and employer support systems, the government can ensure smoother compliance, especially for small businesses, and promote a more efficient and equitable labour regulatory environment.

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