

Kate Andrews

2nd April 2018

Summary:

Despite an influx of new gender pay gap data - ranging from negative gaps, to gaps exceeding 60% - the government's new pay gap reporting measures fail to provide any meaningful insight into equal or fair pay for men and women in the workplace.

The requirement to measure pay gaps across entire organisations (rather than between comparable roles within organisations), as well as the omission of necessary data, renders the majority of the findings meaningless.

Examples in this briefing, including data from HSBC, EasyJet and Phase Eight, illustrate how the crude figures that have been released create a misleading picture, especially for companies that have hired large numbers of female staff into roles in lower pay quartiles.

The only area in which the data has been reported in a usable way is the second-to-last measurement: proportion of males and females receiving a bonus payment. Select data (as of 30 March 2018) for the FTSE 100 companies on this measure reveals a more positive picture for women than the rest of the data.

The incentives created by the pay gap reporting measures are not simply to hire more women into senior roles, but to hire fewer women into junior or lower paid roles – regardless of their qualifications - to achieve the closest calculation a company can get to a 0% pay gap.

The Gender Pay Gap Reporting Measures

In 2017, the government passed new legislation requiring large companies – defined as companies with 250 or more employees – to make public a series of figures related to the gender pay gap of the organisation.¹ The gender pay gap is defined by the legislation as “the difference between the average earnings of men and women, expressed relative to men’s earnings.”²

The figures, which large companies must calculate and report, include³:

- mean gender pay gap in hourly pay
- median gender pay gap in hourly pay
- mean bonus gender pay gap
- median bonus gender pay gap
- proportion of males and females receiving a bonus payment
- proportion of males and females in each pay quartile

Once reported, these figures are uploaded to a government database, which can be viewed by any member of the public.⁴ The figures for hourly pay, bonuses, and pay quartiles are published as standalone statistics, without context, such as job or age breakdown, that may have been calculated by the employer.

Key Points:

- New government legislation requires large companies – defined as companies with 250 or more employees – to make public a series of figures related to the gender pay gap of the organisation.
- The figures for hourly pay, bonuses, and pay quartiles are published as standalone statistics, without context.
- Some of the reporting is notably out of line with the official data from the Office for National Statistics.
- There are a range of problems with the reporting measures.
- The new calculation requirements for mean and median hourly pay do not distinguish between full-time workers and part-time workers.
- The data fails to reveal any information about men and women doing comparable work.
- The only area in which the data has been reported in a usable way is the second-to-last measurement: proportion of male and females receiving a bonus payment.

Large companies are now required to publish their pay gap figures every year, by 30 March for public sector organisations, and by 4 April for businesses and charities.⁵

How Does the New Data Compare to Official Data?

Gender pay gap figures reported in the first year, thus far, have ranged from negative gaps – that is, gaps in favour of women – to gender pay gaps exceeding 60%.⁶

Some of the reporting is notably out of line with the official data from the Office for National Statistics, which placed the provisional 2017 gender pay gap at 9.1% for full-time workers, in favor of men; and -5.1% for part-time workers, in favor of women.⁷

Problems with the Reporting Measures

No breakdown

Unlike the ONS figures, the new calculation requirements for mean and median hourly pay do not distinguish between full-time workers and part-time workers. As women are significantly more likely to work part-time⁸, for which the average salary tends to be lower⁹, the results are almost guaranteed to be skewed towards men. Not separating full-time work from part-time work makes it more difficult to determine if the pay gap is a result of sex discrimination or the nature of a person's employment.¹⁰

No like-for-like comparisons

Gender pay gap statistics are more or less meaningful depending on the extent to which they compare pay in like-for-like circumstances. The government's new reporting measures do not take into account key differentials, such as job, background, education level, age, or years of experience.

The statistics being published by large companies thus fail to reveal any information about men and women doing comparable work. Nor, for this reason, can the results reveal any form of employer discrimination or noncompliance with the Equality Act of 2010.¹¹

Missing data

The failure to provide like-for-like comparisons also makes the figures concerning mean and median bonuses uninformative. However, these calculations have further defects.

Publishing bonus calculations without the additional information of 'total hours worked' makes it impossible to determine if the pay disparity is based on sex discrimination, or if it is based on the number of hours an employee has worked (both contracted and overtime).¹²

- Select data (as of 30 March 2018) for the FTSE 100 companies on this measure reveals a more positive picture for women than the rest of the data.
- Of the 70 FTSE 100 companies to report their figures so far, 36 companies gave bonuses to a higher percentage of their female staff, while 31 companies gave bonuses to a higher percentage of their male staff.
- Of the 31 companies that favoured men, 18 were within a margin of 3% - a statistically negligible gap between the genders.
- Including the mean calculation for hourly pay gaps has enabled increased cherry-picking of larger statistics. HSBC was reported as having the "largest gender pay gap of any financial firm", despite the more accurate pay gap calculation falling below a series of other major banks.
- Companies like EasyJet and Phase Eight are penalised by the blunt calculation of pay gap statistics because of their decision to hire more women into their largest internal job sectors
- Incentives created by the pay gap reporting measures are not simply to hire more women into senior roles, but to hire fewer women into junior or lower paid roles, to achieve the closest calculation a company can get to a 0% pay gap.
- Employers may feel pressured to hire more men in the lower quartile pay range, denying entry level positions to more qualified women.
- On top of the burden imposed on companies by the government's demand that they compile and report the meaningless figures, some may suffer commercial damage as a result of misunderstandings these figures encourage.

