



IoD POLICY PAPER

The Employment Rights Act: insights from employers

Five months after Royal Assent, how do business leaders view the Employment Rights Act?



Introduction

Passed into law in December 2025, the Employment Rights Act (ERA) represents the biggest shake-up of employment law in Great Britain in at least 30 years.

Business groups, including the Institute of Directors, consistently raised concerns about the potential negative impacts of the reforms as the Bill passed through Parliament.

While changes to policies relating to unfair dismissal, dismissal and re-engagement, and collective redundancy consultation thresholds have been made following employer feedback, they have not been sufficient to significantly shift the dial on employer concern regarding the reforms.

As the Act's provisions start to come into force, we have conducted new research to explore how employers' views on the ERA have evolved, as well as how their organisations are altering their approaches to people management in response.



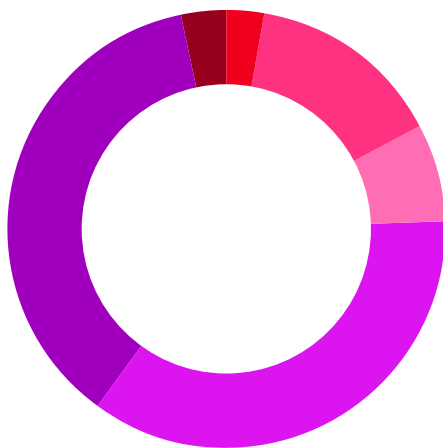
What impact do business leaders think the ERA will have on economic growth?

In May 2025, we surveyed members on their views on the impact that the Employment Rights Bill would have on the UK economy and found that 72% of business leaders believed the Bill would be bad for economic growth.

In February 2026, we repeated the question to understand how members' views have evolved since the Bill became law and more details of the reforms have been finalised. The survey found that sentiment has markedly worsened, with 86% of business leaders believing that the ERA will have a negative impact on UK economic growth — an increase of 14 pp since May 2025. Within that, the proportion of respondents who believe that it will have a strong negative economic impact increased from 37% to 51%.

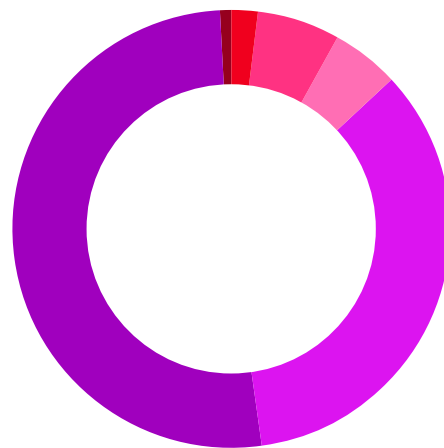
What impact, if any, do you believe the Employment Rights Act would have on UK economic growth?

IoD Policy Voice results, May 2025 (483 responses)



Response	%
Strong positive impact	3
Somewhat positive impact	15
No impact	7
Somewhat negative impact	36
Strong negative impact	37
Don't know	3

IoD Policy Voice results, February 2026 (545 responses)



Response	%
Strong positive impact	2
Somewhat positive impact	6
No impact	5
Somewhat negative impact	35
Strong negative impact	51
Don't know	1

Why are employers so pessimistic about these reforms?

While certain areas of the ERA are of particular concern to employers — such as those relating to trade unions, unfair dismissal, and low hours contracts — the core reason employer sentiment regarding the ERA is so poor is the scale and pace of change entailed.

First, while the government is spreading implementation over the course of 2026 and 2027, that window is relatively small for the implementation of dozens of different policies, many of which involve significant additional administrative and direct financial costs as well as strategic consideration of their implications for people management.

When the government published the first iteration of the implementation timelines in July 2025, it was widely assumed that the then-Bill would complete its parliamentary passage by the end of summer 2025. In reality, the Bill received Royal Assent in December 2025. The updated implementation timeline, published in February 2026, confirmed only minor adjustments to implementation dates, meaning that the time available for employers to prepare for the changes has been significantly compressed.

