Mandatory UK gender pay reporting – the story so far

May 2018

pwc

www.pwc.co.uk

Mandatory UK gender pay reporting – the story so far

The 5th of April 2018 marks the end of the first year of disclosures under the new UK gender pay gap reporting requirements. Just over 10,000 companies employing more than 250 people in England, Scotland and Wales have disclosed their figures, although reportedly more than 1,500 are yet to publish and may face possible fines and reputational damage.

In the context of growing public and media scrutiny of gender equality issues, for the first time the full extent of pay differences between men and women in UK companies has been made public. The results are stark - with more than 85% of companies disclosing a mean pay gap (and 80% a mean bonus gap) in favour of men. Although the exact reason for this gap does vary by company, in the overwhelming number of cases the key factor appears to be the relatively high number of men in more senior (and so more highly paid) roles.

In this report, we explore the detail behind the headline statistics and the positive actions that companies are taking to improve their gap. With the first reporting deadline now behind us, we also look ahead to what companies should be doing now to prepare for the future.

The first year of reporting – an overview

In 2017, new legislation came into effect that required companies with more than 250 UK employees within an employing entity to publish key information on their gender pay gap. The first year's reporting was due by the 4th of April 2018 (or 30 March for public sector employers). However, the data itself relates to pay given to staff in the previous year (i.e. from April 2016 - 2017). These companies have been required to publish six key figures in relation to their gender pay gap and to record these numbers on a UK Government website.

Gender pay reporting

Deadlines and mandatory requirements
Employers were required to take a first data snapshot on 5 April 2017, to be analysed and published on a date of their choosing, but no later than 4 April 2018. The gender pay gap information must be published on the employer's website (and signed off by a senior executive to validate the accuracy of the information). The figures must also be published on a Government-sponsored website.

According to the regulations, companies are expected to set out data on the differences between their male and female employees including:

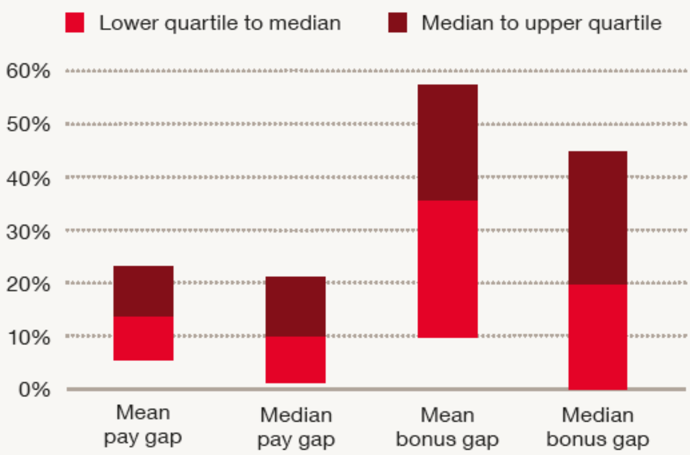
- the difference in the mean hourly pay of male full-pay relevant employees and female full-pay relevant employees, expressed as a proportion of the male figure;
- the difference in the median hourly pay between male full-pay relevant employees and female full-pay relevant employees, expressed as a proportion of the male figure;
- the difference in the mean bonus pay, between male and female employees, expressed as a proportion of the male figure;
- the difference in the median bonus pay, between male and female employees, expressed as a proportion of the male figure;
- the proportion of male and female full-pay relevant employees in each quartile of the overall pay range; and
- the proportion of male and female employees who received a bonus in the year

The legislation requires a disclosure of both the mean and median pay gap. The mean gap is calculated based on the average male and female pay (i.e. the average male pay is calculated by the sum of each hourly rate for male employees divided by the number of employees) whereas the median gap is based on the pay of the "middle" man or woman (i.e. the median male pay is calculated by ranking the hourly rates for male employees from highest to lowest and taking the middle data point).

