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Briefing

The Gender Pay Gap Reporting Measures: 2019 Update

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Summary

Now into the second year of mandated gender pay gap reporting for large organisations, it has become increasingly clear that the influx of data - ranging from negative gaps, to gaps exceeding 50% - fails 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 KPMG, EasyJet, Npower, Thomas Cook and the National Health Service, 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 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.

Gender Pay Gap Reporting

In 2017, the government passed new legislation requiring large employers, defined as organisations with 250 or more employees, to make public a series of figures related to the organisation's gender pay gap. [i]

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] Large employers 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.[3]

Organisations are required to publish figures from their 'snapshot' date, which is 31 March for public sector organisations, and 5 April for businesses and charities. Employers then have a year to publish the data publicly;[4] as such, reference to 2017 data is from the first year of pay gap reporting (finalised in 2018), and reference to 2018 data is from this year's reporting (finalised in 2019).

The Reporting Measures

The figures, which large organisations must calculate and report[5], include:

- 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; and
- proportion of males and females in each pay quartile

These measures remain the same as they did in 2018 – the first year companies reported their data.

Once calculated, the figures are uploaded to a government database, which is publicly available.[6] The figures are published as standalone statistics, without context, such as job or age breakdown, that may have been calculated by the employer.

Snapshot of 2017

The first round of pay gap reporting found, from data submitted by the 2018 deadline, that 7,795 out of 10,016 companies and public sector bodies had a pay gap in favour of men.[7] 1,557 companies missed the midnight deadline on the 4 April.[8]

Questionable Reporting

The breakdown of the widest gender pay gaps[10] in the first year of reporting highlights immediate issues with the reporting measures and the inaccuracy of the data.

The largest pay gap reported last year was from NWN Media Limited. Its median hourly wage gap of 85.2% was originally reported to be in favour of men; after revising the input of the data, it turned out to be a pay gap in favour of women.[11]

GoToDoc was also reported by the BBC[12] to be one of the top 10 employers with the widest pay gap, over 75%; the figures for 2017 on the government's database currently report a 21.8% pay gap in favour of women.[13]

How Does the New Data Compare to Official Data?

Gender pay gap figures reported in the first year, as well as this year, range from negative gaps – that is, gaps in favour of women – to gender pay gaps exceeding 50%.

Some of the reporting is notably out of line with the official data from the Office for National Statistics (ONS), which placed the 2018 gender pay gap at 8.6% for full-time workers, in favour of men; and -4.4% for part-time workers, in favour of women.[14]

Problems with reporting measures

No breakdown

Unlike the ONS figures, the 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-time,[15] for which the average salary tends to be lower,[16] the results are almost guaranteed to show that men earn more.

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.[17]

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 reporting measures do not take into account key differentials, such as job, background, education or degree level, age, or years of experience.

Some have argued that accounting for differences would be a measurement of 'equal pay' as opposed to the 'gender pay gap'; but a calculation of equal pay would need to take a much larger range of factors into account (specific education, skill set, contacts, talent, employee progress, etc). Breaking down broad categories, like job, is ideal for calculating a gender pay gap, as it removes obvious faulty comparisons (i.e. comparing the CEO of a company to a newly hired graduate working as a junior researcher).

The statistics being published by large organisations fail to reveal broad or specific information about differentials; thus, they do not reveal any meaningful information about men and women doing comparable work. For the same reason, the results cannot be used to reveal any form of employer discrimination or non-compliance with the Equality Act of 2010.[18]

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).[19]

The only area in which the data has been reported in a semi-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, and the likelihood of receiving a bonus is more common in certain kinds of jobs, the simple breakdown of what percentage of men and women within an organisation received some form of cash bonus is relatively straightforward.

The consequences

Cherry-picking

There are already numerous gender pay gap statistics published every year in the UK.[20] This influx of new numbers has further tainted the pool of data and allowed for more cherry-picking, particularly of the larger figures.

KPMG was found to have the largest pay gap of the biggest four professional service networks ('Big Four') in 2018, as it increased from a median hourly pay gap of 27% to 28%.[21] Its rivals – EY, PwC and Deloitte – all have pay gaps under 19.5%.

However, the breakdown of the bonus pay gap tells a different story. KPMG has the smallest bonus pay gap of 29.2%,[22] while PwC[23] and EY[24] have bonus pay gaps in favour of men at 32.2% and 35% respectively, while Deloitte has a gap of 45.5%.[25]

KPMG has also noted that its pay gap largely stems from hiring "more females in support and non-revenue generating roles,"[26] including a "higher ratio of HR, finance and secretarial staff employed in the UK than its three largest rivals."[27]

Unfair demonisation

Despite the inability of the pay gap figures to reveal sex discrimination, employers are facing reputational damage, threats of boycotts and possibly fines[28] because of these figures.

Example 1: EasyJet and Virgin Atlantic

In the first year of the pay gap reporting measures, EasyJet - a British low-cost carrier airline – was heavily criticised for reporting a mean hourly pay gap of 51.7%.[29] The company's mean pay gap has increased to 54.1% (its median pay gap has increased too, from 45.5% to 47.9%) according to 2018 data.[30] These figures alone have led to the assumption of sex discrimination within the company.

However, the breakdown of the pay gaps reveals a different story. EasyJet's cabin crew account of the majority of jobs within the organisation; of these roles, 71% are held by women,[31] paid a salary of under £24,000 per annum;[32] in comparison, EasyJet pilots account for 26% of the jobs within the organisation, of which 5% of jobs are held by women, on an average salary of on average £98,000 per year.

