



CMI UPDATE ON GENDER PAY GAP REGULATIONS.

December 2016

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ABOUT THIS BRIEFING

This paper provides a quick guide to a new piece of regulation which will have a significant effect on large employers from April 2017.

CMI has been a member of the Business Reference Group formed by the Government Equalities Office (GEO) to consult on the development of the regulations. The content was initially developed on the basis of draft regulations but has been updated in December 2016 to reflect the final version as laid before Parliament. These are now due to come into effect in April 2017.

The paper outlines the key planks of the policy and aims to provide managers with the essential facts about what will be required of employers that fall within its scope, rather than being a detailed implementation guide.

It also summarises the case for the policy, which has been strongly supported by CMI on the basis of the extensive evidence about the gender pay gap that persists today.

Supporting diversity is core to good management and leadership, to improving productivity and to delivering strong and sustainable business performance.

FOREWORD

ANN FRANCKE



Ann Francke MBA CMgr CCMi FIC
Chief Executive, CMI

We are about to enter a period of unprecedented transparency about how businesses pay their employees.

From April 2017, businesses with at least 250 employees will be required to measure, and then report, on how they pay men and women. That's going to affect some 8,000 businesses, employing around 11m people. What's more, the government is committed to extending these requirements to the public sector via the public sector equality duty. Together these regulations will affect nearly half of the workforce.

This is entirely to be welcomed. Our evidence shows that women still earn, on average, significantly less than men: as much as 26% less among managers working for large employers, according to this year's data published by CMI and XpertHR.

Forty years after the Equal Pay Act, how can that be the case?

The answer lies in the fact that the gap, in most cases, is not the result of unequal pay. Instead, it reflects the failure to achieve a balance of men and women in senior management roles, or to attract and retain women in some of the better remunerated occupations.

The problem we face isn't so much that women aren't receiving equal pay for equal work – but that they aren't getting equal work.

This short guide provides a 'need to know' briefing for managers. Of course, most managers won't have anything to do with the technical work of calculating and reporting on company-wide pay data.

But they will have a central role in changing the cultures of our organisations and tackling the underlying causes of the gender pay gap: issues like the cultural assumptions that make women opt out, or the under-promotion of women, a problem highlighted by our latest research.

Diversity delivers better financial results, better culture and better decision making. That's why we've recently launched CMI Women and our open-source Blueprint for Balance tool, focusing on the six key areas that employers can do most to change cultures and deliver better balance.

Managers must embrace this new period of transparency and make sure that they're part of the solutions that businesses need.

A handwritten signature in black ink that reads "Ann Francke". The signature is written in a cursive, flowing style.

Ann Francke MBA CMgr CCMi FIC
Chief Executive, CMI
December 2016

1. WHAT IS THE GENDER PAY GAP

The government's proposals aim to close the 'gender pay gap', a separate concept to the long-standing principle of equal pay.

Equal pay is straightforwardly about whether men and women are paid equally for equal or similar work. Less favourable treatment between men and women in pay and conditions has been illegal since the Equal Pay Act of 1970.

The gender pay gap, however, describes any difference between the average pay of all women and men in a group. That could be calculated across the economy or in a particular profession such as management. Or it could be established for a particular company, which is the focus of the new regulations.

As such, it reflects a number of factors, especially the relative lack of women in senior management jobs.

So, in a given company, women and men could be paid equally at every grade, avoiding any illegal behaviour under equal pay law – but if the women are predominantly in junior roles while men dominate higher-paid management ranks, the company would still have a gender pay gap.

It's this gap which will be predominantly addressed by the new regulations – although the greater levels of transparency may also help to identify and enable employers to address any persistent cases of unequal pay.

What's the scale of the problem?

The latest data from XpertHR and CMI, based on analysis of pay data for over 60,000 individuals, shows that the gender pay gap among managers stands stubbornly high at 23% and 26% among the larger organisations that will be covered by these regulations.

