

# Foreword

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*Last April I was asked by the government to undertake an independent review into women's employment and pay. I was delighted to accept the appointment which I regarded as an opportunity to make a difference in this vital area.*

*There can be no doubt that in the last 30 years great progress has been made in fostering an environment in which women can succeed. Today women are equalling, and often outperforming, men in the results achieved at schools and universities. The challenge now is to make sure that we capitalise on this success in Britain's workforce. The fact that women are still clustered in lower status and indeed lower paid jobs, and are critically under-represented at all levels of management is an indication that the UK is failing to use and develop the talents of its people to the full. This is surely a terrible waste of a national resource, and of the investment which has been made in women's education.*

*The arguments which I have set out in this review consider practical and business focused ways of addressing this disparity. Talking to chief executives and directors of many of the UK's leading companies and organisations I am convinced that there is an appetite for making further progress, and that now is the time to engender a step change in women's employment and pay. This sense of timeliness, however, should not blind us to the fact that the trends on which these arguments rest are long term and deep seated. The basic business imperative that success depends on recruiting and developing the best people remains just as true at times of economic down turn as at times of growth and prosperity. At all points in the economic cycle the potential rewards, in terms of increased competitiveness and productivity, of using and developing an organisation's human capital to the full, are immense.*

*I am conscious of the considerable debt I owe to all those who took the time to discuss the issues surrounding women's employment and pay with me. I have been encouraged by the enthusiastic support I have received, and stimulated by the diversity of opinions I have heard throughout the consultation process. Without such a wealth of information and ideas this review would have been very different, and I would like to thank all those whom I met, or who responded to my consultation letter, for their participation and involvement.*

*I was also fortunate to have been given access to a number of pieces of unpublished research which were invaluable in providing an academic underpinning for the evidence generated by the consultation process. In particular I would like to thank the National Institute for Economic and Social Research for letting me use their comprehensive study of the gender pay gap in advance of publication, and*

*Dr Jude Brown of the Judge Institute at Cambridge University for her guidance in relation to issues of labour market segregation. Finally, I would also like to thank the team from the Department for Education and Skills who were seconded to the Cabinet Office to work with me on this review, in particular Paul Agutu, Ryan Cannon, Pat Carty, Sarah Fielding and Natalie Parish. In addition I would also like to thank Dr Neil Williams.*

*The issues which this review has sought to address are both complex and culturally embedded. I am convinced that the recommendations I have made offer a real opportunity to make a difference on what is too often viewed as an intractable social and economic problem. However tackling the issues surrounding women's employment and pay will require a concerted and long-term commitment from all potential stakeholders. I see this review as the beginning of a process not an end in itself and I intend that my recommendations should reflect this perspective. I believe that we will effect the greatest change by ensuring that the debate, analysis and action continue, and I hope that this review will provide the platform to enable this to happen.*

A handwritten signature in blue ink that reads "Denise Kingsmill". The signature is written in a cursive style with a large initial 'D' and a long horizontal line extending from the 'e' in 'Denise'.

**Denise Kingsmill CBE**

# Contents

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<b>PART 1:</b>	<b>Conclusions and recommendations</b>	<b>5</b>
<b>PART 2:</b>	<b>Evidence and analysis</b>	<b>19</b>
	Women's employment and the gender pay gap in Britain	19
	Human capital management	31
	The public sector	43
	Making it happen	51
	Gender, low pay and part-time working	79
	Consultations held and the views of those consulted	86
<b>ANNEXES:</b>	Annex 1: Terms of reference for the Women's Employment and Pay Review	149
	Annex 2: List of companies/organisations met	150
	Annex 3: List of organisations who have committed to conducting an employment and pay review	155
	Annex 4: European labour market differentials	156
	Annex 5: Arthur Anderson human capital management self assessment tool	160
	Annex 6: The public sector	174
	Annex 7: Equal Pay products	181
	Annex 8: Proposals to speed up and simplify tribunal processes	187



# Part I

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## Conclusions and Recommendations

**1.1** In April 2001 I was invited by Ministers to conduct a review into women's employment and pay. I was asked to examine and report on non-legislative and cost effective measures to improve women's employment prospects and participation in the labour market. My terms of reference are at Annex 1.

