Discussion summary: preparing for gender pay gap reporting

This is a summary of a recent breakfast discussion on how firms in banking and finance should prepare for gender pay gap reporting that New Financial hosted with Sam Smethers, chief executive of The Fawcett Society, a charity which campaigns for gender equality and women's rights.

1) What is gender pay gap reporting?
From April 2018, employers in the UK with more than 250 employees are required by law to publish four sets of metrics relating to the gender pay gap on both their own website and on a government website:

- *The mean and median gender pay gap:* the difference between the mean / median hourly rate of pay of male and female employees
- *The mean and median gender bonus gap:* the difference between the mean / median bonus pay paid to male and female employees
- *The gender bonus ratio:* the proportions of male and female employees who received a bonus
- *The gender ratio in each pay quartile:* the proportion of male and female employees in the lower, lower middle, upper middle and upper quartile pay bands.

Here is a link to the full legislation. Employers need to collect the data by 2017 and have until April 2018 to publish the relevant information.

2) What's the point?
To many firms in banking and finance, gender pay gap is seen as yet another additional and potentially embarrassing reporting requirement. Not least, the gender pay gap in financial services of 35% is the highest of any sector in the UK and more than double the UK average. However, the government's action is driven by its review into boosting productivity in the UK economy and the recognition that the UK's most productive sector is not maximising the skills and contribution of women. In order to address this productivity gap, and for government, regulators, the industry and individual firms to work out how to close the gap, it is vital to understand where we are today and why.

3) A structural gap
One danger is that people confuse the gender pay gap with unequal pay, which is illegal, and it will be a challenge at many firms to stop managers confusing the two. There a number of different components to the gender pay gap. The main driver is structural: some industries such as banking and finance have a higher proportion of men in the highest paying roles (note that the construction industry has the second highest gap of any sector after financial services). And in finance, some of the numbers earned by a small number of (mainly male) staff such as traders, senior bankers or star fund managers are so large that they will skew the data further. A shift in thinking towards 'equal value' for different types of work away from frontline revenue-generating roles could help.

4) A question of culture
The main reason for the wide gender pay gap in banking and finance – and particularly in the wholesale end of the industry – is cultural. Finance also has a predominantly male culture of long hours and being available 24/7, with inadequate opportunities for women returning to work after maternity leave, which compounds the problem. The bonus culture of staff being paid multiples of their base salary based as much on how loudly they lobby for their bonus as their performance does not favour women, who tend to negotiate less on pay and are not always available to take part in the social side of the industry with colleagues and clients out-of-hours. In addressing the gender pay gap, firms should rethink what sort of behaviour they value and reward, how they recruit and promote staff, how they measure individual performance and how they allocate individual bonuses.

5) A shock to the system
For many firms, the headline numbers will not make for pretty reading, and initially it will seem like a huge challenge to close the gap. The first step is to understand what is driving it. The key questions to ask are not 'how big is the gap?' but 'what does the gender pay gap mean for my organization? How will we report it to current and future employees, and communicate it to the outside world? And what do we need to change to begin to address it?'. It important that firms in banking and finance do not use the gender pay gap as an excuse to justify the status quo along the lines of 'a wide gender pay gap is inevitable because of the nature of our business', or make excuses for the lack of female representation at a senior level.

6) A clear narrative
The best way for firms to begin to address the gender pay gap is to come up with a clear narrative around what is driving it, and a clear and realistic plan of action to address it. Publishing the numbers without a narrative explaining them or what the firm A good starting point is to be open about what is behind the numbers, for example 'two thirds of our gender pay gap is the result of the fact that more than 80% of our senior management / highest paid trades / star fund managers are men'. Consulting with management all the way through the organisation will help ensure both a clear message to staff and a consistent application of policies to address it. And a carefully thought through long-term plan to address the gender pay gap will be vital. Firms should be comfortable with the numbers and willing to own them, instead of being defensive.

7) Internal resistance
One of the biggest challenges in addressing the gender pay gap is addressing resistance inside an organisation. There are many male middle managers – whose everyday behaviour sets an example to people who work with them – who have grown up in a male-dominated culture, don't believe there is a problem, or think that action to close the gender pay gap amounts to positive discrimination. Equally, there are many women who fear that any actions taken by their firm could reflect badly on them. It is essential for firms to consult with their management and staff at all levels to explain what they problem is, what is driving it, what the firm plans to do about, why it is important, and how it fits into the firm's overall strategy. As part of this process, it's important to identify the 'resistors' - and even more important to spot those people who talk a good game but don't really buy into it.

8) Unintended consequences?
Compulsory gender pay gap reporting will have some negative side effects and unintended consequences. For example, firms which have generous return to work programmes and flexible working arrangements for women coming back from maternity leave could see this reflected in a wider gender pay gap. The same effect would apply for firms with a large number of part-time female staff – for example retail banks: the quickest way to address the gender pay gap would be to scrap flexible and part-time work and move all staff onto full-time contracts. Some firms could also find that a large gender pay gap could put off female graduates and other potential recruits from applying to a firm. This underlines how firms need to focus on what is driving the gender pay gap and what they can do about it – and communicating that effectively both internally and externally.

9) First mover disadvantage
One of the dangers with gender pay gap reporting is that the media will adopt a 'name and shame' approach and jump on the headline figures without drilling down into the detail. This is particularly the case with firms that opt to disclose their numbers before the compulsory deadline of April 2018. Already the small number of firms that have voluntarily disclosed their gender pay gap have faced intense media scrutiny ('first mover disadvantage') and only a small number have disclosed their numbers on the government's website. The best way to deal with the media is to come up with a very clear statement as to what is driving the pay gap, and what the firm plans to do about it.

10) Beyond gender

Ultimately, gender pay gap reporting is a starting point to measure and understand what sort of obstacles women may be facing at an organisation. From that, firms can work out what they need to change to ensure they are maximising the talent available to them. This approach can also be applied beyond gender: gender pay gap reporting is a framework that could equally be applied to other criteria such as age and ethnicity. The government has said it is considering introducing pay gap reporting on ethnicity and The Fawcett Society recently published a report on the gender pay gap by ethnicity in the UK.