Publishing bonus figures without additional information of 'salary per annum' makes it impossible to calculate the percentage of one's salary the bonus accounts for (i.e. a £2,000 bonus on a salary of £20,000 per annum is a bigger bonus, percentage-wise, than a £2,000 bonus on a salary of £100,000 per annum). This is arguably the more meaningful calculation when it comes to determining bonus pay, especially as it relates to possible discrimination between genders.

Furthermore, publishing the proportion of men and women in pay quartiles, without a breakdown of age within the organisation, makes it impossible to determine if a disparity is caused by sex discrimination or other factors, such as the recruitment of young female graduates into junior roles.

Bonus payments: men vs. women

The requirement to measure pay gaps across entire organisations (rather than between comparable roles within organisations), as well as the omission of necessary data, renders the majority of the findings meaningless.

The only area in which the data has been reported in a usable way is the second-to-last measurement: proportion of males and females receiving a bonus payment.

While the lack of job information or hours worked still leaves large holes in the analysis, the simple breakdown of what percentage of men and women within an organisation received some form of cash bonus is relatively straightforward.

While a more comprehensive analysis will need to be conducted once all reporting has been submitted, select data (as of 30 March 2018) for the FTSE 100 companies on this measure reveals a more positive picture for women than the rest of the data.

Of the 70 FTSE 100 companies to report their figures so far, 36 companies gave bonuses to a higher percentage of their female staff, while 31 companies gave bonuses to a higher percentage of their male staff. Of the 31 companies that favoured men, 18 were within a margin of 3% - a statistically negligible gap between the genders. Of the 36 companies that favoured women, 22 were within a margin of 3%, equally as negligible.¹³

The Consequences

These new pay gap reporting measures do not merely fail to provide meaningful information about equality in the workplace; they create problems of their own.

Cherry-picking

There are already many gender pay gap statistics published every year in the UK.¹⁴ This influx of new numbers has further tainted the pool of data and allowed for more cherry-picking, particularly of the larger figures.

HSBC, for example, was reported as having the "largest gender pay gap of any financial firm"¹⁵ by a series of major news outlets, when its pay gap figures were released on 15 March. This was in reference to the UK-based bank's 59% mean hourly pay gap.

Using the mean rather than the median skews the figures towards the highest earners, which makes it less likely one is comparing circumstances like-for-like. This is why the official data from the ONS promotes and uses median calculations instead.¹⁶ HSBC's median pay gap was 29%¹⁷, which is lower than the pay gaps for Barclays, Royal Bank of Scotland, Standard Chartered, and Lloyds Bank.

Unfair demonisation

Despite the inability of the new pay gap figures to reveal sex discrimination, companies are facing reputational damage, threats of boycotts and, possibly fines¹⁸ because of these figures.

Example 1: EasyJet

EasyJet, a British low-cost carrier airline, reported its mean hourly pay gap as 51.7% in January 2018.¹⁹ The figure alone has led to the assumption of sex discrimination within the company. However, the breakdown of the pay gap reveals a different story.

EasyJet's cabin crew account of the majority of jobs within the organisation; of these roles, 2,002 (69%) are held by women, on an average salary of £24,800 per annum. In comparison, EasyJet pilots account for 26% of the jobs within the organisation, of which 86 jobs (roughly 6%) are held by women, on an average salary of £92,400 per year.²⁰

When comparing male and female cabin crew and male and female pilots in their respective roles, EasyJet reports that women earn 100%²¹ of what their male equivalents earn. It is the high number of women employed within the company as cabin crew, and the relatively small number of women employed as pilots, which accounts for the headline pay gap figure of 51.7%.

There's more. The percentage of EasyJet female pilots is roughly the same as the percentage of female pilots registered in Britain and 3 percentage points higher than the figure worldwide.²²

EasyJet's Amy Johnson Initiative has set a "target that 20% of new entrant cadet pilots recruited by easyJet in 2020 are female".²³ But even now, the company employs a higher percentage of female pilots than the industry average.

Example 2: Phase Eight

Clothing retailer Phase Eight has been criticized for publishing its mean hourly pay gap as 64.8%, and for their pay quartile breakdown, which shows over 99.5% of women ranking in the 'upper middle', 'lower middle', and 'lower' quartiles.²⁴

Again, the breakdown reveals a different story. Women make up almost the entire staff of Phase Eight. Of the 1,754 people employed at the organisation, only 44 are men. As such, women are bound to dominate every pay quartile, including the 'upper' quartile (which women at Phase Eight do).²⁵

Of the 44 men working for Phase Eight, 39 of them are reported to work in the corporate head office. However, despite male prevalence at management levels, women still make up nearly half of Phase Eight's senior leadership team (47%). Phase Eight also reports that its internal promotions over the past 12 months have been 88% female.²⁶

Bad Incentives

The two examples above illustrate scenarios in which companies are penalised by the blunt calculation of

pay gap statistics because of their decision to hire more women into their largest internal job sectors (in both cases, those jobs – cabin crew and retail – are in the lower quartiles of pay).

