GENDER PAY GAP REPORTING

Policy Briefing • February 2021

CMI Chartered Management Institute

WHAT IS GENDER PAY GAP REPORTING?

- The gender pay gap is the difference between the average earnings of men and women across a workforce.
- Gender pay gap calculations are based on employer payroll data drawn from a specific date each year - known as the 'snapshot date'.
- From 2017, employers with a headcount of 250 or more on the 'snapshot date' must publicly report their gender pay gap.

WHY DOES IT MATTER?

- The World Economic Forum has stated that women's participation in the labour market has stalled in recent years and financial disparities are increasing.
- Yet there are myriad business benefits to gender balance in the workplace[1]:

    1. It boosts financial performance globally
    2. It increases the ability to attract and retain talent
    3. It enhances employee engagement, culture and trust
    4. It brings firms closer to customers and boosts brand
    5. It drives better, innovative team decisions, raises ethics and reduces risk

- The government's own impact assessment (from 2016) finds that gender pay gap reporting can lead to increased economic productivity and a long term shift in female labour supply.
- McKinsey estimates that the UK could increase GDP by 10 to 12 percent by 2025 (compared to the 'business as usual' scenario) if it were to close the gender inequalities that exist in the labour market. They also found that bridging the UK gender gap in work could add £150 billion to GDP forecasts in 2025.
- Diversity is also key during times of uncertainty: In June 2020 CMI polled managers who overwhelmingly agreed that:

    1. Diversity and inclusion greatly supports organisational resilience in a time of crisis (96% of managers)
    2. Diversity and inclusion supports organisational innovation in time of crisis (93% of managers).

- Comparative research shows the UK leads the way in transparency, with data from GPG reports made publicly available. The UK should be proud of its world-leading position in terms of transparency and compliance.
- Removing the requirement from companies to report their gender pay gap means we will lose this transparency which is an important driver of change by promoting organisational reflection and accountability.

[1] Francke, A. (2019), *Create A Gender-Balanced Workplace*, p.1

THE IMPACT OF COVID

- We know the pandemic has had a disproportionate impact on women. Research has shown that women are more likely to be in sectors shut down by Covid, are more likely to have lost their job or been furloughed and are taking on the majority of housework and childcare. CMI's Management Transformed research has also shown the challenges that working mothers face - they are more likely to be in communication less than once a week with their manager than UK employees (29% compared to 23%).
- With GPG reporting **not being** enforced in 2020, accountability has been significantly impacted: CMI analysis of GPG reporting service data found that in 2019 just under 10,000 businesses reported their GPG before the deadline, in 2020 with enforcement removed at the 11th hour (24th March 2020) the number of businesses complying by the deadline dropped by 56%.
- We have seen decreases in the GPG: it stood at 7.4% in April 2020, down from 9.0% in 2019. But with the removal of reporting transparency we cannot be complacent and assume that this trend will continue.
- And there is reason to be concerned that Covid will have a medium - long term impact on the GPG, due to women losing their roles and taking longer to re-enter the labour market. This makes gender pay gap reporting even more important in the current climate.
- As we emerge from the pandemic businesses must do everything they can to ensure that women can continue to actively participate in the labour market and to progress once there. CMI's own research shows that 80% of managers in organisations expecting redundancies in 2021 said their organisation had either not implemented measures, or did not know if measures had been implemented, to ensure that redundancies did not fall disproportionately on women.

WHAT IS THE COST TO COMPANIES?

With initial set up costs already paid for, the annual compliance with GPG reporting is low.

- The Government's own economic impact assessment into the implementation of GPG reporting in 2016 reported annual cost of compliance to be £484 in each large private sector organisation
- In addition we know there are significant gains to be made by companies that prioritise gender balance: McKinsey analysis has shown that companies in the top quartile for gender diversity on executive teams are 25% more likely to have above-average profitability than companies in the bottom quartile; and this effect has grown ten percentage points between 2014 and 2019.
- The Government's figure of £484 per year for a large private sector organisation to comply with GPG reporting represents just a tiny fraction of the profit gains available to those achieving gender balance.
- These limited costs have been exemplified by the high compliance of current GPG legislation. One of the successes of GPG reporting has been the high levels of compliance - 100% of eligible employers reported in 2019.
- The UK is already compliant-light in comparison to EU countries: the 250 employee threshold for employers is high. In fact, this is five times the average of 50 employees for countries analysed in the research. For example, in Sweden legislation applies to employers with 10 or more employees.
- There is also no requirement to produce an action plan. Again, the same research shows that this is a requirement in the majority of countries. For example, in Germany, Finland, Sweden and Spain, employers must submit a report outlining the measures taken to promote equality between women and men as well as an assessment of their impact.