



Inspiring business

Business, Energy and Industrial Strategy Committee  
House of Commons  
London  
SW1A 0AA

10<sup>th</sup> April 2018

### ***Call for evidence: Gender pay gap***

Thank you for the opportunity to participate in this call for evidence concerning gender pay gap. The below response seeks to identify some of the underlying problems that result in the pay gap between men and women and issues with the current form of gender pay gap reporting. It also outlines recommendations for the Government.

### ***About the IoD***

*The IoD was founded in 1903 and obtained a Royal Charter in 1906. It is an independent, non-party political organisation of approximately 33,000 individual members. Its aim is to serve, support, represent and set standards for directors to enable them to fulfil their leadership responsibilities in creating wealth for the benefit of business and society as a whole. The membership is drawn from right across the business spectrum. 49% of FTSE 100 companies and 45% of FTSE 350 companies have IoD members on their boards, but the majority of members, some 70%, comprise directors of small and medium-sized enterprises (SMEs), ranging from long-established businesses to start-up companies. IoD members' organisations are entrepreneurial and growth-orientated, and more than half (61%) export goods and services internationally.*

### **Gender pay gap reporting**

Insofar as awareness of the gender pay gap is increased, gender pay gap reporting will hopefully go some way towards incentivising employers to investigate any gender pay gaps in their firms and rectify them. However, issues around relatively lower female participation in some sectors, differences in attainment between age groups, and lifestyle choices cannot be tackled solely by employers. Some of these issues will only be addressed via wider social and cultural change. It is also important that all stakeholders make clear the difference between the gender pay gap and pay discrimination.

The gender pay gap and equal pay are two different, and important, issues. Understanding this difference will help us to concentrate our efforts on tackling deeper factors which may drive the gender pay gap.

**The gender pay gap** shows the difference in the average pay between all men and women in a workforce at a point in time, regardless of their position or the nature of their work.



**Equal pay** deals with the pay differences between men and women who carry out the same jobs, similar jobs or work of equal value.

It is against the law to pay people unequally on the basis of gender and has been illegal for almost 50 years. While we must continue to prevent pay discrimination and enforce the law in that regard, gender pay reporting should be used as an opportunity to draw attention to the systemic and societal barriers blocking women reaching the same average pay level as men.

In that context, it is vital that firms' gender pay gap reports are considered and understood in as much detail as possible. Top line figures may present an overall picture but, on their own, they may also end up disguising key details such as the issues highlighted later in this response. These details will be important in allowing firms to address any differences in gender pay in a targeted and effective way.

Britain has made great strides in tackling the gender pay gap in recent decades<sup>1</sup> and has one of the lowest 'explained'<sup>2</sup> gender pay gaps<sup>3</sup> in the world. But achieving the final eradication of the last, stubborn, remnants of the gender pay gap will require a multi-pronged approach from government, employers, the education sector, and society more broadly. The government should factor these complexities into policy.

Prior to the introduction of compulsory reporting, the IoD suggested that Government should be aware of some of the associated consequences for specific businesses. While reporting will sharpen companies' focus on actions they can take, it also may, by implication, scapegoat employers for gender disparities which stem from wider societal issues over which they have little to no control.

### **Wider context: women in the workplace**

Significant progress has recently been made towards increasing the number of women on company boards in the UK. Women now account for about a quarter of board directors (27.7%) in the FTSE 100, compared with just 12.5% in 2011. In the FTSE 350, there remain only 8 All-Male Boards, which is a notable reduction from 152 in 2011<sup>4</sup>. There is still further to go of course, but there should also now be more of a focus on the executive level, where the important operational and strategic decisions are made.

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<sup>1</sup> "Organisation for Economic Co-operation and Development: Gender wage gap," Date accessed 15th August 2015, <http://www.oecd.org/gender/data/genderwagegap.htm>.

<sup>2</sup> An 'explained' gender pay gap is a pay gap which is accounted for by observable characteristics (for example, an individual's level of education) that, by consequence, influence remuneration levels.

<sup>3</sup> "International Labour Organisation: Gender pay gap widens for higher-earning women," Date accessed 15th August 2015, [http://www.ilo.org/global/about-the-ilo/newsroom/news/WCMS\\_324651/lang--en/index.htm](http://www.ilo.org/global/about-the-ilo/newsroom/news/WCMS_324651/lang--en/index.htm).

