Gender Pay Gap Roundtable – Lessons from Year One

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5 April 2018 marked the first deadline for private sector companies in the UK to report their gender pay gap.

The reporting had to be based on salary payments made in April 2017 and variable payments received in the preceding 12 months. This gave organisations nearly 12 months to collate their data, conduct the calculations in accordance with the regulations and analyse the results to produce an organisation-specific action plan.

Many organisations found the process far from straightforward and questions remain over the value of the regulations and whether they have taught us anything that we did not already know.

To explore these issues, in April Aon brought together a group of senior individuals responsible for their organisations' gender pay gap. These 12 people represented some of the UK's leading private sector employers from the financial services, technology, media, distribution and pharmaceutical sectors. This group discussed the process and the outputs, together with their hopes and expectations for the future as they shared the lessons they learnt from year one of the reporting process.

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Year one: The process

- Inconsistent interpretation of the regulations
- The impact of employee choice
- Time impact

The regulations were acknowledged by the discussion group to be far from clear with a number of grey and somewhat subjective areas that could influence the outcome. This made interpreting and applying the regulations challenging for many organisations. This mirrors some of the wider conversations that we have been having in the marketplace, where it is clear that some have invested significantly more time and effort in understanding the regulations and ensuring compliance than others. There is clearly little confidence that organisations have adopted a uniform interpretation of the regulations and consequently there is a very real fear that comparing numbers across organisations is a flawed exercise.

The discussion group also felt that the regulations include too many elements which are dependent on employee choice (eg, salary sacrifice and exercising of Long Term Incentive schemes) and it would give a much 'cleaner' view of an organisation's pay practice if these elements were removed in the future.

In addition, there was a general observation (once again supported by our work with other clients) that organisations had initially been surprised at how much time was needed to collate the data required for the calculations. This has been a very common experience in year one and is a primary learning point that is being fed into the process for year two and beyond.

What was anticipated as a reasonably straight forward exercise actually took some weeks longer than initially expected due to the granularity that is required to deliver an accurate and robust set of calculations. Providing such detail has clearly proved challenging for some organisations and/or their payroll providers.

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Year one: The Output

- Statistical exercise or reputation challenge
- Media focus – helpful or not?
- The impact of sector and organisation type
- Targets – what is the right answer?

The outputs required by the regulations sound simple. Namely, a clear set of accurate gender pay gap calculations and a narrative which sets out the rationale behind the numbers, together with an action plan to resolve any issues emerging. However, once again, apparent simplicity has proven complex and challenging to deliver.

A number of organisations reported their pay gap numbers comparatively early and many seemed to treat the work as a statistical exercise, which was reflected in some number-intensive narratives. From January 2018 onwards, the sentiment of the narratives began to shift with the realisation that the numbers were only a part of a much broader engagement and reputational challenge. These wider organisational concerns had been highlighted from the outset by many (including Aon), but the main focus early on was clearly on producing the numbers, with little consideration given to the action planning piece. There are obviously some clear exceptions to this, but it is notable that a number of the early publishers subsequently revised their narratives as the concept of best practice evolved.

When looking at the published gender pay gap statistics, it is clear that the numbers are largely driven by the shape of an organisation's workforce. For example, retailers with a predominantly female workforce have emerged with some of the highest pay gaps as they employ a large number of women in the comparatively low-paying retail store environment. Similarly, heavy industry and some very male dominated environments have emerged with much lower pay gaps than expected (even by the business) as they have lots of comparatively low paid men in their organisations which has lowered average male pay. The discussion group was in ready agreement with this issue, and all acknowledged the need for organisations to go beyond the regulatory requirements to understand the real situation in their own business. Within the group, this included work to understand the pay gap in different business units, employee groups, locations and even by grade level. This voluntary analysis was found to add significant value and much more clarity than the high-level regulatory numbers. Some organisations did choose to publish a part of this additional data, although many have retained it for business use only.

One of the primary drivers behind the evolution of best practice has undoubtedly been the continued media focus on the topic. Gender pay gap and related issues have featured heavily in the media throughout the last 12 months and there is little sign that this focus is going to lessen anytime soon. The discussion group did recognise that this focus has been constructive in helping to keep the spotlight on the subject. Early in 2018 it was the media who drew attention to a number of gender pay gap publications and numbers that were not statistically 'likely'. This led to some hasty changes and updates by a number of employers. However, the media scrutiny has also created a number of issues.

- There was ongoing confusion and misrepresentation of Gender Pay and Equal Pay, with the two terms often being used incorrectly (and even interchangeably) in the same article and news story. This has contributed to confusion among employees (and management) which has had to be addressed by individual organisations. This is why most of the published narratives actually begin with definitions of the two terms and the differences between them.

- It was felt that the media focused on the numbers and the not the detail behind them. In addition to highlighting some pay gaps with little consideration of the story behind the numbers, the discussion group felt that the focus has been overwhelmingly negative, with little being done to highlight all of the positive steps being taken. It is recognised that many organisations are doing a lot to support women within the workplace (e.g, shared parental leave, flexible working, etc) but this was rarely reported.

What's appropriate?

One of the really interesting debates which has emerged from the process this year is around what gender pay gap is appropriate for a particular business? Is it right for everyone to aim for a perfectly balanced 0% gender pay gap? The discussion group felt that a 0% pay gap would clearly not be right for many as the shape of their business and the need for certain roles (eg, female shop workers in a women's clothing retailer) would make 0% an impossibility. This then raises the question of what number an organisation should be aiming for. A push for 0% pay gaps across the board would clearly not be appropriate, so what is? Is there an acceptable tolerance level around the 0% number and if so what should it be? 5%? 10%? More?