Throughout our analysis, we have typically used the mean pay and bonus gap figures because these consider the distribution of pay for all employees. In our experience, only considering median gaps can mask large pay differences in a company (for example, if the middle man and middle woman are paid exactly the same, this would lead to a 0% gap even if all the highest paid roles are held by men).

With the first reporting period closed, we are able to gain a detailed sense of the gender pay gap for the UK's key employers. We already know from data from the Office of National Statistics ('ONS') Annual Survey of Hours and Earnings: 2017 that the national pay gap in April 2017 was 18.4% (median) and 17.4% (mean), including both full and part time workers. Given this, it is not surprising that the majority of companies showed some gender pay gap in favour of men and that this would be reflected in bonus pay gap calculations.

Pay and bonus gap



2017/18 gender pay gap reporting – The key facts

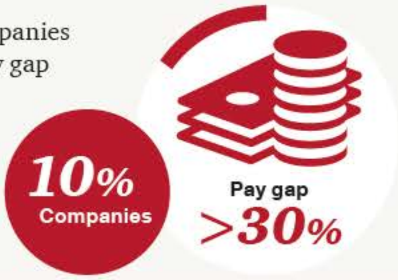
Mean pay gap disclosure

Over 85% of companies disclosed have a pay gap in favour of men.

75% of companies who reported have a pay gap above 5% in favour of men.

Around 40% of companies disclosed have a mean pay gap above the ONS national average (17.4%).

Around 10% of companies disclosed have a pay gap above 30%.

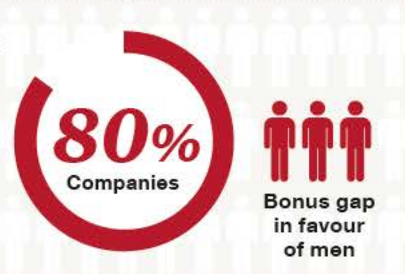


In over 80% of companies the mean bonus gap is the same direction as the mean pay gap (i.e. a positive pay gap and bonus gap or a negative pay gap and bonus gap).

Mean bonus pay gap disclosure

Bonus gaps are generally twice as high as pay gaps.

Over 80% of companies disclosed have a bonus gap in favour of men.



75% of companies disclosed have a bonus gap above 10% in favour of men.

Around 55% of companies disclosed have a bonus gap above 30%.

More than 10% of companies disclosed have a bonus gap above 70%

80%

of companies appear to show a higher relative proportion of men in the "highest paid" quartile.