**1.2** My focus has been on developing practical proposals and solutions that work with the grain of the market. In conducting my review I have met approaching 100 senior executives as part of a continuing programme of meetings. I have heard in detail the challenges organisations from both the private sector and the public sector face in attracting and developing the workforce they need to compete effectively and meet the needs of the public both now and into the future. Many of those organisations have in place, or are in the process of implementing, a range of policies and programmes to identify and eliminate pay discrimination and improve their attractiveness as employers to women. I have been impressed by the widespread agreement on the need for further action on women's employment and pay. This is not simply a matter of equal treatment and social justice. Without such action the education and skills of women will be a wasted national resource. It is therefore important for the future productivity and competitiveness of the UK. Rapid technological innovation alongside globalisation is placing an increasing premium on human and intellectual capital. High demand for skilled workers and demographic changes, together with the growth of the knowledge economy and the service sector, are changing the way in which human capital is managed and valued. In dynamic and highly competitive markets organisations will be increasingly dependent upon their ability to attract, develop and retain their human capital in order to perform successfully.

### Women's employment and the gender pay gap in Britain

**1.3** I have considered evidence from a range of sources on causes and trends in women's employment and pay. In particular I have been fortunate to have had available to me soon to be published research into the gender pay gap in Britain conducted by the National Institute of Economic and Social Research.<sup>1</sup> That research shows the importance of factors that lead to the concentration of women in lower paid occupations and at lower levels in the hierarchy across all occupations.

<sup>1</sup> The National Institute of Economic and Social Research, *The Gender Pay Gap*, published by the women and Equality Unit (WEU) for WEU and DFES, 2001.

It also identified as significant differences in work experience, the role of part-time working and differences in travel patterns. The UK is not alone in experiencing a continuing pay gap between men and women. However, the operation of labour markets here, with the relatively high employment rates for women and high proportion of women working part-time compared to other EU member states, are relevant to our having one of the widest gender pay gaps within the EU when considering hourly earnings. Some key features of the NIESR findings, together with some international comparisons, are in section 2 of this report.

## Equity, social justice and the economy

**1.4** I am convinced that the scale and persistence of the gender pay gap in Britain reflects a failure in human capital management that is neither good for the economy nor in the interests of the majority of employers or employees. The need to address issues of women's employment and pay is not just a matter of creating a society in which men and women have equal opportunities and are equally valued for the contributions they make, important though these are. It is also a matter of ensuring the best use of the full range of available human capital to promote economic growth. Leading organisations subscribe to the view that their people are amongst their most important assets. The evidence suggests serious shortcomings in how effectively we utilise that resource. I repeatedly heard how organisations that have sought to review systematically the position of women within their workforce have discovered how women are clustered in lower paid jobs and grades and found unexpected differences in career patterns between men and women. I also heard evidence of how women, particularly those in part-time work, often have skills and qualifications well in excess of those required for the jobs they do. While progress has been made in the last 30 years in reducing the average gender pay gap for those in full-time work, this headline trend disguises more complex and less encouraging news on subsequent career development and on the continuing under-valuation of those who work part-time. Too often women have been faced with constraints on the choices open to them, reflecting a work environment grounded in a different era in which separation of roles into 'breadwinners' and 'homemakers' meant that employers faced little pressure to address wider life balance issues.

## Human capital management and corporate governance

**1.5** In section 3 I examine the business case for better human capital management (used throughout this report to mean management of people as a valuable resource rather than simply their education, skills and experience – see paragraph 3.4). The labour market is changing dramatically. Decreasing fertility rates and increasing life expectancy mean that employers will have to look to under utilised groups within the labour market and make the most effective use of their human capital to maintain

levels of growth. That means finding new ways of recruiting, retaining and developing women. The out-performance of women over men in terms of educational achievement at all levels makes it essential to maximise the benefits obtained from investment in women's education, which means addressing the disparities between the skills and attainments of women and the positions they occupy. In a climate in which competition for employees is fierce and in which rapid innovation demands the constant updating of knowledge and skills, the impact on business of failure to make best use of human capital will become increasingly severe. Any business that fails to ensure that women play a full part in its operations cannot hope to optimise its productivity and competitiveness. Conversely, the rewards for organisations that find ways to overcome the barriers and constraints that currently limit the role and contribution of women are considerable. They will minimise the costs and risks arising from litigation, high turnover and low morale, and enhance returns. Although still in its infancy, a growing body of research points to the importance of good human capital management practices. For example, recent work carried out at Sheffield's Institute of Work Psychology found that indicators of people management were strongly correlated with variations in productivity and profitability and were a better predictor of company performance than strategy, technology or research and development.

