Employment Conditions in Organised and Unorganised Retail: Implications for FDI Policy in India

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Key Words
Retail, Employment, FDI, Public Policy, International Policy

Abstract
In India, retail is the second largest employer after agriculture, providing employment to over 35 million people. Employment in this sector has witnessed changes after the 1990s with the modernisation of retail. Since retail is labour-intensive, the FDI policy on retail is linked with employment. This paper examines employment conditions in organised and unorganised retail and provides policy recommendations for the Indian government. The paper is based on a survey of around 500 retail employees and employers, using descriptive techniques. The paper found that the quality of employment and future job prospects are better in the organised sector than in the unorganised sector. The focus of the government should, therefore, be on generating quality employment. The policy recommendations, if implemented, can generate employment in the organised sector while minimising the adverse impact on the unorganised sector.

Introduction
Globally, retail is one of the largest employers; it provides employment to around 11 per cent of the workforce in the US and the UK. In India, retail is the second largest employer after agriculture, providing employment to over 35 million people (Economic Survey, 2011). However, the share of retail in total employment in India is only around 7 percent, primarily because a large part of retail is still in the traditional or unorganised sector where there is a high incidence of disguised unemployment.

Since the mid-1990s when the Indian economy was liberalised, there has been a shift in retail employment from the unorganised to the organised sector. The Indian retail sector mainly consists of small privately-owned single stores that largely depended on family labour. These are built on the model of entrepreneurship or sole proprietorship and provide self-employment. The need for hired labour is low and, because the labour laws do not apply to the unorganised sector, workers may be paid less than the minimum wage and have long working hours. With liberalisation, Indian corporates and foreign retailers started operating in the retail sector and modern retail evolved. Unlike the unorganised sector, the modern or organised retail has a corporate management with a transparent accounting system. Modern retailers have to abide by
the labour laws and employment conditions. The incidence of disguised unemployment is low. The working hours are fixed, so employees work on a rotation basis.

There are other differences between unorganised and organised retail. Unorganised retail generates a larger number of intermediaries in the supply chain (such as wholesalers), while organised retailers can reduce the need for multiple intermediaries by streamlining the supply chain. Further, organised retail generates more employment in allied activities, such as logistics, packaging and inventory. Retail modernisation has led to a change in employment in India, but its impact is not clear. Modernisation could lead to job losses in the unorganised sector if the small mom-and-pop stores cannot compete with corporate retailers; at the same time, it could generate more employment in each outlet as shop sizes increase and employees are used on a rotational basis. It is difficult to prove either argument without adequate data. For the organised sector, data are available; official sources show that the share of wholesale and retail trade in employment increased from 2.3 per cent in 1993-94 to 8.3 per cent in 2007-08 (NSSO, 2010). However, there is no official data for the unorganised sector, which constitutes around 95 per cent of the total retail sector (AT Kearney, 2010). Since the Indian economy is on a high growth trajectory, both organised and unorganised retail are growing with no evidence of job losses in the unorganised sector.

The impact of modernisation on employment depends on factors such as speed of modernisation, corporate and government policies, the competitiveness of small retailers, and consumer preference for the two types of outlets. Organised retail offers some advantages for employees. It follows labour laws and other regulations that offer greater job security. If, in addition, it offers higher pay, benefits such as bonuses, and better working conditions such as holidays, the quality of employment is likely to improve. However, the organised retail may require different skills than the unorganised sector, making it difficult for employees to switch from one sector to the other.

In India, retail is one of the few sectors that has restrictions on foreign direct investment (FDI). In fact, when the Indian economy was liberalising, the government banned foreign investments in retail in 1997, primarily to protect employment in the unorganised sector. Since then, the government has partially liberalised FDI in single-brand retail subject to certain conditions, but FDI is still not permitted in multi-brand retail. In July 2010 the government released a discussion paper on “Foreign Direct Investment in Multi-Brand Retail Trading” (DIPP (2010) for discussion on whether FDI should be allowed in multi-brand retail and, if so, what the conditions should be. One condition proposed was that jobs in the organised sector should be reserved for rural youth. While this proposal aimed to create employment for rural youth, it has been criticised since organised retail is largely located in urban areas of India and this may lead to rural-urban migration. The discussion paper failed to address issues of quality of employment, future job prospects and skill development in retail, all of which are crucial in a country that has a large working population.