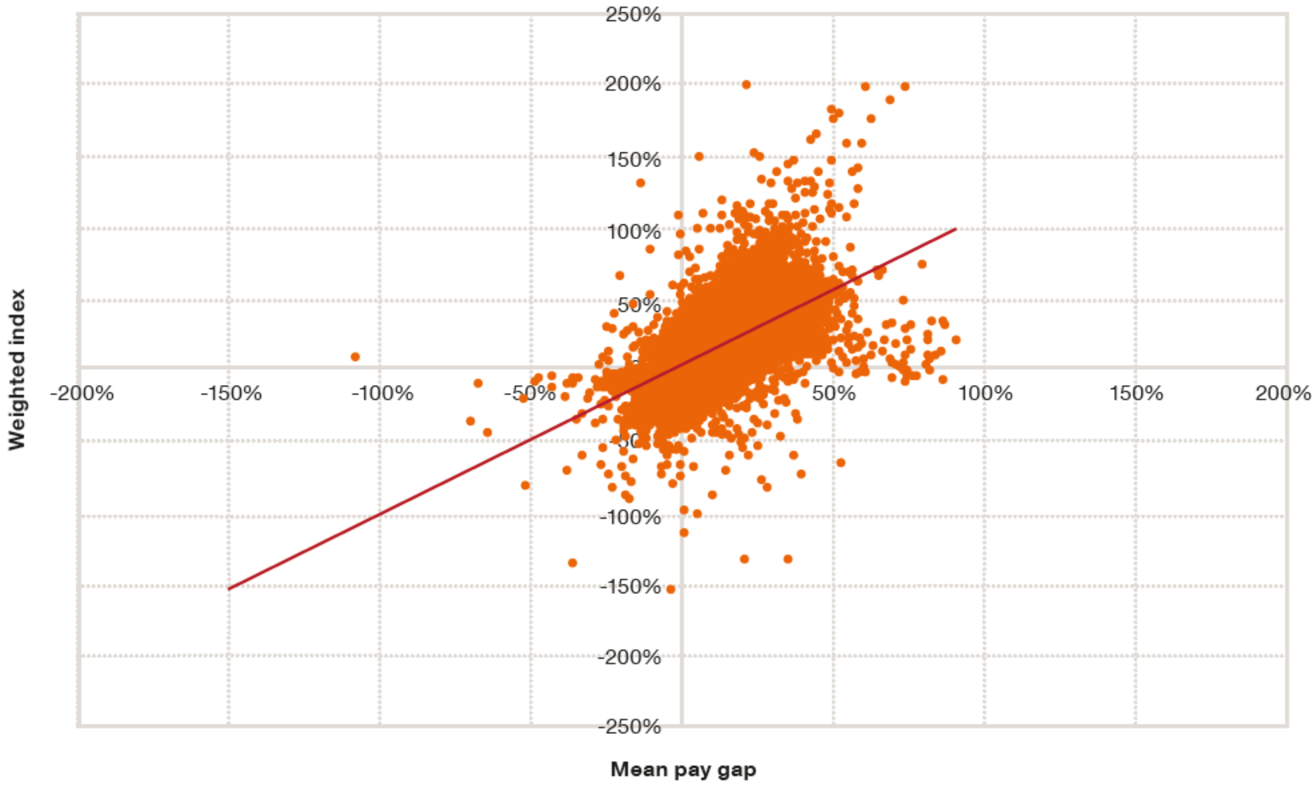
It is clear from the disclosures that in many cases this gap is primarily being driven by a gender imbalance within organisations. This is, critically, not a "pay equality" issue (i.e. where a man and a woman completing 'like work' are paid differently), which is illegal in the UK.

Equal pay versus the gender pay gap

The gender pay gap is, at it simplest, the difference between the average wages of men and women, regardless of their seniority. Equal pay is a different but connected issue, which is about pay differences between men and women who are paid differently for 'like work', 'work of equal value' or 'work rated as equivalent'. This has been prohibited under UK law since the 1970s and is something that UK companies have been seeking to address, though equal pay claims continue to arise[1].

The requirement for companies to disclose the proportion of men and women in each pay quartile helps us to see the disproportionate representation of men in the highest paid quartile and women in the lowest. The strong implication of this is that far more women in the UK workforce are in more junior, lower paid, roles within companies, whilst far more men are employed in senior management roles and high paid positions. In fact, when we look at disclosures on pay quartiles, 80% of companies appear to show a higher relative proportion of men in the "highest paid" quartile. Unsurprisingly, the more men a company has in these top quartiles relative to the number of women, the higher that company's pay gap is likely to be.

Mean pay gap compared to weighted index[2]



1 Equal pay legislation applies to all employers, regardless of size. It is also important to note that, even if an employer does not have an equal pay issue, it may still have a gender pay gap (e.g. if the majority of women are in the lower paid roles).