## The public sector

**1.6** The essential case for addressing women's employment and pay issues as part of efforts to improve their management of human capital applies to all organisations, whether in the private or public sectors. However, there are some distinctive features of the public sector that make it particularly appropriate for the public sector to seek to take a lead. I consider these in Section 4. A disproportionate number of women work in the public sector – 3.9 million, or over 30 per cent of all women employed in the UK - compared to 2.4 million men – less than 20 per cent of all men employed in the UK. The potential benefits to the public sector from making optimum use of its investment in women are therefore particularly high. But if the benefits are potentially great so are the costs and risks of failing to address these issues successfully. Women make up the majority in occupations such as nursing, teaching and caring, but even in these professions tend not to occupy the most senior posts. The ability of government to deliver improvements in a number of essential services to the population as a whole is critically dependent upon its ability to recruit, retain and develop staff of the right quality. The public sector is characterised by large employers engaged in provision of a wide range of functions and services. Each of these services will have its own history in terms of pay and employment practices and the extent to which women are concentrated in particular occupations and at lower grades. This is especially true for local government employers. The public sector is also more highly unionised. These features make it particularly vulnerable should it fail to actively address historic legacies over equal pay for work of equal value and other issues of women's employment and pay.

## Making it happen

### *The case for employment and pay reviews*

**1.7** In section 5 I consider why, in the face of so much evidence that promoting and developing the talents of women is in the best interests of business and public sector organisations, greater changes in women's pay and employment have not yet materialised and what might be required to move matters forward. Given such powerful drivers for change it is unsurprising that many organisations in both the private sector and in the public sector are adopting policies to reduce pay inequalities and improve opportunities for women. But from my discussions it became clear that too often these are not clearly linked to the organisation's strategic objectives, and very few have in place the systems necessary to consider these issues systematically or to monitor the impact of their policies. Most organisations simply lack the information to provide them with the quantified data necessary to make comparisons and track trends in the ways in which they recruit, train and develop staff. This information needs to cover not just pay but the ways in which men and women are used within the organisation. Information on recruitment, career development paths, retention rates and reasons for leaving needs to be recorded in addition to information on pay. Only with such information is it possible to compare the position of women and men in ways that will reveal discrepancies and barriers and enable the impact of initiatives to overcome these to be properly monitored and evaluated. How far does the data suggest that the talents and aspirations of all staff are being used to the greatest benefit of the organisation, or does it indicate hidden assumptions as to what work is appropriate or constraints affecting the ability of staff to develop and perform to the limits of their capabilities? Are there hidden pressures to work long hours or unsocial hours that disadvantage those with family responsibilities? How far do pay and promotion structures reward long service in ways that unreasonably disadvantage those with career breaks or who need to work less than full-time? I believe that this is a serious management weakness. What is not measured is not valued in business and cannot be properly managed. An essential first step to improving human capital management in Britain, and women's employment and pay, is therefore the widespread adoption of systematic employment and pay reviews as a core management practice. I welcome the work that is being done by bodies such as the Chartered Institute for Personnel and Development, the Equal Opportunities Commission, the Industrial Society and others, including professional and consulting firms, to develop tools and services to assist with such reviews.

**1.8** Under the 'Modernising Government' programme launched in March 1999, central government is committed to reviewing its pay and performance management systems, and on 27 March 2001 the Rt Hon Tessa Jowell, then Minister for Employment, said that *"Departments and Agencies [will] undertake pay reviews and prepare action plans within two years, as they review their pay systems, in order to close*



*any equal pay gaps*". I believe it is essential that those reviews do not concentrate solely on identifying and eliminating illegal pay discrimination, but are wider reviews of employment and pay of the type outlined above. From my discussions I am encouraged to hear that this seems to be intended, although some Department's and Agencies appear to be further ahead in their thinking than others. It will be important for government to ensure that continuing efforts are made to bring the standards of all up to those demonstrated by the best. I believe that aside from the benefits that should arise it is particularly important that the public sector signals its commitment to the use of such reviews as a way of improving human capital management and addressing issues over women's employment, and therefore that the requirement for such reviews should apply to all public sector bodies.