Secondly, the time which employers have to effectively prepare for implementation is being further eroded by the fact that much of the detail of the policies is as yet unconfirmed. For example, while employers know that they will be required to offer workers on low hours contracts guaranteed hours contracts from 2027, neither the definition of “low hours” nor the reference period are yet known.

Thirdly, a crucial aspect of the reforms is not only their scale — the ERA contains dozens of separate policies, representing a colossal shift in employment relations within a short timeframe — but how they are interacting with wider employment reforms, namely the 2025 hike to employers’ National Insurance, several consecutive years of above-inflation increases to the minimum wage, and the policies contained in the wider Make Work Pay package. The decline in employers’ hiring intentions over the past 18 months cannot be solely attributed to one factor; they are the result of a perfect storm of employment policies which have combined to significantly weaken the business case for hiring.

Finally, these results reflect the reality that these reforms will be particularly damaging for SMEs, who constitute the majority of IoD members. The government’s own impact assessment recognises that the cost of implementing the ERA will fall disproportionately on SMEs.¹ Many SMEs do not have in-house HR functions, which reduces their capacity to prepare for, and adapt to, employment law changes of this magnitude. The perception of risk in relation to hiring is also more negatively impacted at SMEs by employment law changes of this nature; they are less likely to be able to absorb the cost of challenging employment relations, such as struggling to dismiss an underperforming employee, dealing with tribunal costs, or higher Statutory Sick Pay costs. Increasing the cost and risk of employing staff is therefore disproportionately likely to reduce employment at SMEs.



[The Employment Rights Act] is an unnecessary burden on SMEs, especially those that are too small to justify having an HR department.
10-49 employees, Manufacturing, London

It will have a particularly negative impact on small businesses — who cannot absorb/accommodate (and will be scared by the risks created by) the changes... It will kill growth (risks of taking on more people outweigh risks of not doing so), [and] remove good, flexible work practices.
10-49 employees, Education, East Midlands

There is very little support available for small and medium businesses about how to implement this effectively, as well as what impact it will have on them... these changes will have a bigger impact on small and medium businesses as, financially, they do not have as much ‘wiggle room’ as larger businesses.

¹ UK Government, (2026). Employment Rights Act 2025: Economic Analysis, January 2026. Available at <https://assets.publishing.service.gov.uk/media/695d3ebfbd1c076f787e7399/employment-rights-act-2025-economic-analysis.pdf>, accessed 24/03/2026.

Businesses are by their nature resilient and agile. They have successfully absorbed the implementation of a series of employment law changes in recent years. Furthermore, there are areas of employment relations — such as fire and rehire and zero hours contract — where IoD research has identified employer support for reform.² Gradual reform based on meaningful stakeholder engagement is workable. An avalanche of reforms, developed without adequate time for proper consultation and with insufficient time for businesses to prepare, erodes business confidence in hiring.



2 Hall-Chen. A. (2024). *Labour's Plan to make Work Pay: insights from employers*. London: Institute of Directors.

How businesses are responding



In addition to views on the Act's likely impact on economic growth, our research sought to understand the impact that the ERA is having on business leaders' people management plans, specifically on the likelihood of their organisation hiring new staff, making redundancies, investing in automation, and outsourcing. As with the survey question on economic growth, we asked the same question in May 2025 and February 2026 in order to understand whether their planned responses had changed as the Act's measures started to come into effect.

Negative changes were observed in all four categories, although not to equal degrees. The results showed a 4pp increase in the percentage of business leaders reporting being more likely to invest in automation (53% vs 57%) and a 4pp increase in the percentage reporting being more likely to outsource roles or operations (36% vs 40%). Meanwhile, the 'making redundancies' category saw a 9pp increase (23% vs 31%). The biggest increase, however, was in the proportion of members stating they are less likely to hire new staff, which jumped from 49% to 63%.