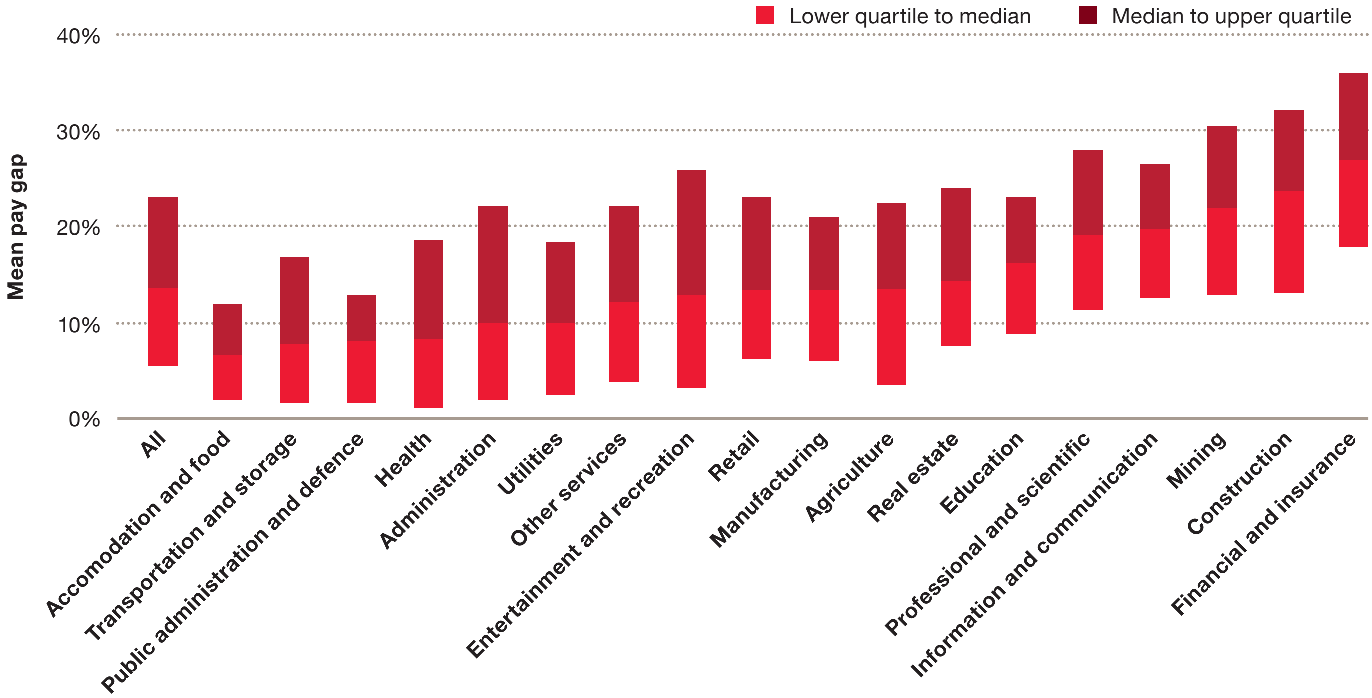
2 The weighted index is a measure of the distribution of men and women in the quartiles, a positive figure indicates that there is a higher proportion of men in the upper and upper middle quartile compared to the overall workforce.

This is not, however, the complete picture, and it is important to acknowledge that different companies will have different issues driving their gap. One aspect that appears to strongly influence the likely gap of an organisation is their sector. We know, for example, that a number of sectors have much higher gaps, such as financial services, construction, and mining. In contrast, accomodation and food, transportation, and health organisations in general have much smaller gaps.

The reasons behind these gaps also often differ by sector. For example, in retail organisations frequently it is the larger proportion of women in the lowest pay quartile which is a key driver of the gap. In contrast, in most financial services organisations (excluding those with large retail operations), the gap is primarily driven by the number of men in senior positions and high paid roles. The proportion of men and women also varies widely, with sectors like construction and mining having a high proportion of men in their workforce. This in itself will not necessarily drive a high pay gap (for example transportation, which has one of the lowest pay gaps, also has a high proportion of male employees). However, it is likely to make action to address any gap more challenging in the short to medium term.

What our analysis has not shown is any strong relationship between the size of gap and the size of company. In fact, it is clear that the sector a company operates in is a far better indicator of the the likely pay gap than the number of people it employs. This creates a real challenge for sectors with high gaps. In these sectors, it is more likely that the reputation of the industry is not so good, which will make it harder for them to encourage talented women to join and prosper in their organisations.