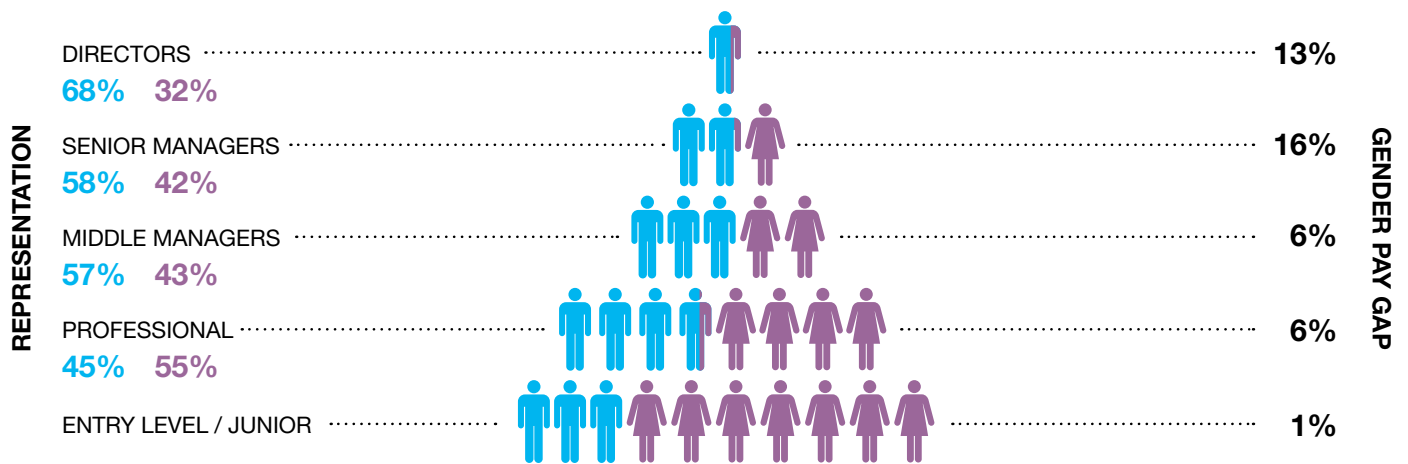
A key reason for this is the under-representation of women in senior management roles. Our analysis showed that men were as much as 40% more likely to be promoted in the previous year, with 14% being promoted compared to 10% of women. That's a trend confirmed over time: tracking analysis over the last five years shows that among managers who have stayed with their employer for five years, 47% of men were promoted compared to 39% of women.

The result? Women are under-represented in senior positions and earn less, something that CMI has described as a 'glass pyramid'.



Male managers are
40%
more likely than female managers to be promoted

WOMEN ARE UNDER-REPRESENTED IN SENIOR POSITIONS AND EARN LESS



The business case for action

There is a strong business and economic case for closing the gender pay gap and for tackling its twin issue, the under-representation of women in management roles.

Research from McKinsey & Company¹ has quantified the benefits of women fulfilling their economic potential and playing an identical role in the labour market to that of men to be as much as £150bn a year to the UK economy – or \$28trn globally by 2025.

The latest research from Credit Suisse², published in September 2016, confirms its 2014 findings about the business benefits of diversity. It finds that diversified boards deliver better results, with an 18% return on equity premium for companies with gender-diverse senior leadership teams. As their first report states: “It is not a case of a greater ability of one gender versus the other but that a more diverse group makes for better decision making and corporate performance.”

That’s a perspective consistent in CMI’s research with MoralDNA³ which has highlighted the dangers of groupthink in management decision making. It found that, on average, female managers score 5% higher than men on the ethic of care at work. If employers want decision-making to be balanced and to fully reflect the potential impact on people – employees, customers and others – the ethic of care needs to be fully acknowledged. Increasing diversity in management roles is an important way of achieving that.

¹ McKinsey Global Institute and McKinsey & Company United Kingdom, *The Power of Parity: Advancing Women’s Equality in the United Kingdom (2016)*
 McKinsey & Company (2015) *The Power of Parity: How Advancing Women’s Equality Can Add \$12 Trillion to Global Growth*

² Credit Suisse (2014 and 2016) *The CS Gender 3000*

³ Steare, R., Stamboulides, P., Neville Lewis, P., Plas, L., Wilton, P., Woodman, P. (2014) *Managers and their MoralDNA*

2. WHAT ARE THE REGULATIONS?

The regulations will implement Section 78 of the Equality Act 2010. They will require employers in Great Britain with at least 250 employees to publish information relating to pay and bonuses for their male and female employees and to provide the number of male and female employees in quartile pay bands.

Who will they affect?