**1.9** A number of the senior executives with whom I met from the private sector were similarly willing to commit their organisations to undertake reviews (see annex 3). I have considered carefully whether it is necessary to go further, and make employment and pay reviews mandatory for private sector companies as well. I have concluded that this would not be desirable at this stage. I do not see such reviews as ends in themselves, but rather as essential management tools to enable organisations to identify the challenges they face and to assess the impact of the policies and initiatives they introduce. The experience of the companies that I have consulted indicates that employment and pay reviews are most effective in uncovering the strategic information that will be of benefit to the company as well as its employees when they are driven by business incentives and tied to corporate objectives. The path that a review will take depends upon the specific circumstances of the company involved, such that it is difficult to generate a "one size fits all" model. Firms will need to use the tools that work best for them, and I see a real risk that management will not take appropriate action in response to such reviews if they have conducted them simply because they were obliged to do so. Organisations are likely to find that addressing the issues that emerge requires a range of measures and may involve changing their work culture to address such issues as 'long hours' and barriers to flexible working. Those measures will be most effective where they clearly support key business objectives of the organisation and have the commitment of its top management. It is for this reason that I believe that the most successful programmes are likely to be those undertaken voluntarily. In this review I have therefore focused on actions that work with the grain of the market and which I judge should help to build and maintain momentum on a voluntary basis. But I do not believe that this is an issue on which government should close its mind. If it becomes clear over the next few years that a voluntary approach is leading to an unacceptable 'tail' of laggards who are simply not putting in place the systems to enable them to answer basic questions about their employment of women and the extent of any gender pay gap then it would be appropriate to return to the issue of whether a mandatory requirement for employment and pay reviews is necessary.

## *Contracting out public services*

**1.10** One consequence of requiring all public sector organisations to carry out reviews but encouraging companies to do so on a voluntary basis is that where services provided by the public sector are contracted out to the private sector the benefits may be lost. I consider the issues that this raises in paragraphs 5.18 to 5.25. Women have been disproportionately affected by contracting out and, it was forcefully put to me, have been adversely affected where the effect has been the creation of a two-tier workforce with new recruits being taken on at lower levels of pay or on inferior conditions to employees transferred to the new employer under the Transfer of Undertakings (Protection of Employment) Regulations. Notwithstanding recent changes to guidance on provisions of the 1988 Local Government Act to enable Authorities to take into account the terms of employment of the contractor's workforce I am concerned that without further action there could be a continuing adverse effect on women's employment and pay. I have concluded, therefore, that where work is contracted out bidders should be required to demonstrate that they will offer the terms and conditions prevailing previously where these have been established through a pay review or job evaluation. This should cover bidders for new services to be contracted out by the public sector as well as bidders for contracts that come up for renewal where there are clear comparators for the contracted out services still retained by the public sector.

## *Reporting*

1.11 In a rapidly evolving labour market it will be crucial to engage both institutional investors and individual shareholders in the human capital debate. It is becoming commonplace to refer to knowledge, innovation and technical or product development as key elements of competitiveness. The recently completed fundamental review of company law by The Company Law Review Steering Group notes that companies are increasingly reliant on qualitative and intangible assets such as the skills and knowledge of their employees, their business relationships and their reputation, and that information about future plans, opportunities, risks and strategies is just as important as the historical review of performance which forms the basis for reporting at present. It recommends that all companies of significant size produce an Operating and Financial Review (OFR) as part of their annual reports and accounts to include the information which the directors judge necessary to an understanding of their business and its future performance, and proposes that a Standards Board is established with the remit to produce standards and guidance on the OFR. In paragraphs 5.26 to 5.47 I consider the case for better reporting of human capital management to aid the efficient allocation of resources by investors and shareholders. Gender analysis should be a central element in this. I conclude that there is a strong case for including such information in the mandatory requirements in the OFR, building on the foundations laid by the Company Law Review, and recommend that

as a first step the government sets up an inquiry into methods and best practice involving business, investors, trade unions, human capital management specialists and the accountancy profession to provide input to the proposed Standards Board. A number of those I consulted in the course of my review indicated support for this and a willingness to participate in such an inquiry.