Sector norms and averages can provide an indication on current practice and an organisation's positioning, but even this was felt to be misleading on occasion. At this stage, there is no clear answer other than a very strong view that the media and others need to stop thinking of 0% as the desired outcome and need to look more closely at the underlying story and analysis on an organisation-specific basis.

Year one: Hopes and expectations for the future

- Targets and quotas
- International application
- From pay to business issue
- Regulation extension

One of the common outcomes from the gender pay gap reporting process has been the adoption and publicising of targets for greater female representation at senior levels (and elsewhere) in the business. It was felt that many business leaders would welcome targets, as this gives them something specific to be measured against.

However, what if these targets were linked to an executive's reward or bonus in some way? Would they encourage greater female recruitment and progression or could you achieve them by simply reducing your male headcount?

Achieving greater female parity in business was clearly one of the primary motivations behind the regulations in the first place. While few would argue with the intent, are targets (formal or informal) the right way to go? The overwhelming sentiment in the discussion group was that while targets might help to maintain focus and priority among business leadership, they also raise a number of very real concerns. A common sentiment expressed was that if women were appointed to a senior role in a business, they wanted it to be based on their merits and not to help achieve a target. Even if appointed entirely on merit, the existence of a target would always leave the door open for colleagues to question a woman's appointment on this basis. As a result it was recognised that target or quota setting could be highly patronising and unhelpful at any level in a business.

Concerns were also expressed over female recruitment targets and the use of female only or percentage female recruitment shortlists for similar reasons. This could also create positive discrimination, which is still unlawful. The group doubted that 'two wrongs really make a right'.

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Clearly, people want to trust that their employer is recruiting/promoting the right people for the right roles, regardless of gender or any other personal characteristic. However, as shown by the gender pay gap statistics, this might not have happened everywhere up to this point. In this context targets (for the short-term) could perhaps help to provide a kick-start and a focus on the issue. It is clear, though, that challenges around communication and implementation need to be addressed by every business that wants to pursue this approach in any form.

Gender pay gap reporting was initially flagged by many organisations as a reward issue, as the regulations focused on pay parity and had to be calculated by reward teams. However, as the year progressed, an increasing number came to realise that it is not about pay but is instead a much wider talent and diversity issue.

Some organisations have made this really clear in the nature of their published narratives, which simply state the numbers (as required) and then go on to focus on their wider diversity and talent agenda, albeit with particular reference to its application to women. The discussion group recognised that the issue can only really be addressed by talent and diversity and that reward is really just a symptom of wider issues (failings?) in these areas over the years. The discussion group was in unanimous agreement that this is correct and as a result many were expecting more narratives to reflect this in their style and focus in year two.

The UK gender pay gap regulations raise an interesting challenge for international organisations. The UK regulations do not apply to other countries, which have or are likely to introduce their own regulations as the issue of gender pay parity becomes an increasing global concern. As a result, international organisations are likely to face the prospect of producing gender pay gap calculations using different methodologies to ensure local compliance. This will make internal comparison and read-across highly challenging and will add complexity to communication processes. In addition, it raises the question of what methodology the parent company should use to describe its overall pay gap and how peer group comparisons can be made with any degree of confidence. For this reason, it is not surprising that all those present at our discussion group were asking for a single, agreed international standard and methodology in this area and some were already working on developing their own international pay gap reporting standards and protocols.

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There is widespread agreement that the gender pay regulations are likely to be extended to cover additional personal characteristics (eg, age and ethnicity) and this sentiment was reflected in the views expressed in the discussion group. Some organisations have already included age in their analysis and a small minority have also looked at and published some data on the ethnicity pay gap. The practicalities of reporting these elements (particularly ethnicity) raised a number of concerns around data availability and accuracy, but all recognised that these extensions can be expected in future evolutions of the regulations.

In conclusion

There is little doubt that the gender pay gap reporting regulations have increased the administrative burden on reward teams in the UK. In addition, producing the numbers in year one proved particularly challenging due to ambiguity in the regulations - resolving these challenges increased the time burden still further. Having gone through the process once, it is hoped that year two will prove to be an easier and less time-consuming process.

The results for the UK have highlighted a lack of female representation at senior levels across all business sectors, which was obviously part of the intent behind their introduction. In this they have clearly been successful. However, this does not seem to have removed the feeling that the regulations are a very blunt tool trying to deal with a highly complex and challenging business (and societal) issue. The discussion group was unanimous, though, in agreeing that the numbers do provide further clarity and insight and will significantly inform and encourage debate on the issues of gender diversity in organisations. The regulations were intended to increase transparency in this area, and this was felt to be an essential first step in improving the pace at which the issue is addressed. As a result, the regulations have to be regarded as a success story; however, it is perhaps too early to say whether they will actually make a difference in the longer term.

It has long been recognised that resolving the challenges behind gender pay disparity will take some time; there will not be an overnight transformation. This will therefore require organisations to sustain a focus on addressing their own pay gap over a period of some years and questions have to be asked as to whether this is likely. Will other issues and business priorities (eg, Brexit) push gender pay onto a back-burner? There is some evidence that a few organisations are already treating the regulations differently in year two than in year one. By 5pm on 5 April (the private sector snapshot date) more than 50 mostly private sector organisations had already reported their pay gap figures for year two.

Clearly, the requirement behind the regulations is to take actual pay received by the employee for the pay period which includes 5 April and, as a result, the reports published on 5 April are unlikely to be compliant with the regulations in this regard. The discussion group was concerned that if organisations are looking to shortcut the process in year two, are they really taking them seriously and will they really implement any meaningful changes in the short term or beyond?

The media can play a role in helping to keep the pressure on business to comply and respond, but ultimately the regulations will only have an impact if organisations take the issue seriously and focus on developing solutions and action plans which are supported and implemented over a sustained period. Currently, it is too early to say whether this will actually be the case.

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