What impact, if any, would these reforms have on your organisation's approach to the following:

● May 2025 ● February 2026

	More likely		No impact		Less likely		Don't know	
Hiring new staff	6%	7%	42%	27%	49%	63%	3%	2%
Investing in automation	53%	57%	39%	35%	2%	4%	6%	4%
Making redundancies	23%	31%	66%	58%	4%	4%	7%	7%
Outsourcing roles/operations in other countries	36%	40%	52%	47%	4%	5%	9%	8%

Impact on hiring new staff

The biggest change in the four employee management behaviours surveyed was the hiring of new staff, with our February 2026 research finding that two thirds (64%) of directors were less likely to hire new staff as a direct result of the ERA.

In the qualitative feedback, several business leaders described rolling back hiring plans:



As we were aware of these proposals, we have already stopped hiring in the UK unless to replace critical staff. After 18 years of supporting apprentices we have also decided to give that a break for a couple of years, we find young staff are not ready for work and we already have to provide more support to them, the new laws mean we don't want to take the risks we used to.

100-249 employees, Information and communication, South East England

We were on an employment drive, but the reforms have halted that and we are looking at alternative options that do not require the need to employ people directly.

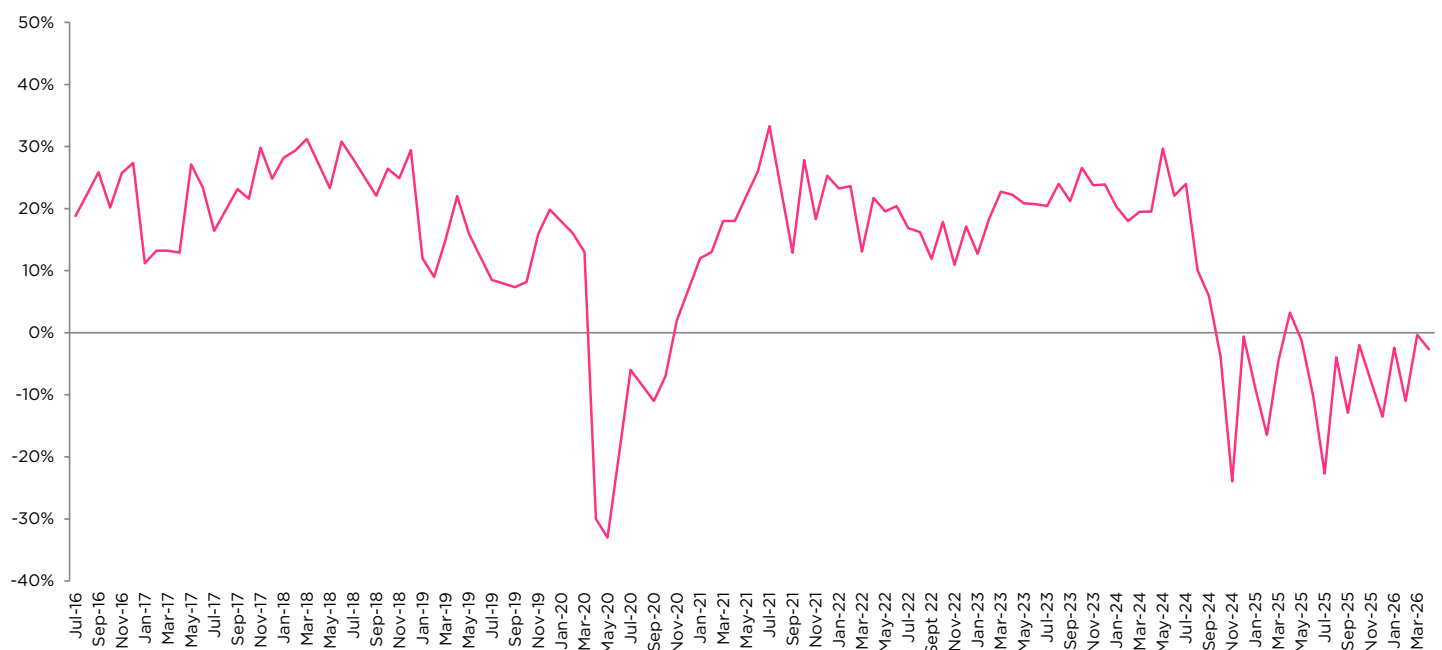
10-49 employees, Professional, scientific and technical activities, South East England