This paper compares employment conditions and job prospects in the organised and unorganised sectors in India. The objectives of this study are (a) to evaluate the employment-generating potential of the organised and unorganised sectors, (b) to
compare the quality of employment in the two sectors, and (c) to evaluate future prospects of employees in organised and unorganised retail outlets. The findings of this paper may provide meaningful policy suggestions for the Indian government.

**Literature Review**

Hazra (1991) pointed out that the economic growth of countries has coincided with a shift in occupational structure from the informal to the formal sector, while UNCTAD (1994) has shown that FDI plays an important role in this shift. Jenkins (2006) pointed out that the impact of FDI on employment depends on the kind of investment and the nature of the sector where the investment is directed; if the investment is in labour-intensive sectors, employment generation by FDI is higher. The quality of employment is determined by the behaviour of individual firms with respect to wages, working conditions and training programmes; employment quality in the formal sector is better than in the informal sector. Papola (2006) has shown that unlike the organised sector, the unorganised sector is characterised by poor working conditions and lack of social security. He suggested that policies should promote organised sector employment.

Examining the employment impact of large retailers, Basker (2005) found that Wal-Mart creates approximately 100 jobs in a year, but by eliminating intermediaries there is a loss of around 40-60 jobs. Overall, the net employment effect is positive. The author also found that Wal-Mart employees work for fewer hours in a week, which creates opportunities for part-time employment. Reardon and Gulati (2008) have shown that employment in the organised retail sector has better pay and working conditions primarily due to the adherence to labour laws. They also found that the organised retail sector requires higher skills and education than the unorganised sector. They argue that the number of unorganised retailers may not decline with the growth of the organised sector.

Most studies on retail in India are either survey-based or perception-based. Survey-based studies like that of Mukherjee and Patel (2005) show that since both the unorganised and organised retail sectors are growing, there is no clear evidence of job losses in the unorganised sector. Joseph and Soundararajan (2009) found that the adverse effects of retail modernisation, if any, wear off with time. Perception-based studies (Guruswamy et al., 2005; Sarma, 2005; Singh, 2010) have shown that organised retail may have a negative impact on the unorganised sector because of malpractices due to buying power, employment loss in the value chain and price competition. This can be countered by slowing the pace of modernisation.

**Retail Employment Policy and FDI Policy in India**

Different authorities in India regulate retail employment. The country has a quasi-federal governance structure and employment is jointly regulated by the central and state governments. At the centre, it is regulated by the Ministry of Labour and Employment, but the state governments also have labour-specific regulations. The retail sector is under state government legislation and, therefore, retail employment comes under state jurisdiction. The Shops and Establishment Act of different states contains
laws on the working conditions for employees. Various Labour Acts of the central and state governments such as the Minimum Wages Act, 1948 and the Employees State Insurance Act are applicable, but only to employees in the organised retail sector.

India has a large population in the working age group (15-59 years) and the proportion of this group in the total population is likely to increase from approximately 58 per cent in 2001 to more than 64 per cent by 2021 (Ministry of Labour and Employment, 2010). Providing employment opportunities to this group has always been a key concern of the central and state governments, but recently employment quality has received significant attention. The Indian Ministry of Labour and Employment has laid down objectives to accelerate employment growth in the organised sector and improve the quality of jobs in the unorganised sector. According to the Ministry, quality of employment is determined by factors such as the level of job security, reasonable level of earnings and the living status of workers. The employment policy emphasises that there should not only be more jobs, but jobs that are decent and ensure minimum wages, safe working conditions and basic social security. This has particularly been highlighted in context of the retail sector. In addition, the retail sector policy has focused on the right to space and livelihood for very small, self-employed retail traders, like street-shop owners and vendors. Thus, the government policy has highlighted a need to balance quality employment creation in the organised retail sector with protection of employment in the unorganised sector.