<sup>4</sup> Sir Philip Hampton and Dame Helen Alexander, Hampton-Alexander Review: FTSE Women Leaders – Improving gender balance in FTSE leadership, November 2017: [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/658126/Hampton\\_Alexander\\_Review\\_report\\_FINAL\\_8.11.17.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/658126/Hampton_Alexander_Review_report_FINAL_8.11.17.pdf)

Overall the conditions for women in work are steadily improving. According to the Office for National Statistics, the female employment rate is at a record high of 70.9%, while female economic inactivity has also fallen to a record low. The gender pay gap is now at its lowest level (9.1%) since records began. For full-time workers under the age of 40, the gap has almost disappeared and, as the Fawcett Society points out, in some cases has even reversed with women now earning 2.5% more on average than men<sup>5</sup>.

Yet not all companies are making progress in promoting women to higher positions. Women remain under-represented at executive level. 68 out of the FTSE 100 boards have under a third female members.<sup>6</sup> There remains work to do to achieve gender parity right the way up to board level.

### Barriers to the board

In considering the issue of how to get more women into executive positions, we need to understand why the generally positive trend in improving the circumstances of women in work isn't being sufficiently translated at the executive level at some of the UK's biggest companies. The underlying issues explaining the relative shortage of female directors can be divided into three categories:

- **Occupational Segregation:** The first factor explaining the executive gender gap is occupational segregation, that is, the higher concentration of female employees in low wage sectors. 84% of those working as care workers and home carers - a low-pay sector - are women. By contrast, 75% of those working as actuaries, economists and statisticians - higher paid occupations - are men<sup>7</sup>. Occupational segregation is, in part, a result of cultural norms whereby more women than men seek work in certain sectors and vice versa. This form of occupational segregation could prove to be a persistent obstacle to future reductions to the gender pay gap unless concerted efforts are made to challenge cultural norms and encourage more men and women to enter jobs which are outside conventional gender roles. However, increasing numbers of female graduates and more stay-at-home fathers, mean that women born after 1985 are seeing the balance begin to shift. For a start, overall numbers

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<sup>5</sup> Office for National Statistics, UK Labour Market, February 2018:

<https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/uklabourmarket/february2018#unemployment> ; Office for National Statistics, Understanding the Gender Pay Gap in the UK, January 2018:

<https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/articles/understandingthegenderpaygapintheuk/2018-01-17>

<sup>6</sup> Sir Philip Hampton and Dame Helen Alexander, Hampton-Alexander Review: FTSE Women Leaders – Improving gender balance in FTSE leadership, November 2017:

[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/658126/Hampton\\_Alexander\\_Review\\_report\\_FINAL\\_8.11.17.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/658126/Hampton_Alexander_Review_report_FINAL_8.11.17.pdf)

<sup>7</sup> Office for National Statistics, Annual Survey of Hours and Earnings, 2016:

<https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/bulletins/annualsurveyofhoursandearnings/2017provisionaland2016revisedresults>

are rising. Currently, 73.2% of all women aged 16 to 59 are in employment, compared to 65.3% 25 years ago, that's almost an 8 percentage point increase<sup>8</sup>. At the same time, traditionally male-dominated industrial sectors are declining. In addition, we have seen the rise of a knowledge-based economy that is more gender-blind.

- **The Generational lag effect:** A second element is a generational lag effect. Historically women were less likely to receive a university education. This is no longer the case and young women are now more likely than men to go to university. Nevertheless, for these historical reasons, older women in the workforce are less likely to have the same level of university education as men of the same age. This consequently means they are more likely to have attained lower earnings and in-work progression relative to their male peers. Thankfully, younger women today are just as likely to be educated as their male counterparts – if not more so. Indeed, the latest figures from the university admissions service Ucas show that 18 year old women are over a third more likely to apply and enter higher education than 18 year old men.<sup>9</sup> This turnaround could mean the generational lag effect will disappear (and may even reverse) over time as more university educated women progress through their working lives.
- **The 'Motherhood penalty':** A third factor is the phenomenon which has become known as the 'motherhood penalty'. Due to childcare responsibilities, women are far more likely to take time off work and to work in part-time rather than full-time jobs. Career gaps can lead to skill atrophy and lost opportunities which may lead to women being less likely to attain promotions. Similarly, part-time work is typically lower-skill and lower paid than full-time work and typically offers fewer opportunities for in-work progression. The result is that women comprise a disproportionate amount of lower quality jobs in the labour force and find it harder to reach the top of the careers ladder. Motherhood and childcare priorities may therefore mean women take up fewer senior roles if and when they return to the workplace.