Mean pay gap by sector



In many companies, bonus payments are directly linked to salary (and more senior roles will often have a larger bonus opportunity as a percentage of a larger salary). In this context, it is not surprising that reported bonus gaps are higher than pay gaps. However, the scale of this gap (bonus gaps are on average double pay gaps) prompts some interesting questions. Although a number of companies have highlighted that part time workers can skew the bonus gap data (because bonuses are recorded on an annual rather than hourly basis), it seems unlikely this can be more than a part of the picture. As no disclosure is made for the total pay gap (i.e. the sum of fixed pay plus bonus), we cannot statistically quantify how big the total pay gap in the UK is. However, the size of the bonus gap suggests it could be considerably larger than the pay gap.

This is particularly important because bonus payments are often subject to more subjective decision making than salary and benefit changes. In organisations with robust pay “infrastructure” in place, the salary range for a role will be developed based on a consideration of the market and internal relativity (which, when it works, helps manage the pay gap within roles, as we explore further below). However, by its nature, any bonus will typically be based on assessment of the performance of an individual in a given year. This potentially adds more risk of individual unconscious biases impacting pay decisions. For some, the performance management process and decision-making of what makes a higher performer may hold some risk of indirect bias. Furthermore, the lower levels of transparency and greater subjectivity associated with many incentive decisions make understanding, identifying and challenging any such bias much harder.

Looking forward
Compliance in 2018/19 and beyond

'In our experience, transparency is the best way forward.'

So far, the Government's focus has been on addressing non-compliance with the new reporting requirements, and we expect that employers who have not disclosed (or have disclosed figures that appear to be statistically improbable, such as pay gaps above 100%) will be contacted to confirm their figures. There is a possibility of fines for companies who refuse to publish. For those who have published, the focus is already moving to next year's disclosure.

One of the quirks of the legislation is that, because the period of time that a company is reporting on ends one year before the reporting deadline, firms will very soon be able to calculate their gender pay gap for the next reporting year. For the majority of companies that chose to report in the last few months before the deadline, this creates some specific challenges. Ultimately, by the time they have reported their first "gap" it will have been too late to implement any new actions to improve this gap for the following year.

Those who have already seen an improvement in their numbers since the snapshot date of April 2017 may wish to report a positive movement as soon as possible. Publishing ahead of the pack can also signal to employees and externally that the organisation is genuinely committed to gender diversity and it's not simply a tick-box compliance exercise. Companies who expect that their gender pay gap will improve little (or may even be worse) have some particular communication challenges and will need to plan early for how they message this. In our experience, transparency is the best way forward – engage leadership and employees to explain the rationale for the numbers and be clear about the actions that are being taken to narrow the gap.

However, the next year of gender pay reporting is not the only issue companies should be thinking about. A number of firms will be revisiting their equal pay assessments to ensure that they still feel comfortable that they have sufficient processes and reporting in place to demonstrate that they are paying equally for equal work. Looking into the future, statements from Teresa May suggest that more requirements may be on the horizon, with potential future reporting on the BAME pay gap amongst a number of initiatives highlighted for future consideration. New reporting requirements of this type will not only broaden the public and governmental scrutiny on firms, but bring new challenges as companies struggle to collect information in an area where data quality is notoriously patchy.

The many firms with global operations face a further challenge. As the focus on diversity and equality issues increases globally, it is likely that similar regulation will be introduced in more countries around the world. Firms will need to think about how they will ensure that they understand and comply with their local reporting obligations and also how inconsistency in requirements is managed globally. For many, there will be a desire to ensure global consistency in the messages shared internally and externally on diversity, but this will need to be managed in the context of shifting local reporting requirements, local cultural norms, equality laws and data gathering and sharing restrictions.

Making positive change for the future

Notwithstanding the size of the pay gap, the gender pay reporting legislation has achieved its objective of requiring companies to be more transparent about their gap, and what they are doing to fix it. What has been particularly positive to see is the number of companies who have voluntarily reported far more than their mandatory figures, bringing in examples of activities they have taken to close the gap and commitments to improve the representation of women in their organisation (particularly in senior roles) going forward. A number of firms have set specific targets on the representation of senior women in their organisations, while others have committed to reviewing and improving policies in areas such as recruitment and parental leave, or introducing new initiatives such as unconscious bias training.