**1.12** Information of this type is important not only to investors in companies, but to other stakeholders. It is also important to stakeholders in public bodies and other types of organisation. I further conclude, therefore, that public sector bodies should be required to provide similar information in their annual reports. The proposed inquiry should also be asked to advise on appropriate ways of reporting similar information for smaller companies for which an OFR will not be required, for partnerships, for charitable bodies and for other organisations not required to file company reports and accounts.

### *The importance of leadership*

**1.13** In paragraphs 5.48 to 5.49 I consider the importance of leadership and a firm commitment at Board level to human capital and diversity objectives. Unless top management take a lead and maintain regular involvement, the effective management of human capital becomes a matter of policies and practices operated by the lower levels of human resource departments not anchored to the business objectives of the organisation. During my consultations I came across a number of organisations that have successfully included diversity objectives to deliver their business objectives in the key performance and appraisal indicators for senior management by linking it to their remuneration, and I was told that this has had a substantial effect in bringing about a culture change within those organisations. However this practice appears to be in its infancy in the public sector, though I was told that diversity targets have been introduced for heads of central government departments. The government is currently considering better ways to remunerate those who work in the public sector in order to improve delivery of public services, and I believe that the current reviews of pay and performance in the public sector provide an ideal opportunity to introduce measures of this kind. I recommend that an identifiable element of the appraisal and remuneration of all senior (board level) members of government departments and other public organisations is linked to the achievement of stated diversity objectives.

### *Promoting economic understanding and sustaining and rewarding best practice*

**1.14** As human capital management and the role of women's employment and pay moves to centre stage many organisations will find themselves facing new challenges. Whilst there are no 'magic bullets' in terms of policies or initiatives that

will be equally successful for all organisations, many of the issues that arise will not be unique to each organisation and I see considerable benefit in sharing the costs of academic research and dissemination of best practice. In paragraphs 5.51 to 5.60 I consider the case for a body in the UK with the dual function of initiating, sponsoring and co-ordinating research on issues affecting the careers and labour market prospects of all women and providing practical market driven solutions to business. Such a body needs to be business oriented and able to influence organisations at the highest levels. However I conclude that to be successful it will also need the authority that comes from being research based and independent, with strong academic foundations, and open and transparent to encourage public debate and wide dissemination of its findings. I am not convinced that any existing body in the UK meets these requirements, and recommend that the government seek to establish a centre of excellence with such a remit as a matter of priority. This should be jointly funded by business and government and allied to existing academic institutions, from whom bids might be sought to run it.

**1.15** It will be important for organisations that successfully address women's employment and pay issues as part of good human capital management practices to receive recognition for this, and for others who are seeking to improve human capital management practices to be encouraged to include these issues. Investors in People (IiP) is widely known and is acknowledged by employers to have done some excellent work in the past in helping companies succeed and compete through improving employees' performance. However there is widespread criticism that it has failed to keep up with developments in people management and does not address women's employment and pay. In consequence IiP has become increasingly irrelevant and peripheral to some of the main human resource challenges now faced by employers. Rather than introduce a new mark of recognition for organisations that successfully address women's employment and pay issues I recommend that IiP and the IiP standard are radically overhauled to include these.

### ***Existing legislation and the handling of claims***

**1.16** In paragraphs 5.77 to 5.86 I consider the handling of equal pay claims. From my discussions I have been convinced that progress on women's employment and pay would be helped by better ways of resolving disputes over unequal pay at the workplace. Currently, where a dispute of this nature arises, the employer is not required to disclose relevant information before an application is made to an industrial tribunal. It is clear to me from my consultations that even the best employers are not necessarily aware of all the anomalies in their pay structures, as has been revealed where they have conducted voluntary employment and pay reviews. To complement proposals to speed up and simplify tribunal cases I believe that the Government should give serious consideration to the introduction of a right for employees to request the employer to confirm whether he/she is receiving remuneration equal to

a named colleague, with the employer required to respond within a given period providing information either as to why the work is not similar or of equal value, or confirming action being taken to rectify the position, as appropriate.

