

# NRC's Sphere of Influence: Should informal workforce be a part of it?

Board Leadership Center (India)

## Preface

In navigating the complex landscape of including informal workers within the sphere of NRC's influence, it is crucial to recognise the diversity of opinions that surround this contentious topic. This article aims to present a thorough exploration of the subject without advocating for a specific stance.

We understand that each company's decision regarding the inclusion or exclusion of informal workers is inherently shaped by their unique guiding principles, company philosophy, and contextual factors. As such, this article neither promotes nor discourages any particular viewpoint, but rather serves as a platform for fostering thoughtful discussion.

The intention is to provide a nuanced understanding of the considerations involved, acknowledging that there is no one-size-fits-all solution. We encourage readers to approach this discourse with an open mind, appreciating the multitude of perspectives that contribute to the richness of this ongoing conversation. Ultimately, the decision regarding the inclusion of informal workers in the realm of NRC's influence rests upon the individual ethos and strategic considerations of each organisation.

Thank you for engaging with an open mind and contributing to the diversity of perspectives within this discourse.



# Introduction

In the realm of corporate governance, the Nomination and Remuneration Committee (NRC) plays a pivotal role in shaping the leadership landscape and determining fair compensation within organisations. However, a pertinent question arises: should the sphere of influence of these committees extend beyond just the leadership roles to even include informal workers? Considering that an organisation as a sum of its parts, is not comprised of and represented only by its full-time employees, one may ask should the informal worker not be considered an integral part of it? This document attempts to discuss NRC's role in organisation's compensation practices and evaluates if their scope and remit should go beyond executive remuneration to include the unrepresented informal workers as well.

## Informal workforce: A segment overlooked?

Informal workers constitute a substantial portion of the global workforce, often labouring without formal contracts or legal protections. As per the World Bank Data<sup>1</sup>, the informal sector accounts for about a third of GDP and more than 70 per cent of employment in emerging markets and developing economies. Informal workers form an important part of any company's workforce and in many companies, they can constitute up to 50 per cent, and sometime, even more, of the total workforce.

They often come in to execute specific tasks which are deemed to be important but add 'low value' or in places where the organisation cannot find the right talent in the required numbers. In either scenario, informal workers are leveraged to generate cost-efficiencies or bridge strategic skill gaps, both of which lead to enhanced shareholder value. Despite their significant contributions to various industries, they frequently remain overlooked in corporate decision-making processes. As an example, it has been noted that many companies peg the salaries of informal workers to 'minimum

wages' as the baseline, adequateness of which can be questioned by many. Specifically for India, according to the data released by eShram portal<sup>2</sup> (a National Database of unorganised workers), over 94 per cent of 27.69 crore informal sector workers registered on the eShram portal have a monthly income of Rs 10,000 or below.

It is important to note that the focal point of the argument made by those in favour of including informal workers in NRC's remit is not to make salaries of informal workers comparable or at par with other categories but only to be fair and make some revisions to bring them closer to the concept of 'living wages' (a reasonable standard) rather than the bare minimum wages which may not be realistic considering today's cost of living. This chasm between the 'reasonable living wage' and the 'bare minimum wage' may reflect not just an economic disparity but may also hint towards a moral dissonance in the fabric of our societal and corporate values.



1. The Long Shadow of Informality – Challenges and Policies | World Bank
2. Informal Economy in India | Drishti IAS

Unlike countries such as Germany, organisations in India also do not have any worker representatives on the board or in advisory roles with the board to present their concerns. Forums or committees where informal workers can express their concerns and provide feedback are also missing and informal workers do not even form a part of any labour union. There is also a lack of awareness among informal workers regarding the governance and reporting structures to address any serious violation in compensation and/or working conditions, due to which concerns of this segment haven't reached far and wide.

### Is it also a broader 'S in the ESG' paradigm?

While compensation is at the core of the issue; it is not the only one. Distinctions are not limited to just compensation, but go far beyond with different office badges, different colored lanyards, and fewer benefits such as social security, mediclaim, healthy working conditions, etc. There have been cases where informal workers have worked for decades

with the same company, but the lines distinguishing full time and informal workers have not budged.

