

Employers' Perspectives on Underemployment

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About the research

Underemployment—which includes situations of labour underutilisation in terms of **hours**, **pay**, and/or **skills**—has negative consequences in terms of job satisfaction and productivity, health and wellbeing, and finances. Labour underutilisation (or underemployment) has been increasing in the labour market since 2008 (Torres et al., 2023). While the rise of insecure work and in-work poverty in the UK has attracted merited attention, the broader phenomenon of underemployment (that encompass time-, wage-, or skills-underemployment) has received less consideration despite its growth and impact.

This brief presents findings from interviews with nineteen employers, representatives from three employer federations and one trade union. Participating employers consist mainly of private firms operating in the hospitality, retail and wholesale, and health and social care sectors, with an even split of micro, small and large companies, and a minority of medium size firms.



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Policy Context

The UK has seen rising levels of in-work poverty, insecure work, and underemployment in recent years. The Labour government are faced with a low growth economy, with unemployment and economic inactivity levels above pre-pandemic levels, amid an ongoing cost of living crisis and rising global instability.

The Labour government promised to improve productivity and economic growth. As part of their reform agenda they have introduced the [Employment Rights Bill](#) and [Get Britain Working White Paper](#), which set out a series of measures to reach an 80% employment rate. Tackling underemployment provides opportunities for employers and policymakers to utilise the UK workforce effectively and help address labour market marginalisation.

Employer recommendations

1. Appraise workforce's skills and qualifications to utilise and harness workers' talents, via redeployment, progression, training, or new opportunities.
2. Ensure that fairly calculated average hours are reflected in employees' contracts, to increase workforce sustainability and satisfaction.
3. Address the narrowing gap in wages between the lowest paid and supervisory level and ensure there are adequate opportunities for sustainable and meaningful career progression.
4. Enhance growth, sustainability, and productivity by exploring alternative business models.

Policy recommendations

1. Embrace the multi-dimensional nature of underemployment, understanding the interrelation between working hours, pay and skill and collecting adequate data to help tackle underemployment.
2. Understand the effects of and solutions to skills' underutilisation in the workplace and the economy, exploring for instance sustainable progression paths and adequate remuneration.
3. Prioritise average and/or living hours instead of minimum hours to better reflect the average hours that employees do and to ensure sufficiency for employees.
4. Ensure that the minimum wage is set adequately.
5. Address structural factors - such as childcare, health, transport, and social security rules - that foster underemployment.

In short:

- Underemployment is a multi-dimensional phenomenon.
- Business models are central to the presence or absence of underemployment.
- Comprehensive policy solutions are needed to tackle underemployment.

Key findings

Underemployment was an important issue to different degrees and levels, depending on the underemployment dimension, for our participants. Our findings here focus on our interviews with employers, employer federation and trade union representatives. We also draw on findings from the wider Underemployment Project, which includes analysis of the Labour Force Survey (LFS) and qualitative longitudinal research with 60 underemployed workers.

Underemployment Dimensions

Role-dependent remuneration systems were common in the participant firms. Most firms' remuneration included wages above and below the real living wage (or **wage underemployment**), with only five employers paying the real living wage (RLW) to all employees. Due to wages and other operating costs increases, firms had to either increase prices for consumers or reduce their wage bill. Our findings revealed challenges for employers paying the RLW: some firms did so in the past but were unable to sustain it, while some current RLW employers said they would not be able to sustain it going forward. Increases in lower salaries due to legislations meant that if higher salaries were not increased, the wage gap between roles reduced. Employer federations said that small businesses found difficult to cope with minimum wage and national insurance increases, while other firms had a choice on the wage they offered. Some firms and the trade union reported a positive effect of paying RLW on staff turnover compared to the average in the sector. Our research with wage underemployed workers showed that they struggled to save or afford basic essential for themselves or their families (Fuertes et al., 2024).

Most business models (i.e., firms' strategic plans) of the firms we spoke to, included part-time jobs. Six employers used zero hours or very low minimum hours contracts, although management positions were often full-time. Only a few of the firms offered mostly full-time contracts. Most firms did not consider **time underemployment** an issue as they stated it provided flexibility for employees and businesses which can offer more hours when needed. The employer view was very much that employees liked flexibility due to their circumstances (e.g. students, freelance, or females over 50 years old). Nevertheless, our research shows that around 30% of workers in the UK were working part-time involuntarily in 2022. The time underemployed workers we spoke to faced many barriers to working more hours, including the availability and quality of hours on offer from their employers, with some employees having to work multiple jobs to make ends meet. Both employer federations and some underemployed workers mentioned that employers have little understanding of how earnings impact benefit entitlement and support, which can create financial cliff edges for workers when hours fluctuate or increase. Employer federations highlighted the difficulty to firms of responding to seasonal or short-term increases in demand, with one saying than non-guaranteed hours' contracts are more common in hospitality. As [guaranteed hours](#) could also be exploitative, respondents suggested two-way flexibility with an empowerment of workers and contracts reflecting the hours normally worked.

Few of the employers saw **skills underemployment** as a problem for their organizations. However, many of them experienced skills underemployment and had to recruit students and/or highly qualified workers due to recruitment challenges and the visa system. This echos our other findings that show the number of overqualified workers in the UK more than doubled from 2006 to 2022 (1.5 million to over 3.7 million, see Torres et al., 2023). Skills underemployment impacts people's mental health and confidence and made them feel frustrated in their current job (Fuertes et al., 2024). Employer federations located the problem of skills shortages in skills mismatches, especially among the increasing number of graduates for whom there are insufficient graduate jobs. Over-qualified workers are more likely to leave their jobs leading to high turnover rates and costs for firms.

Challenges

Many firms experienced similar challenges. For instance, **recruitment and retention** were common themes. Recruitment difficulties occurred as a result of the content (e.g. stressful or boring) and conditions (e.g. low pay) of jobs. Potential workers found barriers to secure adequate transportation and/or childcare. Some perceived the jobs negatively due to a lack of career or pay progression. Employers also noted that Brexit and Covid were added complications to recruitment challenges. Retention was less of an issue and was focused on specific roles. Many employers highlighted increases in their operating costs due to legislation changes, inflation, and the cost of living (specially energy cost and insurance), and stressed the decline in consumer spending. A few of them raised serious concerns about the long-term viability of their business.

Good Practice

The trade union representatives and some of the employers reported a positive effect of paying the RLW on staff turnover. However, they noted unintended consequences of increasing lower wages or the minimum wage if other salaries within the firm are not raised, since the wage gaps between roles would reduce and this may discourage career progression to e.g. management roles.

A couple of employers were considering skills underemployment as a disadvantaged to the firm and were thinking how to benefit from their workforce untapped talents by opening up career opportunities.

Conclusion

Employers, employer federation and trade union perspectives on underemployment vary considerably. For some employers, mainly smaller firms, time and to some extent wage underemployment is part of a business strategy that allows them to survive or/and make a profit within the complex constraints of the current economy. Other firms, especially larger ones, might have a broader range of business models available that can provide alternatives to underemployment practices. By tackling underemployment, UK employers and policy makers can utilise workers skills and experience more fully. Our research shows this is beneficial for both workers and employers.

Further information

This brief is part of a three-year mixed method ESRC research project on underemployment (grant ES/X000184/1) titled 'The underemployment project: a sociological investigation of underemployment and the lived experiences of underemployed workers. Other reports and news items can be found on the project website:

<https://underemployment.info/>

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