The regulations will affect employers in the private or voluntary sector with a head count of 250 or more relevant employees as of the 'snapshot' date, which will be 5 April annually. That means the regulations will cover around 7,850 employers, employing more than 11 million people – approximately 40% of the UK workforce. Parallel regulations due to be finalised in 2017 will drive reporting in the public sector, extending that impact to a total of nearly half of the workforce.

What is the timeline for the regulations?

Following an extensive consultation process throughout 2015 and 2016 involving employers, business groups and professional bodies including CMI, the regulations were laid before Parliament in December 2016.

The first 'snapshot' date for calculating the information required by the regulations will be 5 April 2017. Employers then have to publish the relevant data within 12 months.

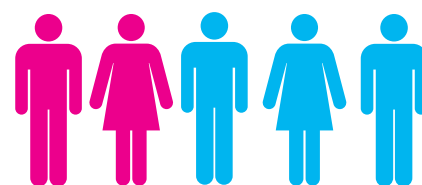
Where will the information be published?

Employers will have to publish the information annually on a searchable website that is reasonably accessible to both employees and the public, with a written statement confirming that the information is accurate. It will be a requirement that businesses retain the information online for three years in order to show trends. This will help encourage a longer-term view of the data that's published and will reward employers who show progress over time.

In addition, employers must upload the information to a government-sponsored website, which is in development and testing phases as of December 2016, supported by CMI and partner employers.

Employers will not be obliged to provide explanation or commentary on their data but CMI will encourage employers to take that opportunity. Providing commentary is an important way of putting the raw data in context, perhaps explaining how it is changing over time and what is being done to address any issues identified.

This will be important for employers' reputations with current staff and potential employees, as well as customers, investors and the public more widely.



The regulations will cover approximately
40%
of the workforce



What will employers have to publish?

The new regulations will require employers to calculate and publish four key pieces of information: the gender pay gap based on men and women's average salaries; the gender bonus gap over the previous year; the proportion of men and women receiving bonuses; and the numbers of men and women in each pay quartile.

CMI contributed to the development of these measures and welcomes the requirements. Overly simplistic reporting requirements could have hidden as much as they revealed, but these requirements will give a rounded picture of the state of pay in an organisation and help highlight areas where action may be needed.

1. The gender pay gap

Employers will have to calculate and publish the difference between the median and mean pay for men and women (expressed as a percentage of men's median and mean pay).

This is to be calculated using the 'snapshot' of pay for the pay period that includes 5 April.

2. Gender bonus gap

In addition to pay, employers will also have to publish data on bonuses. They need to show the mean and median value of bonuses paid to men and to women. This is based on bonuses paid over the previous 12 months, rather than just in the April pay period.

3. Who gets bonuses?

In addition to identifying the value of bonuses, employers will also have to show the proportion of men and women who receive bonuses. CMI and XpertHR analysis shows that not only do women tend to receive smaller bonuses, they are less likely to receive them at all – an issue that will be highlighted by this part of the regulations.

4. Numbers of men and women in each pay quartile

Employers will also be required to publish the proportion of men and women working in each pay quartile, most likely by dividing the workforce into four equal parts based on their hourly pay.

Analysis of official pay data shows that 60% of employees in the lowest pay quartile are women and over 60% in the highest quartile are men.

3. PREPARING FOR THE REGULATIONS

Many leading employers have already acted to assess whether they have a gender pay gap – and have published the findings as part of their efforts to address any gaps arising. Deloitte is one such employer. Their example provides insights into how, and why, employers are working to measure and close their gender pay gap.

CASE STUDY

Deloitte.

While the issue of the gender pay gap saw increasing public attention in 2015, at Deloitte we have been focused on this for some time. Gender diversity at leadership levels remains a challenge for many businesses, albeit there is an ever increasing understanding of the issues that hold women back in the workplace and the ways in which to tackle them.

Deloitte supported Government proposals to require larger employers to publish their gender pay gap and published our data in 2015 in our annual Impact Report. We must be open and transparent about the gender issues that face our business; reporting our gender pay gap was a way we could achieve this.

Our gender pay gap results did not surprise us, instead serving to confirm what we knew – that the challenge for us as a business is increasing the number of women we have at senior levels. When we look across our organisation as a whole our gender pay gap stands at 17.8% (around 1.3% below the national figure); however, the pay gap between male and female employees at each grade is significantly lower, at 1.5% on average.