The FDI policy in India is regulated by the Department of Industrial Policy and Promotion (DIPP), Ministry of Commerce and Industry, which comes under the central government. The employment potential of a sector, the need for investment, the latest technical know-how and global best management practices play a key role in determining the FDI policy. In the case of retail, in 2006 FDI up to 100 per cent was allowed in wholesale cash-and-carry subject to certain conditions to facilitate investment in the supply chain. FDI up to 100 per cent is allowed in franchising, since it creates opportunities for self-employment; in trading items sourced from small-scale sectors since they are labour-intensive; and in manufacturing, which can generate employment. In 2006, 51 per cent FDI was allowed in single-brand retail subject to certain conditions. This partial liberalisation was based on the assumption that brand retailers will not directly compete with small mom-and-pop stores who largely sell non-branded products. At present, FDI is not allowed in multi-brand retail primarily to protect employment in the unorganised sector.

**Research Design and Methodology**

To examine whether there has been a change in the quality of employment with retail modernisation, a pan-India survey of employees and their employers (the retailers) in the organised and unorganised retail sectors was conducted in 2009-10. The survey covered 10 Tier I, II and III cities. This classification of cities into tiers is based on the population of a city, as given in Mckinsey (2007). Tier I cities include Delhi, Mumbai, Kolkata, Chennai, Pune, Hyderabad and Bangalore, Tier II cities include Surat and Tier III cities include Bhubaneswar and Amritsar. Rural areas were excluded, as organised retail presence in rural areas is low.
Face-to-face interviews were conducted with a randomly selected sample using a semi-structured questionnaire. Separate questions were designed for employees and retailers. Completed questionnaires were collected from 121 unorganised retail employees, 79 organised retail employees, 254 unorganised retailers and 78 organised retailers. Though the size of the sample is small (532 respondents), it is a representative sample as it covers a number of cities where organised retail has a presence, retailers across different product categories, different retail formats and different levels of employees.

**Measurement Instrument**

The employee questionnaire focused on their demographic profile, educational qualifications, years of experience, and details of the job including working hours, holiday entitlement, incentives, and remuneration. To assess the quality of employment in the unorganised and organised sectors, the indicators set by the Ministry of Labour and Employment, namely, employee remuneration, working hours and holiday entitlements were used. Survey respondents were also asked if they had received training and if it had affected their performance and their short-term and long-term job prospects. Employees in the organised retail sector were asked about differences in the pay package in domestic and foreign organised retail outlets. Retailers were asked about their shop size, average number of employees, employee qualifications and wages, and their training and skill development programmes. Some questions were common across retailers and their employees to cross-check the findings. The unorganised retailers were asked about the impact of organised retailers on their business and their future prospects as well as whether they were considering working in the organised sector. Since the sample size was small, simple statistical tools and descriptive techniques were used to analyse the data.

**Date Analysis and Results**

The survey data was analysed to assess and compare the employment-generating potential, quality of employment, education and skill development opportunities and future prospects in the organised and unorganised sectors.

**Employment-Generating Potential**

The survey found that most of the unorganised retail outlets were small with only 23 per cent of the stores larger than 1,000 square metres (sq.m.) compared to 75 per cent of the stores in organised outlets. To assess employment-generating potential, employment density as measured by average floor space in square metres per person in an occupied building was calculated. This helps to assess if there is disguised unemployment or if new employment opportunities have been created in the retail outlet. The survey results indicate the presence of disguised unemployment in unorganised retail outlets. For smaller shop sizes per square metre, employment density is lower in unorganised outlets. This implies that each employee gets less space in an unorganised retail outlet. As shop size increases, employment density in organised retail
outlets is lower than in unorganised outlets, indicating higher employment creation in the organised sector (Table 1).