The incentives created by the pay gap reporting measures are not simply to hire more women into senior roles, but to hire fewer women into junior or lower paid roles, to achieve the closest calculation a company can get to a 0% pay gap.

This could have an impact on job opportunities for women across the age spectrum. But it may be particularly damaging to younger women who are seeking their first job after graduation. Employers publishing their pay quartile statistics – under the assumption that a higher percentage of women in lower quartiles is a bad result – may feel pressured to hire more men in the lower quartile pay range, denying ‘entry level’ positions to more qualified women.

Conclusion

Outside of some interesting data gleaned from the breakdown of bonus payments, the government’s pay gap reporting measures fail to provide any meaningful insight into equal or fair pay for men and women in the workplace. Because they fail to take account of the type of work being done by men and women within a company, they cannot reveal sex discrimination.

The crude data that has been released creates a misleading picture, especially for companies that hired large numbers of female staff into roles in lower pay quartiles. On top of the burden imposed on them by the government’s demand that they compile and report the meaningless figures, some may suffer commercial damage as a result of misunderstandings these figures encourage.

Footnotes

- 1 <https://www.gov.uk/guidance/gender-pay-gap-reporting-overview>
- 2 <https://www.gov.uk/guidance/gender-pay-gap-reporting-overview>
- 3 <https://www.gov.uk/guidance/gender-pay-gap-reporting-make-your-calculations>
- 4 <https://gender-pay-gap.service.gov.uk/Viewing/search-results>
- 5 <https://www.gov.uk/guidance/gender-pay-gap-reporting-overview>
- 6 <https://gender-pay-gap.service.gov.uk/Viewing/search-results>
- 7 <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/bulletins/annualsurveyofhoursandearnings/2017provisionaland2016revisedresults>
- 8 <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/articles/understandingthegenderpaygapintheuk/2018-01-17>
- 9 <http://repec.iza.org/dp1261.pdf>
- 10 To put this into perspective: when the Office for National Statistics breaks down the pay gap from a combination of full-time and part-time work (18.4%, 2017) into separate categories, the pay gap nearly halves for full-time work, and reverses, in favor of women, for part-time work.
- 11 <https://iea.org.uk/wp-content/uploads/2017/11/Gender-Pay-Gap-A-briefing-1.pdf>
- 12 Bourne, R. and Shackleton, J.R. (2016) And How Much Do You Earn? Public pressure for government regulation of pay, IEA Discussion Paper No. 73. London: Institute of Economic Affairs <https://iea.org.uk/wp-content/uploads/2016/08/And-how-much-do-you-earn-PDF-1.pdf>
- 13 <https://iea.org.uk/wp-content/uploads/2018/03/Final-Pay-Gap-Reporting-Measures-bonus.pdf>
- Because some brands have had to breakdown their pay gaps into multiple registered companies, these figures come 1) from the company’s official pay gap report, if available, 2) from the government’s official database, if available. They are up to date as of 30 March 2018, and will need to be reassessed before any conclusive analysis can be made.
- 14 <https://iea.org.uk/publications/the-gender-pay-gap-a-briefing/>
- 15 <https://www.independent.co.uk/news/business/news/hsbc-gender-pay-gap-largest-uk-financial-firm-april-deadline-men-women-salary-a8257941.html>
- 16 <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/articles/understandingthegenderpaygapintheuk/2018-01-17>
- 17 <https://gender-pay-gap.service.gov.uk/viewing/employer-details?id=169-00MOQ2A152qHtBBHBg%21%21>
- 18 <https://www.independent.co.uk/news/business/news/gender-pay-gap-reporting-deadline-april-fines-reputational-damage-ehrc-warning-a8274236.html>
- 19 <http://www.bbc.co.uk/news/uk-42580194>
- 20 <http://corporate.easyjet.com/~media/Files/E/Easyjet/attachments/easyjet-gender-pay-gap-report-november-2017>
- 21 <http://corporate.easyjet.com/~media/Files/E/Easyjet/attachments/easyjet-gender-pay-gap-report-november-2017>
- 22 <https://www.theguardian.com/travel/2017/mar/08/why-airlines-need-more-female-pilots-to-take-to-the-skies>
- 23 <https://careers.easyjet.com/pilots/female-pilot-opportunities/>
- 24 <http://www.phase-eight.com/fcp/content/gender-pay-policy/content>
- 25 <http://www.phase-eight.com/fcp/content/gender-pay-policy/content>
- 26 <http://www.phase-eight.com/fcp/content/gender-pay-policy/>