### *Gender, low pay and part-time working*

**1.17** The gender pay gap affects women at all levels of pay. However women are more likely than men to be on low pay. They are also much more likely to be working part-time, often in jobs that are only available for a limited number of hours per week. The concentration of women in poorly paid part-time work is a significant factor in the scale and persistence of the gender pay gap in Britain. I consider the issues that this raises in section 6.

**1.18** I examined the suggestion that the pay gap between part-time and full-time workers reflects lower skills and productivity. It has been argued that the persistence of the wage gap between part-time women and full-time men in contrast to that between full-time women and full-time men can be explained by the growing pay differential in which low skilled occupations are losing ground to higher skilled occupations generally. There is evidence that women who work part-time have, on average, fewer qualifications and are less likely than those employed full-time to receive training from their employers. The government has recently introduced a number of initiatives to improve access and participation in training by people from disadvantaged groups, particularly those working part-time. But in many cases the ability of women on low pay to progress will depend upon the acquisition of new skills and I conclude that it may be desirable to go further, by introducing training tax credits available to employers who provide training to enable men or women on lower earnings to move to higher paid jobs.

**1.19** A further significant factor in the pay gap between part-time and full-time workers appears to be the particular concentration of part-time workers in a limited number of occupations with relatively low wages. As noted earlier this concentration in lower paid occupations applies to women generally. A number of initiatives have been taken in recent years to encourage greater participation by women in traditionally male dominated occupations in which women are seriously under-represented. But I believe that it is necessary to go further for women on lower earnings, to give employers an incentive to actively seek out suitable candidates for training. I propose the introduction of training tax credits available to employers who recruit and train women who would otherwise be unemployed or on low earnings for jobs in occupations in which women are seriously under-represented.

**1.20** Such differences are still not sufficient to explain the size and persistence of the pay gap between men who work full-time and women who work full-time. The NIESR report confirmed earlier research findings that all other variables being

equal, women who work part-time are paid less in terms of hourly rates than women (or men) who work full-time. The concentration of women in part-time work appears to arise primarily from pressure to combine work with home responsibilities. These pressures and the limited availability of part-time employment across the full range of occupations and skill levels mean that many women are unable to find employment in which their skills and potential are properly utilised. This is not simply a waste of valuable education and skills but has potentially serious implications for Britain's economic performance.

**1.21** It appears impossible, with the available data, finally to disentangle the causes of the gap in hourly rates between women who work part-time and men who work full-time, or to say whether unexplained differences reflect more fundamental failures in the relevant labour markets. This will require collection of long-run data that follows the careers of women in greater detail and numbers, and may also require more micro level research into the practices of organisations that are major employers of part-time workers and the labour markets in which they operate. I do not underestimate the difficulty of answering these questions, but I am clear that given the importance of part-time working to the gender pay gap further investigation would be justified. I recommend that as a first step that the Government convenes a group of relevant experts to see how such an investigation might best be organised, with a view to establishing a programme of research under the auspices of the new research and consultancy body proposed in paragraph 1.14 above.

**1.22** This work is needed to inform development of better strategies to break down divisions between 'part-time' jobs and workers and those who work full-time. It is important that public policy in other areas should not provide incentives to hold down hours and wages and thereby reinforce such divisions. Recent changes to the structure of national insurance contributions have been helpful in addressing one such incentive, but I am concerned that some employers will still be tempted to keep employees out of tax and national insurance to avoid both direct costs to themselves and the administrative burden. I am also concerned that the requirement from October 2001 for all employers with five or more relevant employees to offer a stakeholder pension scheme unless they already operate an occupational pension scheme or pay contributions of at least three per cent of pay into personal pensions for their staff may provide a further incentive to some employers to keep employees out of tax and national insurance. This is because part-time workers will not be 'relevant employees' if they earn less than the lower limit. I conclude that the Government needs to monitor the impact of both these changes, and further review the structure of tax and NICs and the rules governing provision of stakeholder pensions in terms of their implications for gender pay differences if it becomes clear that they are leading to the creation of part-time jobs paying just below the new lower earnings threshold or to a gender gap in the take-up of stakeholder pensions.