**TABLE 1: Employment Density in Organised and Unorganised Outlets (in sq. m.)**

<table>
<thead>
<tr>
<th>Shop Size</th>
<th>Organised Outlets</th>
<th>Unorganised Outlets</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 1000</td>
<td>111.4</td>
<td>94.8</td>
</tr>
<tr>
<td>1001-2000</td>
<td>221.86</td>
<td>183.19</td>
</tr>
<tr>
<td>2001-4000</td>
<td>129.12</td>
<td>218.71</td>
</tr>
<tr>
<td>Above 4001</td>
<td>503.88</td>
<td>666.66</td>
</tr>
</tbody>
</table>

Unorganised retail outlets are mostly handled by family labour with a few employees. As the shop size increases, the average number of family workers declines and the number of hired workers increases. However, the total number of hired workers is still lower in unorganised outlets than in organised outlets (Figures 1a and b). Organised retail outlets have both permanent and contract employees. As the shop size increases, the number of permanent and contract employees increases. Moreover, the average number of workers employed at each level is much higher than in unorganised retail outlets.

**FIGURES 1a and 1b: Average Number of Employees by Shop Size**

*Note: 1= <500 sq.m., 2=501-1000 sq.m., 3=1001-2000 sq.m., 4=2001-4000 sq.m., 5= > 4001 sq.m.*

**Quality of Employment**

The quality of employment was assessed both in terms of salary earned and physical working conditions. Average salaries, increments and incentives (like overtime payments and performance-linked bonuses) were compared for employees with similar designations, educational qualifications and years of experience. To assess physical working conditions, the percentage distribution of employees by their hours of work and holiday entitlements was calculated.

While organised retail outlets have a wide gradation of employees, which includes senior managers, junior managers, store-help and contract employees (security guards, liftmen, housekeepers, etc.), such gradations are not present in the unorganised sector. As a result, it is difficult to compare salaries in organised and unorganised outlets.
Usually, the shop-owner in an unorganised outlet doubles up as the manager and has helpers to assist him. Comparing managerial salaries in organised outlets with the owner’s salary in the unorganised sector does not reveal the true picture, because of the differing nature of their work and the reluctance of self-employed owners to reveal their actual earnings. Therefore, the salaries of store-help with similar education and qualifications in the unorganised and organised retail sectors have been compared in Figure 2.

**FIGURE 2. Average Salaries of Store-Help in Organised and Unorganised Outlets**

![Bar chart showing average salaries of store-help in organised and unorganised outlets.](chart.png)

Store-help with similar qualifications and experience get higher salaries in organised retail outlets than in unorganised retail outlets. The salary difference between the organised and unorganised sector employees is as high as 1/3rd the total salary of an employee in the unorganised sector. In addition, 70 per cent of organised sector employees pointed out that the package offered by foreign retail outlets is better than domestic organised retailers.

Increments in the organised retail outlets are linked to the performance of the employees, while in the unorganised retail outlets they are linked to employee’s years of experience. The survey found that organised retail outlets offer more opportunities to earn increments and incentives. Around 59 per cent of employees of the organised sector said that they received incentives compared to only 19 per cent in unorganised retail.

To assess the quality of employment, employees were asked about the average working hours in a week and holiday entitlement in a year. Weekly working hours were lower in organised retail outlets. While 69.2 per cent of unorganised sector employees claimed that on an average they work for 66 hours or more, only 29.4 per cent of organised sector employees did so. In fact, 7.69 per cent of unorganised sector employees worked for more than 72 hours a week, while none of the organised sector employees were made to work such long hours. In addition, 76.4 per cent of organised sector employees claimed that they could take more than 15 days of leave per year compared to 11.54 percent of unorganised sector employees.

**Education and Skill Development Opportunities**

It was found that employees in the unorganised sector have lower qualifications than those in the organised sector. Around 66 per cent of the unorganised sector
employees did not have a Bachelor’s degree and 20 per cent did not even finish 12 years of schooling. In the organised sector, 53 per cent of the employees had a Bachelor’s degree. In contrast, none of the employees in the organised sector had qualifications lower than higher secondary (after 12 years of schooling). Around 5 per cent of the employees in the organised sector had taken specialised courses in retail management. Across employees with the same designation, it was found that 67 per cent of the store-help in the organised sector had a Bachelor’s degree compared to 33 per cent in the unorganised sector.

