CAPITA

Diversity & Inclusion

Preparing for Reporting
Gender Pay Equity - Oct 2016

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Gender Pay Equity – An Overview

Introduction

Transparent reporting of gender pay gaps will be required of all employers of 250 or more people in the UK, from October 2016. The European Union will introduce broader diversity reporting standards from 2017.

Whilst many organisations may now focus on this issue in order to remain compliant and to mitigate possible damage to their employer brand, leading businesses are addressing gender (or other) pay inequities as an integral part of a comprehensive Diversity and Inclusion strategy. In either case, Capita can assist you.

Gender pay equity issues can usefully be separated into two categories:

- **Macro inequities**. These are typically expressed as the gap (in percentage terms) between average pay for men and the average pay for women – usually for a whole organisation (which UK reporting will be focused on) and/or hierarchical levels within it.
- **Micro inequities**. These are the gaps (in percentage terms) between the pay of individual men and women, or groups of men and women, who perform the same role (irrespective of job title) or produce work of equal value.

In this context 'pay' is usually analysed and reported in its constituent components (e.g. salary and bonuses – as will be required in the UK). This is because fixed and variable pay may be determined by different factors, leading to different degrees of inequity.

Macro Pay Inequities

Whilst there is some commonality in the causes of these types of gender pay inequity (primarily the impact of unconscious bias), approaches to address macro and micro pay inequities vary. Macro inequities are most likely to be a function of the disproportionate representation of men in the most senior (and therefore most highly rewarded) management and leadership levels of organisations.

This disparity reflects structural and cultural barriers to equitable career progression for women relative to men (such as unconscious bias, lack of workplace flexibility, too few sponsors, mentors and role models, and exclusive male cultures, networks and behaviours). These are complex and inter-related obstacles to overcome that require a strategic and multi-faceted approach to address.

We would be pleased to explain to you the services and resources that Capita offers which enable clients to respond to these challenges. These include:

- Design of a targeted diversity and inclusion strategy and building the underlying business case
- Audit and redesign of your key policies and processes – particularly in relation to talent management

- Inclusive leadership and management development, including unconscious bias awareness
- Establishment of robust diversity governance, measurement and reporting frameworks
- Communications planning and execution to engage stakeholders and build support for change

Micro Pay Inequities

Micro pay inequities are usually a function of unconscious bias in decision-making within performance management and pay review processes. Both men and women have unconscious biases – they are an inherent human trait. However, because men typically occupy a significant majority of decision-making roles (as managers and leaders) in businesses, pay outcomes frequently favour men and disadvantage women unfairly.

Gender pay inequities often originate in performance management processes, where gender bias skews performance ratings. This is because people tend to value attributes and behaviours which are similar to our own or reflect our values (which is known as affinity bias). Sometimes, male-centric performance and behavioural standards can become subtly institutionalised into people processes and structures (such as performance rating scales, standards and behavioural indicators within competency or capability frameworks). This gender-biased view of what constitutes good or outstanding performance is then fed into (and potentially amplified within) pay decision-making.

Some Recommended Interim Measures

Making the case and building stakeholder support for a holistic Diversity and Inclusion strategy takes time, as will the roll-out of leadership or management development and culture change interventions. To reduce the potential for gender pay equity issues to arise, the actions below may assist:

- **Reward policy**. Gender pay equity should be included as a specific principle and actively communicated (with a business rationale) to decision-makers before annual processes begin (including within any process guides or on-line help available to managers), ideally by the CEO.
- **Calibration or relativity meetings**. These are forums, applicable to both performance and pay decision-making, in which managers and leaders share their performance ratings and/or pay awards as well as the supporting rationale with their peer group. This increases transparency and provides an opportunity for gender equity comparisons, challenges and adjustments before decisions are communicated. HR representatives can play a valuable role in facilitating and guiding the discussions, and contributing a different (and potentially more objective) viewpoint.
- **Review bodies**. These are specifically formed groups of suitable managers or leaders who provide oversight of a set of performance and pay decisions, and who are empowered to question and seek adjustment of the outcomes (for individuals or groups of employees). The more diverse the review body

composition is (including, but not limited to, gender), the more effective it will be.

Conclusion

One of the unintended consequences of the shift from rigid and stratified salary structures (e.g. based on tenure or grade) to far fewer, much broader, overlapping salary bands is that managers now have much more discretion over pay outcomes. With this comes an increased risk that unconscious bias will influence these outcomes. Since bonus potential is often calculated as a percentage of salary, the total reward gender gap can be further leveraged.

Making one-off or annual pay adjustments to reduce or eliminate a specific gender pay gap will only temporarily relieve the symptoms rather than fix the underlying root cause. It may also help to mitigate short-term reputational and legal exposure, but it does not represent a sustainable or necessarily cost-effective solution.

A sustainable solution requires managers and leaders who make performance and pay decisions to become aware of their own particular unconscious biases. Ultimately, employers need to develop a workplace culture in which unconscious bias is understood, recognised, and appropriately challenged.

Capita has the expertise to help organisations achieve culture change and transformation.