This transparency is to be welcomed, as is the focus that a number of companies are clearly putting on closing the "gap". This will be a considerable challenge, particular for those in sectors with large gaps. Doing so will require a concerted effort enabled by HR, but led by business leaders, to make active changes to improve the representation of women in their business. There is no "silver bullet" to do this, but there are key features that we have seen support successful progress in this area.

Driving change – key factors for success

Business led action: It is crucial that any diversity commitments and activity are actively supported and led by business leaders (rather than HR) and clearly linked to a well articulated business case for change

Evidence driven: To understand what needs to change, it is important to understand how you operate now. Part of this is about the use of employee analytics to understand where the "hot" and "cold" spots for diversity are in your organisation, both now and projecting into the future. Just as important is understanding the perceptions and make up of your current employees. Increasingly firms are thinking about new ways to encourage employees to "self-identify" information on areas such as ethnicity and sexual orientation, along with an increasing focus on using employee opinion surveys, exit interviews and anonymous employee focus groups to understand how diverse groups experience working at an organisation

HR supported: Although business leadership is crucial, to encourage behavioural change the right HR policies and processes need to be in place. Checks and balances in core HR processes like recruitment and promotion can help manage the risk of bias in decision making, and improve reporting

Input focused, Outcome driven: Whether or not actual targets are introduced, leading companies are thinking about more effective ways to measure improvements in diversity and inclusion through business KPIs and dashboards. A robust action plan, supported by strong reporting can help business leaders understand what activity is needed to drive change, and measure their progress in achieving it.

'Drive greater fairness.'

Closing the gender balance gap requires a combination of business and HR activities, but this does not mean that the issues around pay fairness should be ignored. The gender pay gap exposes not just the different economic experience of many women in the UK, but the significant gap that exists in many companies between what the top and bottom levels get paid. The size of the gender pay gap we see clearly reflects the roles, recognition and progression opportunities available to men and women in the workplace - but it also reflects a wide span in pay distribution across society. Fairness in its broadest sense lies at the heart of the issue of the gender pay gap in the UK. This is a challenge for all of us, but also an opportunity for companies to reconnect with customers and society and improve their reputation. Whether looking at new ways to encourage a diverse and inclusive employee base, or a new and transparent approach to pay decisions, organisations should be considering what fairness means in the context of their culture and changing societal attitudes. A clear sense of what fair pay means in your organisation, stating these fairness principles and asking whether the pay structures and governance is aligned to these could help win back trust and bring about change.

For many, the pay structures and robust decision-making have been eroded - unsurprising given the competition for talent and greater devolution of decision-making around pay. There is a new challenge to review the extent to which similar roles are paid at similar rates. There may be some uncomfortable truths within the data, for example where experience and tenure favour men who are higher up in the pay distribution. It will apply within roles, but there may also be some concerns with certain roles that are female dominated being paid less than male dominated roles, even within the same grade. This is far from simple. Success requires reviewing the grading structure, the categorisation of jobs and the market data. This must be supported by robust pay frameworks aligned to these grades and strong reward governance to ensure such frameworks are fairly and consistently used, particularly in large and complex organisations.

