



## THE GENDER PAY GAP: WHAT IS IT AND WHY DOES IT MATTER?

HELPSHEET

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The [Equality Act 2010 \(Gender Pay Gap Information\) Regulations](#) came in to effect on 6th April 2017. It is now a legal requirement for organisations with over 250 eligible employees to publish an annual report on their gender pay gap. The results for 2017 showed a gap in every sector and the results to date for 2018, have showed little if any improvement. In this ICAEW Know How Helpsheet we consider what the gender pay gap is and why it matters to all organisations.

### What is the gender pay gap?

The gender pay gap measures the difference between the average male pay (or bonus) and the average female pay (or bonus) as a proportion of the average male pay (or bonus).

In our Factsheet [Gender Pay Reporting : the Regulations](#) we explained the calculations that organisations with over 250 eligible employees must now produce and publish as part of their annual gender pay gap report.

It is not enough, however, for organisations to simply calculate their pay gaps: the onus is very much on employers to try to reduce the gap. In this Helpsheet we explain why it is beneficial for organisations to try to reduce the gap. To help members we have also published an ICAEW Know How Helpsheet offering some advice - [Mending the Gender Pay Gap](#) - and produced a webinar [Gender Pay: Mending the Gap](#) in which Jane Berney (ICAEW) and Katy Bennett (PwC) discuss the regulations, the issues that the first year of reporting have identified and offer some practical tips on what to do now.

### Is there a gender pay gap?

Yes. The first year's reports (for 2017) made it very clear that there is a gender pay gap. In every sector of the economy and at every level of employment average male hourly pay and bonus exceeded average female hourly pay and bonus. Overall the median gender pay gap was 9.7% but there were significant variations by sector as the following table shows:

| 2017 Median Hourly Pay Gap by Sector |     |
|--------------------------------------|-----|
| Construction                         | 25% |
| Education                            | 20% |
| Professional and Scientific          | 16% |
| Manufacturing                        | 10% |
| Retail                               | 6%  |

Within organisations, irrespective of their business sector, there were significant gaps the more senior the employee. Analysis of all the reports submitted for 2017 showed that as pay increased the number of women in each quartile decreased: only 19% of all women are in the highest paid quartile of employees in their organisation whereas 29.5% were in the lowest paid quartile of employees in their organisation.

The 2017 reports also highlighted that the age and working patterns of an organisation's employees can influence the overall size of any gap as well. The gender pay gap for full time employees aged 18-39, for example, was close to zero in 2017 but for older employees the gap was far wider. Similarly if an organisation employs a significant number of part time female employees this will increase the gap overall.

It is not just a problem in the UK. According to research conducted in 2014 by the OECD, full time male employees in the EU and 35 other countries were paid 13.8% more per hour than full time female employees.

### Why mend the gender pay gap?

If the gender pay gap is so ingrained it may seem pointless to try to mend it but there are a number of reasons why ignoring it is not the answer.

#### 1. Reputational damage

By calculating their Gender Pay Gap organisations are able to see where any gaps lie. But this is not just an internal exercise as an organisation must publish its figures (prominently) on the organisation's website and on the government's [gender pay gap service webpage](#). This means they are open to scrutiny by interested parties including current and future employees

Employers are also strongly encouraged to produce a narrative explaining their figures and how they are going to address any gaps identified. Even though this is not compulsory, again interested parties are expected to review the accompanying narrative and use it to monitor progress. The outcry in the press and on social media sites when the 2017 reports were published certainly demonstrate that the figures were of interest. Furthermore the government anticipates that organisations that do not take action or demonstrate any progress may well find that consumers, suppliers and other users are less keen to purchase or use their services and that it may also prove off putting to current and future employees.

It is hoped that this scrutiny will provide a 'nudge' to employers to make serious efforts to reduce any gaps but a desire to avoid adverse publicity and reputational damage is not the only reason employers should act.

#### 2. Employee perceptions

A [2018 survey](#) by the Equality and Human Rights Commission (ECHR) found that a gender pay gap can have a detrimental effect on staff motivation, behaviour and an organisation's ability to retain and recruit staff. The survey found that:

**61% of women consider an employer's gender pay gap when applying for a job**

**58% of women are less likely to recommend an employer because of its gender pay gap**

**56% of women said a gender pay gap can reduce their motivation in their role**

But is not just women who are influenced by the gender pay gap within an organisation as the survey found that:

**39% of men said they would be less proud of an employer with a gender pay gap**

**69% of men would be willing to help their employer reduce the gender pay gap**

**25% of men said a gender pay gap can reduce their motivation in their role**

### 3. Commercial Sense

There is a growing body of research that suggest that organisations with a diverse workforce consistently outperform those that do not. Studies by McKinsey& Co, for example, have consistently shown that there is a direct relationship between diversity and business performance. In particular they have found that the highest performing companies had more women in executive roles than poorly performing companies.

This is because a balanced workforce seems to have a beneficial effect on culture and behaviours and as a consequence profitability and productivity improve.

In addition there is some evidence to suggest consumers and shareholders are starting to vote with their feet. The Investment Association's (IA) Public Register, for example, shows that an increasing number of investors are voting against the appointment of male directors in companies with all male or male dominated boards. Furthermore IA has recently decided that it will 'name and shame' those UK companies with either one or no female representation on the board. This is because it has found that diverse boards make better decisions and so provide a better return to investors.

There is only anecdotal evidence that consumers may favour those organisations that appear to be more diverse but even if the evidence is still anecdotal no organisation can afford to take the risk.

#### Can we mend the gender pay gap?

If the evidence for the beneficial effects of reducing the gap is becoming increasingly clear, how to mend the gap is not so clear. Unfortunately there is no 'magic bullet' or even a series of 'magic bullets' that will reduce the gap. For most organisations it will take time and a variety of approaches.

In our Helpsheet *Mending the Gender Pay Gap* and webinar *Gender Pay: Mending the Gap* we offer some practical tips on what to do now.

## Further resources

- [ACAS](#) for advice on how to calculate and report the gender pay gap
- The Government's [Gender Pay Gap Service](#) – for details of who (and what) has been reported so far and advice on practical policies that help and those that are not so helpful.
- Equalities and Human Rights Commission ([ECHR](#)) – for advice, details of their enforcement policy and any organisations that have failed to comply with the regulations.
- ICAEW's [diversity community](#) - information and best practice guidance on the different areas of diversity
- ICAEW Know How - [Gender Pay Gap Reporting: the Regulations](#)
- ICAEW Know How - [Mending the Gender Pay Gap](#)
- ICAEW webinar - [Gender Pay: Mending the Gap](#)

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