## Wider considerations for Government in addressing gender disparities at work

### 1. Reform parental leave

Successive governments have focussed on sharing the allocation of parental leave to encourage men to take up more childcare opportunities and there have been some positive developments. Today,

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<sup>8</sup> Office for National Statistics, Labour Force Survey Summary, Table A03, February 2018: <https://www.ons.gov.uk/releases/uklabourmarketstatisticsjan2018>

<sup>9</sup> Ucas, End of cycle report, December 2017: <https://www.ucas.com/corporate/data-and-analysis/ucas-undergraduate-releases/ucas-undergraduate-analysis-reports/ucas-undergraduate-end-cycle-reports>

roughly 1 in 3 working mothers are the primary breadwinner in a couple family.<sup>10</sup> The total has shot up by 80% over the last two decades and there are a growing number of dual earner couples where the woman's salary now outstrips the man's. ONS figures show the number of economically inactive women looking after their family or home has fallen to the lowest figure since current records began in 1993. Over the same period the number of economically inactive men looking after their family or home has more than doubled to 238,000.<sup>11</sup> However, it's still the case that women are far more likely to take the lion's share of the shared parental leave. Shared parental leave is imperfect. Though it is called 'shared parental leave', in reality it amounts to transferable maternal leave, which fathers have no automatic right to, and few meet the conditions for. Only a minority of couples have this available - well under 50% qualify. Mothers often have their pay topped up by their employer but if this is transferred to the father their employer is much less likely to top it up. One option might be to introduce a period of reserved parental leave for fathers so that parents can choose for fathers to be the primary carer of the child.

## **2. Break down gender segregation in education courses**

University education, the key to accessing many higher tier jobs, is no longer dominated by men. However, there are big differences in the courses men and women choose to study. More women are studying medicine and biological sciences, but physical sciences, mathematical sciences, computer sciences and engineering all continue to be male-dominated arenas. For example, in 2017, five times more men were accepted to study engineering than women<sup>12</sup>. Ensuring new sectors are not plagued by gender stereotypes will also be vital, and it is disappointing that only 17% of those working in Technology in the UK are women<sup>13</sup>. For educators and parents, these are the next socio-cultural hurdles to overcome.<sup>14</sup>

## **3. Enable continuous professional development and lifelong learning**

The importance of education beyond school or university is also becoming increasingly apparent, and the UK must adopt a more open approach to lifelong learning. Massive Open Online Courses (MOOCs) offer many new and cost effective routes for individuals to upgrade their knowledge. Being able to tailor these internet courses to their own time could be particularly helpful for women seeking to return from maternity leave. Businesses themselves must put an increased emphasis on continuing professional development. The IoD also has a role in promoting the 'best of British employers' who make training a priority<sup>15</sup>.

## **4. Information, advice, and guidance**

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<sup>11</sup> Office for National Statistics, Economic inactivity, Table INAC01, February 2018:

<https://www.ons.gov.uk/employmentandlabourmarket/peoplenotinwork/economicinactivity>

<sup>12</sup> Ucas, End of cycle report, December 2017: <https://www.ucas.com/corporate/data-and-analysis/ucas-undergraduate-releases/ucas-undergraduate-analysis-reports/ucas-undergraduate-end-cycle-reports>

<sup>13</sup> Women in tech, Did you know?, February 2018: <http://www.womenintech.co.uk/>

<sup>14</sup> Lina Nilsson, 27 April 2015, New York Times, How to Attract Female Engineers: [http://www.nytimes.com/2015/04/27/opinion/how-to-attract-female-engineers.html?\\_r=0](http://www.nytimes.com/2015/04/27/opinion/how-to-attract-female-engineers.html?_r=0)

<sup>15</sup> Women in tech, Did you know?, February 2018: <http://www.womenintech.co.uk/>



Information, advice and guidance can help overcome barriers and misconceptions. Turning best practice into common practice in the recruitment and retention of a diverse range of people will help increase the pipeline of diversity candidates reaching board level. Government has a role to play in providing information, advice, and guidance on best practice, especially communicating these to smaller firms and start-ups who – because they often lack adequate human resources (HR) infrastructure – have less capacity to do the research and policy experimentation themselves. There is a case for establishing a ‘one-stop shop’ for employers to act as a signpost and help make it easier to navigate the many sources of information, advice and guidance already available. Connected businesses, such as suppliers and contractors in supply chains or business networks can also be used to help share quality insights and experiences of best practice diversity employment with each other.

#### **5. Change the corporate governance code**

More companies must adopt an evidence-based approach toward their diversity policies by improving data collection around who they employ. Data is crucial to monitor the recruitment and promotion process for barriers against diversity applicants. Transparency and disclosure of this data is also vital to monitoring progress on improving the recruitment and progression of diversity candidates. To that end, the IoD supports the Financial Reporting Council’s (FRC) proposed changes to the corporate governance code calling on firms to report on how they are improving the diversity of their senior staff pipeline, alongside outlining how diversity itself helps to achieve strategic objectives. This adds to existing requirements around companies’ board diversity policy.

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Thank you once again for giving the IoD the opportunity to participate in this call for evidence and we hope you find our comments useful. If you require any further information on any of the issues discussed, please do not hesitate to get in contact.

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