Actions to support pay transparency

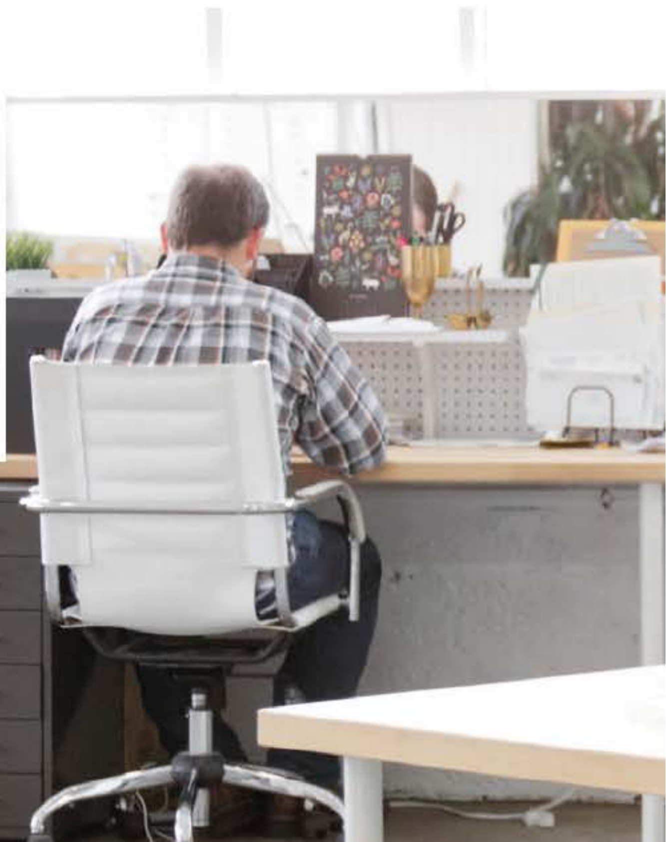
Underpinned by job evaluation:
Job evaluation creates the basis for grading hierarchy and the slotting of jobs.

Pay bands
Pay ranges that are sufficiently narrow help prevent significant differentials in pay within jobs

Transparency in pay positioning
Enhanced disclosure of pay ranges and the process for determining pay positioning, along with greater communications of the decision-making process of pay decisions, will improve transparency of pay decisions, and drive greater fairness.

Market testing
Greater effort to ensure pay ranges are market-tested and potentially a shift to narrower ranges will help reduce gaps, along with greater use of red and green circling to slow down or accelerate movement

Data analytics
An increase in the use of data analytics to understand patterns and risk areas, and engage the business in the process.



Conclusion

With the first year of reporting behind them, some may feel that the biggest challenge on gender pay reporting is completed. In fact, this is only the first step in a challenging journey to improve fairness within the workplace and navigate ever growing legal complexity. Organisations that wish to lead in this area need to act now to ensure they are prepared for the future.

What next - four priorities for 2018 and beyond

1

Plan for next year's reporting now

Understand what your reported pay gap will be for 2018/19 and start communication planning now

2

Revisit equal pay and prepare for future compliance

Ensure you have the reporting and governance in place to monitor your equal pay risks and prepare for any new reporting requirements, in the UK and around the world

3

Review your pay governance

Examine your existing job architecture and pay structures to ensure you have the mechanisms in place to drive pay fairness

4

Take action to close the gap

Build a robust and detailed action plan to make the changes to improve the diversity of your organisation and support inclusion. Ensure your action plan is led by the business and underpinned by robust data, specific KPIs and strong HR policies and processes

Contacts

Alastair Woods
Partner, Reward
M: +44 (0)7834 250 359
E: alastair.woods@pwc.com

Jon Terry
UK Diversity & Inclusion Consulting Leader
M: +44 (0)7720 555 397
E: jon.p.terry@pwc.com

Ed Stacey
Partner, Head of Employment Law (Solicitor)
M: +44 (0)7725 445 168
E: ed.stacey@pwc.com

John Harding
Partner, Employment
M: +44 (0)7801 042 607
E: john.l.harding@pwc.com

Katy Bennett
FS Diversity & Inclusion Consulting Leader
M: +44 (0)7715 211 210
E: katy.e.bennett@pwc.com

Alexa Foden
Senior Manager, Communications
M: +44 (0)7841 786 985
E: alexa.foden@pwc.com

Phil Cartwright
Manager
M: +44 (0)7701 297 228
E: philip.cartwright@pwc.com

www.pwc.co.uk

Design Services 31309 (05/18).