CBI submission to Women and Equalities Committee gender pay gap inquiry

1. The CBI is the UK’s leading business organisation, speaking for some 190,000 businesses that together employ around a third of the UK’s private sector workforce. We welcome this opportunity to contribute to the Women and Equalities Committee’s inquiry on the gender pay gap.

2. Business is firmly committed to working in collaboration with government to address the gap and build more diverse, inclusive workplaces. In owning the push to address the gender pay gap, firms are able to build more diverse, inclusive workplaces and unlock and retain the best talent. To make concrete progress towards addressing the gap politicians must recognise that:
   • The causes of the gender pay gap are deep-seated and complex;
   • Voluntary business activity is working and needs to be complemented by government action;
   • Gender pay gap reporting must act as an effective prompt for businesses to take control of delivering change and not a complex set of rules driving a compliance approach.

The causes of the gender pay gap are deep-seated and complex

3. The gender pay gap is a symptom of a complex range of issues associated with labour market diversity. These issues reach far into different areas of society and culture. As the Women’s Business Council highlight, men, on average, occupy more senior roles, in better paid careers than women and this is a key reason for the UK’s gender pay gap. Underlying this, occupational stereotyping, gendered career advice and workplace cultural perceptions are deep-seated cultural causes that business and government must work to address. Addressing cultural issues requires a long-term approach, which must be recognised when considering future action. It must also be remembered that we may not see the full impact of action taken immediately.

4. As the Committee notes, the gender pay gap for full-time workers is far greater for women in full-time employment aged over 40. A lack of flexibility in some workplaces, poor care options and gendered expectations about who provides care can contribute to the gender pay gap in this group. It is therefore unsurprising that the gender pay gap is the largest amongst this age group. 76% of women aged 28-40 are nervous about the impact of the gender pay gap.

having children will have on their career\(^2\) and this still deters too many from getting back into work or pursuing higher paid jobs. It also shows that business needs to do more. Most pressingly, we need to address unconscious bias and make flexibility the norm in the workplace. For example, a manager may assume that an individual may not want to work on a particular project as it involves overseas travel or an employee may feel as though they cannot ask for more flexible working practices. Addressing issues such as these involves changing managers’ approaches and expectations and must be led by the companies themselves. As part of building and maintaining strong talent pipelines, firms want to take action. The actions firms need to take to respond will depend on the remaining challenges in their workplaces.

5. There is always a danger of conflating the gender pay gap with equal pay. The law rightly makes unequal pay illegal. While illegal unequal pay does contribute to the gender pay gap, and this should continue to be tackled, it constitutes a minority of the numerous causes of the gender pay gap. It is vital that the difference between equal pay and the gender pay gap is understood, otherwise businesses run the risk of facing an increased level of unwarranted and misunderstood equal pay claims when they report a gender pay gap in their company. Businesses are likely to either face higher annual costs when dealing with equal pay claims or fight every claim and face reputational risk. Support and guidance is required from government to ensure employees and employers understand the difference. On the employee side, misunderstandings can put people off entering certain sectors that are considered as “male-dominated” due to a misconception that they will not be paid fairly.

**Voluntary business activity is working and needs to be complemented by government action**

6. The recent ONS Annual Survey of Hours and Earnings data shows there is no room for complacency when it comes to closing the gender pay gap.\(^3\) Business is committed to driving forward this agenda. Promoting a more diverse, inclusive workforce is good for business; bringing wider skill sets, broader experience and greater challenge and innovation to the workforce.\(^4\) In a global economy where a talented workforce is the UK’s competitive edge, it is important for firms to harness all potential talent.

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4 Research by McKinsey for example shows companies in the top quartile for gender or racial and ethnic diversity are more likely to have financial returns above their national industry medians: [http://www.mckinsey.com/insights/organization/why_diversity_matters](http://www.mckinsey.com/insights/organization/why_diversity_matters)
7. The good news is we are seeing the UK gender diversity landscape shifting for the better. A business-led approach has been a significant driver of this progress. The number of women on the boards of the FTSE 100 has almost doubled, as business leaders show their commitment. But, the hard years are still ahead, particularly in regards to building up strong gender balanced executive pipelines at all levels.

8. Action to close the gender pay gap should benefit all in the workforce. Steps to create more diverse, inclusive workforces will benefit employers and employees alike, regardless of their gender. Greater inclusivity also drives greater productivity. As the Women’s Business Council highlights, equalising female productivity and employment to the same levels of men has the potential to increase GDP by 35% in the UK.5

9. Given the multifaceted nature of the causes behind the gender pay gap, closing it requires collaboration between government and business. Businesses can help in many areas. Flexibility in the workplace is on the up, with firms increasingly offering their employees non-standard working hours, home-working and opting for the multi-skilling of staff.6 By introducing family-friendly policies and schemes businesses can support more parents back into the workplace, and mentoring and networking schemes can help build and maintain healthy talent pipelines. It is also crucial that businesses focus on their line managers – to eliminate misperceptions and any potential for unconscious bias in decision-making. These areas are just a few examples of actions businesses can utilise to address their gender pay gap in the future.