We've removed adverts from websites for roles and are reconsidering all hiring decisions.

250+ employees, Transportation and storage, London

This trend is further borne out in separate monthly data which the IoD has collected since 2016 on business leaders' headcount expectations over the next 12 months (Figure 5). Between November 2020 and September 2024 more directors reported planning to expand headcount than planning to contract it, but for the past year and a half the result has been in negative or neutral territory for all but one month. This trend is the result of multiple factors — last year's employers' National Insurance contribution hike, above-inflation National Living Wage increases, and historically low levels of business confidence — but the ERA is a significant contributing factor.

Comparing the next 12 month with the last 12 months, what do you believe the outlook for your organisation will be in terms of headcount:



Beyond a general reduced likelihood of hiring new staff, the research found evidence of changes in the types of candidates that employers intend to hire, as well as the process by which they recruit staff:



The reduction from two years to six months for unfair dismissal protection could make us more cautious about employing people who have little track record as employees.

50-99 employees, Accommodation and food services, London

While the Act will not change our recruiting plans, our interview process will be more cautious.

50-99 employees, Professional, scientific and technical activities, South West England

This feedback suggests that where employers do hire, many will do so more conservatively. Businesses are naturally sensitive to risk; by significantly increasing the risks associated with a 'bad hire', the ERA has incentivised employers to not only recruit far more carefully but to avoid hiring candidates without proven track records. Such a reduction in employer willingness to take risks when hiring will have a particularly negative impact on people on the fringes of the labour market, such as young people with no work experience and candidates with gaps in their CVs.

Impact on redundancies

Our latest research found that the ERA has made 31% of business leaders more likely to make redundancies, up 8pp since May 2025. Those who reported already seeing this trend take place linked it to a need for businesses to reduce costs and increase efficiency:



Many of our clients are making people redundant to reduce costs.

2-9 employees, Professional, scientific and technical activities, East of England

We are managing levels of redundancy and restructuring of our clients' resources not seen since the crash 07/08.

10-49 employees, Professional, scientific and technical activities, East of England

On the whole, though, the research suggests that mass redundancies are not a likely impact of the ERA. Businesses are more likely to respond by not replacing existing staff, curbing growth plans, and shifting expansion plans to other jurisdictions.



Likelihood of investing in automation

Increased likelihood of investing in automation as a result of the ERA was the second most commonly cited response in both surveys (57% in February 2026 and 53% in May 2025). In most cases, this response goes hand-in-hand with abandoning hiring plans; members frequently reported looking to automate where they previously would have hired new staff:



We are hiring less and less due to increasing burden of UK staffing cost and productivity. Automation and the integration of AI becomes a must do rather than an optional benefit.

50-99 employees, Administrative and support services, North West England

We have signed a contract to invest more in automation to remove heads if possible, which given its expense we probably wouldn't have done without this Act.

250+ employees, Transportation and storage, London

This new round of legislation has prompted me to automate more of my service and I have decided that when people leave, I will aim to replace them with AI where possible.

10-49 employees, Health and social work, North West England

All the recent new employment laws will deter us from hiring, we are taking every opportunity to automate.

2-9 employees, Information and communication, East of England

The correlation between increased labour costs and automation is not a new one, but the relationship is of particular interest at present given that the current sharp increases in labour costs is occurring simultaneously with the proliferation of AI in the workplace.