In FY14, we set an ambition that 25% of our partner group would be women by 2020 and 30% by 2030.

We understood achieving this ambition would require sustained and meaningful action and where needed, cultural change.

Since this time we have implemented a range of actions to increase the number of women we recruit (at both an entry and experienced-hire level), ensured that development opportunities for women are clear, relevant and bespoke to the individual, and worked hard to provide a working

environment that truly enables all employees, men and women to balance a successful career with family life.

This focus has been critical to the progress we are now making – we have embraced agile working as a business priority, ensuring our people are able to work in a way that suits them and the business, and have introduced our award-winning Time Out scheme, which enables all our people to take a month's unpaid leave each year, for any reason.

Our relentless focus on respect and inclusion, of which our "Ask Yourself" film is a part, has also helped to ensure that we provide the working environment needed – one where our people are judged on the value they can bring to our firm. Alongside this, our return-to-work programme, open to individuals who have been out of the workforce for more than two years, is enabling senior women who had not previously considered re-starting their career to do so.

In addition, our re-designed Working Parents' Transition Programme has enabled those returning from maternity, paternity, parental, and adoption leave to do so with the support needed.

We recognise it is only through a combination of culture change and targeted actions that we will achieve greater gender diversity. This change must be meaningful and sustainable over the long term. We are mid-way through our journey, but are absolutely clear that reporting our gender pay gap has played a key role in accelerating progress.

This case study was developed with Think, Act, Report and is reproduced with permission. See Additional Resources for more.

4. ADDITIONAL RESOURCES

- **CMI Women** – launched in November 2016, CMI Women aims to inspire and support women throughout their careers and provide organisations with a Blueprint for Balance so they can benefit from being gender diverse. CMI Women aims to help create high performing, balanced teams; to support men as agents of change; and to tackle the ‘missing middle’, nurturing talent and supporting progression through the talent pipeline. www.managers.org.uk/cmi-women
- **Blueprint for Balance** – being developed by CMI Women, the Blueprint for Balance is an innovative open-source tool for employers to share and learn from good practice in improving gender diversity. It’s structured around six key areas, covering pay and rewards; skills and career development; promoting leadership equality; balanced recruitment; mentoring and sponsorship; and flexible working. www.managers.org.uk/cmi-women/blueprint-for-balance
- **National Management Salary Survey** – find the latest information on the gender pay gap among managers from CMI and XpertHR at www.managers.org.uk/mindthepaygap – and discover more about XpertHR’s salary surveys, including the National Management Salary Survey, at www.xperthr.co.uk
- **Think, Act, Report** – the government-led campaign to maximise female talent in the workplace. It offers a framework for action and employer case studies including the Deloitte case study reproduced here and others from leading employers like Tesco, PwC, and Friends Life. Topics covered include carrying out gender pay analysis, supporting female talent, enhancing provision for parents and setting targets to drive action. www.gov.uk/think-act-report
- **Trailblazing Transparency** – a 2016 report from the Government Equalities Office in partnership with Deloitte which outlines the importance of transparency for closing the gender pay gap, how businesses can benefit and actions employers are taking. www.gov.uk/government/publications/trailblazing-transparency-report-on-closing-the-gender-pay-gap
- **Full guidance on implementation** – detailed guidance for employers on how to implement the gender pay gap regulations is being developed by ACAS, with support from CMI, and will be published in advance of the regulations coming into effect. It will be available from www.acas.org.uk

Chartered Management Institute (CMI)

The Chartered Management Institute (CMI) is the only chartered professional body for management and leadership, dedicated to improving managers' skills and growing the number of qualified managers.

Our professional management qualifications span GCSE to PhD equivalent levels, including the unique Chartered Manager award, which increases earning potential and improves workplace performance.

We provide employers and individual managers with access to the latest management thinking and with practical online support that helps them to embrace change, create high-performing teams and keep ahead of the curve.

With a member community of more than 120,000 managers and leaders, we promote high standards of ethical practice through our Professional Code of Conduct, and help managers to build their expertise through online networks, regional events and mentoring opportunities.

For more information go to:

www.managers.org.uk/mindthepaygap

and join the conversation

@cmi_managers #MindThePayGap

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