10. Many of the causes of the gap lie in areas of society where government, not business, is the key actor. Government needs to play a role in addressing gendered career advice in schools and ensure that the advice and expectation we give girls will build a pipeline to great careers. Government must also improve access to childcare for working parents.

11. Future action will take time to have an impact on gender pay gap figures due to the nature of the causes of the gap. It is important for the government to recognise this and be aware of the cumulative impact of action that is needed in different areas of society. An added complexity that impacts the approach to solutions is the nature of the gender pay gap in different sectors. The latest Annual Survey of Hours and Earnings data shows that in April 2015 the pay gap ranged from 4.3% for sales and

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6 CBI/Accenture Employment Trends Survey, 2014
customer service, to 24.6% for skilled trades occupations\(^7\) – a marked difference. These figures indicate the need to look at drivers of the gender pay gap in these sectors, identifying those which are more acute. It also exemplifies the importance of businesses being in the driving seat for change – they are best placed to respond to the specific nature of the gender pay gap in their own sector and can take collective action with other firms in their industry to address their gap.

**Gender pay gap reporting must act as an effective prompt for businesses to take control of delivering change and not a complex set of rules driving a compliance approach**

12. The CBI doubted whether Section 78 of the Equalities Act 2010 would have a positive impact on workforce diversity. While we strongly support the ambition to close the gender pay gap, we are unconvinced that reporting is the most effective means of doing so. That said government has decided this is the appropriate path and the CBI is committed to making reporting work as well as possible because closing the gender pay gap is as important to business as it is to government and society. If it is to make a real difference, reporting must be a prompt for firms to question why their gap exists and develop a tailored plan to tackle it that will be effective in their workplace. If rules are incorrectly designed, they risk becoming a box-ticking exercise, discouraging businesses from taking further action. A critical success factor to the new rules will be whether the reporting process helps to identify challenges that need attention, or whether they involve burdensome data analysis with little benefit to the company. To this end, we have called for:

- A clear, exhaustive list of payments firms that companies will have to report on, and a simple calculation so firms can focus on acting to reduce the gap rather than employing teams to run calculations. As the government have announced they will require firms to publish information on bonuses, clarity is all the more essential.
- A focus on ensuring that firms are able to provide explanatory narrative to accompany their headline figure in a format that suits their company. A headline figure alone can lead to public and employee misunderstandings of the gender pay gap within a business and its causes. Explanation can also help to add further detail to the debate on closing the gender pay gap and more insights into the issues on the ground.
- Company reporting on the basis of specified job families to be avoided, as these vary from firm to firm.
- A three year reporting cycle, like in Sweden. Reporting cycles need to be long enough to allow firms to report on their gap and action a plan

to address it. Three years will create a more accurate picture of whether progress in reducing a gender pay gap within a company has been made – a one year reporting cycle would be too short a period of time to see change. It may also require complicated calculations that will be made over a period of time. In more complex situations, reporting annually could mean that calculations for the next report start shortly after the last report was made.

13. The purpose of reporting legislation is to change behaviours within business, to drive a debate about closing the gender pay gap. To this end, a punitive sanctions regime would be counter-productive and enforcement should be led by education efforts for laggard companies in the first instance. Support and guidance from government and other businesses will be essential as reporting rules come into force as a way of sharing best practice and identifying ‘what good looks like’ amongst firms so issues can be addressed in a rapid and targeted manner.

14. We would not welcome an extension of reporting requirements to organisations with fewer than 250 employees at this stage. We would urge the government to maintain its focus on ensuring new reporting requirements are effective for those firms that are currently in scope of upcoming legislation. Sufficient government guidance and support will be particularly important. As shown in this paper, implementing these rules will present a challenge for those firms currently within scope. To illustrate, one CBI member in the transport sector already runs an in-depth workforce analysis annual report, which captures various characteristics of its workforce, including diversity ratios. As an employer of around 22,000 people, they will still find it challenging to cater to increased data requests in gender pay gap reporting. A smaller business would likely struggle hugely to try and match this capability, and would find it a considerable resource burden to comply with similar reporting rules. Small businesses would also face added complexity in terms of data privacy. The sample size for small business data reporting sets would be much smaller than for large firms, which has greater potential to create employee relations challenges that would require managing. This would be counter-productive to fostering a positive debate on closing the gender pay gap.

Employment, Skills & Public Services Directorate
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