The informal workforce often constitutes a significant portion of local communities where the organisations are based. Fair compensation directly impacts community well-being, fostering stability and sustainability, which are key aspects of ESG. Including informal workers helps promote a sense of unity and builds a more cohesive society. Informed decisions made by NRCs, influenced by the perspectives of informal workers, can contribute to more sustainable and community-oriented corporate practices. This, in turn, can positively impact the environment, local economies, and overall community wellbeing.

Additionally, many organisations rely on informal labour in their supply chains. Fair compensation for these workers is crucial for maintaining the integrity and sustainability of supply chains, aligning with governance and ethical considerations in ESG.

## Is there a 'business case' for organisations to reassess their position?

While the issue is recognised by many companies and members of the board community; it can often be viewed as a 'social issue' rather than a 'business issue'. In a capitalistic economy set-up, organisations are answerable to its investors and have the primary responsibility of generating returns for them. In such a scenario; there might be a hard trade-off for companies while looking at issues such as these. In addition, many a times, informal workers are onboarded through 3rd party agencies which hold the primary responsibility for informal workers.

Nonetheless, recognising the invaluable contributions of informal workers is essential. They form the backbone of many companies and economies, playing crucial roles in sectors ranging from manufacturing to services. Churn/rotation of informal workers can create significant productivity gaps, considering the percentage of informal workers in the total workforce. There is no denying the fact that in the absence of informal workers, operations can be significantly impeded, and shareholder value impacted.

Moreover, the NRC's oversight extends beyond setting executive compensation. It influences the selection of board members, shapes company culture, and impacts overall organisational performance. By incorporating perspectives from informal workers, NRCs can gain insights into the ground-level realities, fostering a more holistic and inclusive decision-making process.

With the board's responsibility to protect and increase shareholder returns and organisational effectiveness, should the NRCs remit on compensation be expanded to include informal workforce in their ambit? There is no simple answer to this; it would largely depend on each company's philosophy and governing principles. Also, challenges may arise in their effective integration into NRC spheres. The absence of formal contracts or clear employer-employee relationships might pose logistical hurdles. Additionally, the diversity within informal work settings would require adaptable frameworks to ensure effective representation.



# Positive implications for the 'S' of ESG

The inclusion of informal workers within the ambit of NRC influence aligns with the principles of fairness, equity, and sustainable corporate governance. It acknowledges the intrinsic value of all contributors to an organisation's success and promotes a more comprehensive understanding of the diverse labour landscape. Such a move would also reflect positively on the company and show a progressive step towards fostering a more equitable and representation corporate environment. Some suggestive approaches to facilitate this integration could be:



Establishing liaison channels, such as dedicated representatives or advisory boards to bridge the gap between formal corporate structures and the informal workforce



Embracing digitalisation and technology can aid inclusivity efforts. Platforms or applications that enable anonymous feedback or participation in decision making process can empower informal workers to voice their opinions without fear of reprisal or exclusion



Aim for parity in pay to the extent possible and work towards removing subtle discriminatory practices and providing intangible benefits such as healthy working conditions, work-life balance, etc. Such small changes can make a big difference without adding any significant cost burden



Training and capacity building for informal workers can empower them and make them more full-time employment ready



Advocate policy reforms and legal frameworks that recognise the role of informal workers in governance structures



Community outreach and engagement initiatives.



# What questions can the NRC ask to assess the need for reviewing the fairness of remuneration across the organisation:



1. Does the organisation have a formal policy that deals with compensation (increments, variable pay) and benefits (including working conditions) for its informal workers? Do these policies promote fairness, equality, and diversity in compensation?
2. What are the mechanisms to review and audit the in-hand compensation and deductions across the compensation structures of informal workers?
3. If the informal workers are managed by a third-party, is there any oversight mechanism to review their compensation structures and pay-levels?
4. Are there any formal mechanisms for reviewing the compensation levels of the informal staff?
5. What pay anchors does the organisation use for reviewing the compensation of informal workers  
Are the increments fair and just?
6. Are there any programmes that aim to develop the skills of the informal workers to absorb them as 'full time' employees?
7. Does the organisation have any feedback mechanism to capture the engagement and experience of the contractual workforce with the compensation and benefits offered?

We would like to thank our NRC Council Members for their time on providing us with their valuable insights and perspectives that have contributed to building this point of view document.

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