Employees were asked about the training that they received at work; this is an indicator of whether there are skill development opportunities in their workplace. Around 59 per cent of employees in the organised sector received formal training, while around 96 per cent in the unorganised sector did not receive any formal training at work.

Retailers were asked if they offered any training to their employees. Sixty three per cent of the unorganised retailers did not impart any formal training, whereas 93.5 per cent of organised retailers provided formal training. In the unorganised retail outlets, employees are primarily trained on sales promotion techniques, dealing with customers and product information; the training is largely provided within the shop for a maximum of seven days before the employee formally joins work. Only retailers dealing in specialised products like electronics send their employees to the corporate office of the brand for training. Organised retailers, on the other hand, provided training on sales promotion techniques, customer handling, product information, store management techniques, operational management, visual merchandising, personality development and grooming, stock and inventory management, including verification of the stock and ordering process, and product storage techniques for perishable products. Moreover, most employees are formally trained by the head office of the company (brand) and some employees are sent abroad for training; this is an ongoing process. The survey found that all organised retailers who provided formal training were satisfied with the skills of their employees.

The employees in organised retail outlets were asked to rate their level of satisfaction on working in organised outlets along various parameters. The responses were analysed using a five-point rating scale, with 1, 2, 3, 4, and 5 representing ‘very low’, ‘low’, ‘average’, ‘high’ and ‘very high’ levels of satisfaction, respectively. The responses were ranked based on the percentage of respondents who rated the parameters as 4 or 5. The ranks are given in Table 2.
TABLE 2: Ranking of Factors Determining Working Conditions in Organised Retail Outlets

<table>
<thead>
<tr>
<th>Rank</th>
<th>Response</th>
<th>Respondents (in %)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Provides job skills training programmes</td>
<td>88.24</td>
</tr>
<tr>
<td>2</td>
<td>Enough growth opportunities</td>
<td>64.71</td>
</tr>
<tr>
<td>3</td>
<td>Overall satisfaction</td>
<td>64.71</td>
</tr>
<tr>
<td>4</td>
<td>Working conditions are good</td>
<td>52.94</td>
</tr>
<tr>
<td>5</td>
<td>Prospects do not get affected by any external shocks</td>
<td>47.06</td>
</tr>
<tr>
<td>6</td>
<td>Monitors employee satisfaction &amp; makes changes</td>
<td>41.18</td>
</tr>
<tr>
<td>7</td>
<td>Recognises hard work of the employees</td>
<td>17.65</td>
</tr>
</tbody>
</table>

The majority of the respondents gave a high rank to the training and skill development programmes in the organised retail outlets, followed by higher growth opportunities. However, they seem to have some concerns about job recognition which is usually reflected in performance-based bonuses, promotions, etc. One reason is that the survey was conducted during the global slowdown and retail business was impacted.

Future Job Prospects of Employees

Respondents were asked about their short-term job prospects in their retail outlet and long-term job prospects in the overall retail sector. The responses (Figures 3a and b) indicate that short-term job prospects are mostly good in the organised retail sector, while it is moderate in the unorganised sector. However, most unorganised retail sector employees found long-term employment prospects in the retail industry good. This is because the retail sector is growing and this is generating job opportunities, particularly in the organised retail sector. Sixty-five per cent of the unorganised sector employees pointed out that they would like to work in organised retail outlets. They felt that they are not threatened by the growth of organised outlets since it offers job opportunities.

FIGURES 3a and 3b: Percentage Distribution of Employees by Short- and Long-term Prospects
Although the majority of the unorganised sector employees are interested in moving to the organised sector, the transition from the unorganised to the organised sector is not smooth as shown in their responses in Table 3.