When comparing male and female cabin crew and male and female pilots in their respective roles, EasyJet reports that women earn[33] 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 54.1%.

EasyJet's Amy Johnson Initiative has set a "target that 20% of new entrant cadet pilots recruited by easyJet in 2020 are female".[34] This initiative was set in motion years before the pay gap reporting measures came into force. In 2018, the company increased its percentage of new entrant female pilots to 15%, 2% higher than 2017.[35]

The percentage of EasyJet female pilots is roughly the same as the percentage of female pilots registered worldwide. The increase in female pilots employed by the company - 128 in 2015 to 222 in 2018 – is even more considerable when taking into account the limited availability of potential female hires with the appropriate training.[36]

Virgin Atlantic's 2018 figures have also been flagged for moving backwards, as their mean pay gap increased from 57.9%. in 2017 to 58.9% in 2018.[37]

Again, the pay gap is directly explained by the breakdown of men and women in vastly different roles. In 2017, of Virgin's 9,415 employees, only 118 women were employed as pilots or engineers, compared to 5,840 women hired as cabin crew, office workers, or retail staff.[38]

Example 2: Npower and Thomas Cook

Npower, a gas and electricity supplier, has reported a median gender pay gap of 18% for 2018.[39] While the company notes part of its pay gap results from division in senior management roles and hours worked, it has also highlighted how the pay gap reporting measures fail to take into account salary sacrificing benefits, which at Npower have largely been taken up by women.

Npower offers its employees a range of benefits and flexibility[40] – including childcare vouchers, flexible working, private health insurance, and parenting policies that allow parents more options and control over their work/life balance – some of which require payment or salary sacrifice before tax and national insurance are deducted.

An employee's decision whether or not to take up these benefits will have an impact on the company's gender pay gap; specifically, it will increase the pay gap in favour of men if more female employees are trading salary for benefits than male employees.

Thomas Cook – the airline carrier – has similar problems to easyJet and Virgin Atlantic when calculating their pay gap (last year 8% of their pilot recruitments were female - 3% higher than the percentage of female pilots worldwide); but their 52.2% mean gender pay gap (42.6% median gender pay gap) is also attributed to "pension contribution or childcare vouchers as it is calculated on pay after salary sacrifice arrangements," which the gender pay gap reporting measures fail to take into account.[41]

Example 3: The National Health Service

2018 figures reveal the NHS has a 23% gender pay gap, while GPs have a 33% pay gap, despite over 50% of GPs being female.[42]

This year's reports around the NHS gender pay gap reveal a new level of failure of the pay gap reporting measures to take context into account.

The majority of salaried NHS professionals are on a national pay scale,[43] meaning a public sector salary pay band is implemented across the board for all employees.

This almost completely removes questions of gender discrimination in wages, as wages are not subjectively set by managers, but instead set irrespective of circumstance by the state.

Discrepancies in pay within the NHS, more so than most other organisations, can be attributed to the employee's position or number of hours worked, as female GPs are more likely to work part-time.[44] There is no evidence of failure on the part of the employer to match women's salaries to men's salaries.

Bad Incentives

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.

In the case of KPMG, EasyJet and Virgin Atlantic, their pay gaps could be significantly reduced if the companies stopped recruiting women into some of their largest internal job sectors, which are in the lower quartiles of pay.

In the case of Npower and Thomas Cook, their pay gaps could be significantly reduced if they reneged their benefit offers and abandoned opportunities for increased flexibility in an employee's working week; this would be an undesirable outcome, but would shrink their gender pay gap, for which they are being publicly criticised.

In the case of the National Health Service, where the pay structure makes gender discrimination near impossible, one would need to implement draconian measures – either increasing minimum working hours or lowering the cap on working hours - to ensure all employees are working almost the same number of hours a week, limiting pay differentials and closing the pay gap.[45]

The poor incentives created by the gender pay gap reporting measures 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.

Gender Pay Gap v Equal Pay

It is broadly agreed that the pay gap reporting measures are meant to calculate the gender pay gap within an organisation, not measure equal pay for equal work.

However, the way these figures are represented on the government's official database (as well as across the media) confuse these two definitions, making the status of women in these organisations even less clear.

For example, the 2018 median hourly pay gap at ITV is 12.6% in favour of men; this is expressed on the pay gap reporting official website as: "women earn 87p for every £1 that men earn," based on average hourly wages.[46]

This wording suggests women are paid less than men – an issue of equal pay. But equal pay has not been calculated, and the suggestion that women at ITV are 'paid less' is far from true in many individual cases. Chief Executive of ITV Dame Carolyn McCall does not earn a fraction of what her male co-workers earn at ITV; her salary is an estimated £900,000, and it is thought she will end up taking home more long-term pay than her male predecessor.[47]

From the official pay gap reporting database to countless media headlines, the narrative is that women 'are paid less than men' when pay gap data is released; a statement that is categorically not true for many women in their respective organisation.

Conclusion

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.

While small and medium size organisations are currently exempt from pay gap reporting,[48] there are growing calls to force these employers to publish their data; meanwhile, a consultation recently closed in January 2019 to consider mandatory ethnicity pay gap reporting.[49]

If implemented, these statistics would create the same problems as the gender pay gap reporting measures, and likely more, as crude numbers are highly unlikely to reveal meaningful data about complex, numerous, and often small cohorts.[50]

The crude data that has been released creates a misleading picture, especially for organisations 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.

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