While this trend will undoubtedly have a negative impact on job creation and employment levels, the silver lining may be that investment in automation could improve productivity, which has flatlined in the UK since the 2008 financial crisis.

Likelihood of outsourcing

For employers looking to grow, or even maintain, headcount while reducing their exposure to the increasing costs and risks associated with the UK labour market, outsourcing — existing and/or new roles — is an increasingly attractive proposition. Our March 2026 survey found that four in ten business leaders are more likely to outsource roles/operations to other countries in response to the ERA, up 4pp since May 2025.



Our business is now entering the commercialisation phase; and the implications of a return to the 1970s is now increasingly influencing our thinking and quite frankly we will deliberately limit the numbers of new employees, outsource more aggressively (relatively agnostic of supply country - cost & efficiency of service is more important).

2-9 employees, Other services, South East England

I have stopped hiring apprentices and graduates. I am now outsourcing abroad — 33% of my staff are now employed like this.

50-99 employees, Information and communication, London

We have accelerated the movement of roles overseas as a result [of the ERA].

50-99 employees, Wholesale and retail trade, Yorkshire and the Humber

As with investment in automation, outsourcing roles to jurisdictions with lower labour costs is not a new phenomenon. These results suggest, however, that the ERA is accelerating that process.

What can government do to reverse these trends?

All four employer responses to the ERA explored in this research — less hiring, more redundancies, automation and outsourcing — are ones which will reduce employment opportunities and damage UK economic growth.

The reality is that, short of repealing the ERA, there is no course of government action which can wholly undo the damage done to employer confidence in hiring. That being said, government has a significant opportunity via secondary legislation to mitigate the negative impacts of the ERA. Indeed, its move in December to introduce additional protections against unfair dismissal at six months, rather than day one, of employment represented a promising first step towards a more workable set of reforms.

However, its response to its consultation on trade union access provisions in March 2026 showed little evidence of having taken regard of businesses' legitimate concerns. In particular, setting the employer size threshold at only 21 employees, enabling weekly access to workplaces, and requiring only two working days' notice for union visits cumulatively represent an approach which will cost employers dearly in terms of additional bureaucracy and staff time.

If the government is serious about achieving its aims of highest sustained economic growth in the G7 and an 80% employment rate, it must change course on its implementation of the Employment Rights Act. By taking on board business feedback and adopting a more sensible approach to these reforms, government can go some way to restoring business confidence in hiring.



Specifically, we are calling on government to:

- Exempt employers with fewer than 250 employees from trade union access provisions.
- Increase the planned reference period for the entitlement to guaranteed hours to 52 weeks and set the low hours threshold at eight hours.
- Reintroduce the Statutory Sick Pay rebate for SMEs.
- Adjust the implementation timeline to give employers more time to prepare for the most complex reforms, including introducing additional protections against unfair dismissal and trade union access to workplaces.





About the author:

Alex Hall-Chen

Principal Policy Advisor for Employment and Skills, IoD

Our Royal Charter sets out a clear purpose. We have a clear vision — The Institute of Directors is the professional institute for responsible directors and leaders.

Our mission is to develop, support and represent skilled, knowledgeable and responsible leaders for the benefit of the economy and society at large. Integrity and Enterprise are our core values.

The objects of the Institute are:

To promote for the public benefit high levels of skill, knowledge, professional competence and integrity on the part of directors, and equivalent office holders however described, of companies and other organisations.

To promote the study, research and development of the law and practice of Corporate Governance, and to publish, disseminate or otherwise make available the useful results of such study or research.

To represent the interests of members and of the business community to government and in the public arena, and to encourage and foster a climate favourable to entrepreneurial activity and wealth creation.

To advance the interests of members of the Institute, and to provide facilities, services and benefits for them.

The IoD is an accredited Good Business Charter organisation.

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