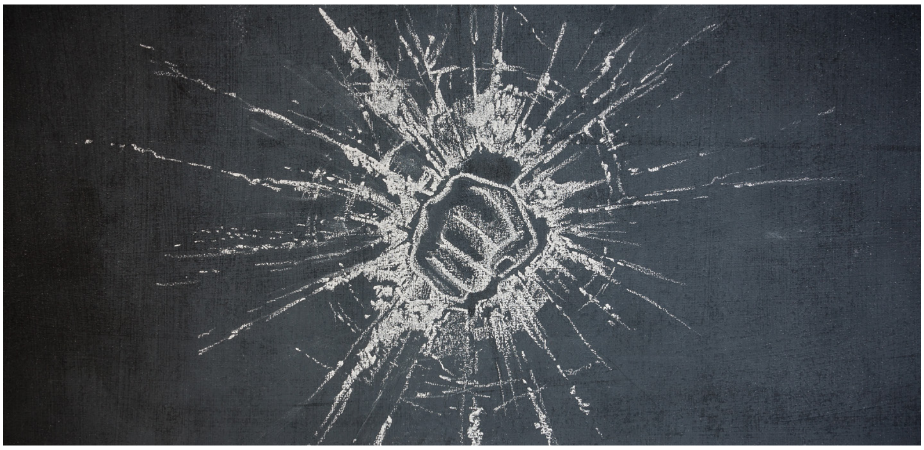

REPORT

Break Through

Gender pay gap reporting reveals there is still a long way to go

Bernadette Young FCG

As society's expectations of businesses move further away from a pure capitalist model, so stakeholder engagement and stakeholder interests are increasingly important corporate governance themes.

This is, in some aspects, more a shift in emphasis towards personal responsibility for taking stakeholder interests into account as various statutory protections have always tempered the freedoms of boards to make decisions that could otherwise disadvantage employees, consumers, suppliers, competitors and the environment.

One such statutory protection, equal pay legislation, has long-since provided a legal right for women to be paid the same as their male counterparts for comparable work and so, at least in theory, inequality in pay should have long since been consigned to the history books. Gender pay gap reporting, however, reveals that women on average still earn considerably less than men. According to the Office for National Statistics, the gap in the UK for 2020 was 15.5%. Percentages elsewhere in the world vary, but double-digit percentages remain the norm, with only a few countries achieving anything even close to parity. The glass ceiling may be slightly less solid than in the past, but it has certainly not been smashed.

Pay gaps are not limited to female-dominated careers such as those in the caring professions. A recent study of the financial sector by the London School of Economics (LSE) and Women In Banking and Finance found that male middle managers were holding their female colleagues back by using internal politics and even tactics such as 'fake empathy' to get ahead of women. Tolerance of such behaviours is a cultural issue and as such is not just one that the board can influence, but one that they absolutely should be influencing.

In many ways, the workplace is just a microcosm of the wider world, with attitudes only reflecting those that exist in society as a whole. Business chiefs cannot be expected to solve these deeply-ingrained societal issues, but they can certainly be part of the answer.

Through measures such as the board's leadership on diversity, policies which encourage women to aspire to and develop into more senior roles, improved pay transparency, increased flexible working for both men and women and recruitment processes which seek to remove unconscious bias, options for women to achieve higher career ambitions can become both more visible and more viable.

These are not new ideas and it is therefore particularly frustrating to find that the pay gap at board level continues to disappoint. Recruitment firm, New Street Consulting Group, recently published data showing that, for the FTSE100, women lagged their male counterparts in pay for both executive and non-executive roles. A whopping gap of 73% was found to exist between the average pay of a woman on a FTSE100 board versus that paid to the average male director.

This gap does not necessarily derive from men and women being paid differently for equivalent responsibilities, but, whilst the proportion of FTSE100 board positions held by women has increased to roughly a third, a much smaller proportion of women occupy the best-paid executive positions or the most senior non-executive roles which attract higher fees.

The FRC has proposed changes to disclosure requirements for listed companies to drill down more deeply into board diversity, with a consultation currently suggesting a minimum 40% representation of women at board level, at least one of whom should be a senior executive, the chair or SID, plus a requirement for at least one member of the board to be from a non-white ethnic minority background. The usual 'comply or explain' approach to disclosures would apply as well as a raft of numerical data requirements. If adopted into the listing rules, the increasing willingness of investors to take an activist approach with companies that fall short of expectations will no doubt also apply to these changes.

For businesses which continue to dawdle towards genuine board diversity and have so far failed to address, not only the proportion of women and people from non-white backgrounds appointed, but also their representation in senior C-suite and non-executive roles, their boards need to reconsider the real extent of their commitment to leading by example on issues of diversity and inclusion. As transparency on diversity issues increases, there will inevitably be a greater risk that poor practice will be exposed. If the numerous studies which have demonstrated the increased success of companies with diverse boards do not convince the worst offenders to accelerate change, perhaps the potential embarrassment factor, coupled with a greater willingness on the part of investors to take action, may do the trick.

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