**TABLE 3: Responses of Unorganised Retail Employees on Prospects in Organised Sector**

<table>
<thead>
<tr>
<th>Categories</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes, I have tried but I did not get an opportunity</td>
<td>46.15</td>
</tr>
<tr>
<td>Yes, I tried and I got some opportunities</td>
<td>11.54</td>
</tr>
<tr>
<td>Yes, I tried and I got many opportunities</td>
<td>0.00</td>
</tr>
<tr>
<td>No, I did not try but I think there are opportunities</td>
<td>34.62</td>
</tr>
<tr>
<td>No, I did not try and do not know about the opportunities</td>
<td>7.69</td>
</tr>
</tbody>
</table>

This is primarily due to the difference in the skill requirements of the two sectors, which makes it difficult for an employee in the unorganised retail outlet to get absorbed in the organised sector.

The unorganised retailers were asked about the impact of organised retail on their business. The impact was assessed separately for those who did and did not have an organised retail outlet in their vicinity. Of the 254 unorganised retailers, 130 had organised retail outlets in the vicinity. Of these, around 40 per cent pointed out that they have been negatively affected by the presence of organised retail outlets due to increased competition, but 80 per cent of them also faced competition from other unorganised retailers. Some unorganised retailers pointed out that the impact of organised retail was positive as the number of customers in their location had increased, leading to an increase in business. They argued that loyal clientele and personalised services such as sale on credit have helped them face competition. Only 23 per cent have experienced a decline in their profits since 2007. Of the 124 unorganised retailers who did not have organised retail outlets in their vicinity, only one said that he was adversely affected by organised retailers. Of the 254 unorganised retailers, only 5 per cent said that shops were closing due to competition.

When the retailers were asked about their future prospects, around 43 per cent of the unorganised sector retailers were uncertain about their future prospects, compared to 15 per cent in the organised sector.
Discussion

The impact of FDI in retail is widely debated in India, primarily due to its likely adverse impact on employment in the unorganised sector. Given the large size of the unorganised retail sector in India and the lack of a formal data collection mechanism, it is difficult to quantify the impact of FDI and retail modernisation on employment. An equally important aspect of modernisation is its impact on quality of employment. By comparing employment in organised and unorganised retail outlets, the study found that the organised sector has higher potential for employment generation. The quality of employment is better in the organised sector as they have a corporate set-up and professional management, they follow labour laws and working hours and holidays and job responsibilities are clearly defined.

Globally, most people with a higher secondary diploma (after 12 years of schooling) get absorbed in the retail sector, but in India the level of education required in organised retail outlets is higher. The educational qualifications of employees in the unorganised sector are low as it does not require special skills. Hence, unskilled workers can easily be absorbed by this sector. However, in the long run this may not benefit the country, since there is limited scope for training and upgrading skills. Salaries in the unorganised sector are lower. This will adversely impact per capita income, purchasing power, poverty level and human capital development. Although most employees in the unorganised sector would like to work in the organised sector, the skill levels required by the unorganised and organised sectors are different, which makes it difficult for employees to transition from the unorganised to the organised sector.

Most unorganised retailers do not seem to be adversely affected by retail modernisation, while employees seem to have benefitted in terms of pay and quality of employment. This finding questions whether it is appropriate to link the retail FDI policy to loss of employment in the unorganised sector.

Policy Recommendations

Given that the quality of employment and future job prospects are better in the organised sector and there is strong willingness among employees to work in the organised sector, the Indian government is and should continue to focus on generating employment in the organised sector, while minimising the adverse impact on the unorganised sector. Instead of banning FDI in multi-brand retail, the government can allow FDI in multi-brand retail in a phased manner, starting with 49 per cent. This will create more employment in the organised sector in line with the government objectives and will give time to the unorganised sector to adjust to the changes and upgrade their skills. Since the survey found that foreign retailers offer higher salaries, overall salaries in the retail sector are likely to improve.

As retail modernises, there is likely to be labour demand in the modern retail sector. To enable the unskilled workers to get employment in the organised sector, the government can focus on specific training programmes in collaboration with organised retailers on a public-private partnership model. The government can also work with management and labour institutes to design appropriate academic courses and training programmes to facilitate skill development in retail. The government can initiate labour
and other reforms that will enable organised retailers to employ workers on a rotation basis. This will help to generate more employment.

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