## Views of organisations consulted

**1.23** I have consulted widely in conducting my review, both through face to face discussions and through consideration of the responses to a consultation document. Some of the key points arising from my discussions and the responses to the consultation process are summarised in Section 7, with a list of those whom I met at annex 2. Unsurprisingly, not all of my proposals will meet with universal support. Nevertheless, I was gratified by the widespread acknowledgement of the business case for further action on women's employment and pay, and support for the main thrust of my proposals even where there were concerns and reservations over some of the specific details. In formulating my final recommendations I have considered carefully the points that were put to me, and sought to take on board some of the more specific concerns.

## Recommendations

**1.24** My recommendations, reviewed and developed in the light of the consultation exercise, are as follows:

- i. The Government to set up an inquiry, involving business, investors, trade unions, human capital management specialists and representatives of the accountancy profession to provide input to the Standards Board proposed by the Company Law Review. The inquiry should be asked to advise on incorporation of human capital management information, including information on women's employment and pay, as part of the mandatory requirements in OFRs. It should also be asked to advise on appropriate ways of reporting similar information for smaller companies for which an OFR will not be required, for partnerships, for charitable bodies and for other organisations not required to file company reports and accounts (see paragraphs 5.40 to 5.44).
- ii. Public sector bodies to be required to report similar information on human capital management in their annual reports (see paragraph 5.47).
- iii. Private sector organisations to be encouraged to conduct employment and pay reviews covering all aspects of women's employment in those organisations in addition to pay, by the time of introduction of OFRs (see paragraph 5.13).
- iv. All public sector bodies to be required to conduct employment and pay reviews to a similar timescale (see paragraph 5.17).
- v. The Government to monitor progress with employment and pay reviews in the private sector with a view to considering the need for legislation on laggards at a future date (see paragraph 5.13).



- vi. Where public sector work is contracted out for the first time, or where contracts come up for renewal and there are clear comparators for the contracted services still retained by the public sector, bidders to be required to demonstrate that they will offer the terms and conditions prevailing previously where these have been established through a pay review or job evaluation (see paragraph 5.25).
- vii. The Government to seek to establish a new academic centre of excellence, jointly funded by government and business, with the dual function of initiating, sponsoring and co-ordinating research on issues affecting the careers and labour market prospects of all women and providing practical market driven solutions to business (see paragraph 5.59).
- viii. An identifiable element of the appraisal and remuneration of senior (board level) members of Government Departments and other public organisations to be linked to the achievement of stated diversity objectives, as part of the more general move towards payment by objectives (see paragraph 5.49).
- ix. Overhaul of Investors in People (IiP) and the IiP standard to include women's employment and pay issues (see paragraph 5.76).
- x. The Government to give serious consideration to the introduction of a right for employees to request the employer to confirm whether he/she is receiving remuneration equal to a named colleague, with the employer required to respond within a given period giving information as to why the work is not similar or of equal value or confirming action being taken to rectify the position (see paragraph 5.86).
- xi. The Government to introduce training tax credits for employers, available in respect of employees on lower pay, who provide or fund training to enable those employees to move to higher paid jobs (see paragraph 6.10).
- xii. The government to introduce training tax credits available to employers who recruit and train women who would otherwise be unemployed or on low earnings for jobs in occupations in which women are seriously under-represented (see paragraph 6.12).
- xiii. The Government to convene a group of relevant experts to see how an investigation into the causes of differences in earnings between part-time and full-time workers and the operation of labour markets for part-time jobs might best be organised, with a view to establishing a research programme under the auspices of the new body proposed at (vii) above (see paragraph 6.15).
- xiv. The Government to monitor the impact of changes to the structure of tax and NICs and the rules governing provision of stakeholder pensions, and review these in terms of their implications for gender pay differences if it becomes clear that they are leading to the creation of part-time jobs paying just below the new lower earnings threshold or to a gender gap in the take-up of stakeholder pensions (see paragraph 6.20).



**1.25** The costs of implementing recommendations (i) to (iv) above will fall broadly, on both public sector and private sector organisations. They will vary widely from organisation to organisation, depending on the data systems each already has in place, the extent to which they have previously undertaken relevant reviews and the issues that are identified through future employment and pay reviews. Some of the costs will arise from meeting obligations under existing commitments and existing legislation. It is central to my argument that where additional costs are incurred through voluntary actions going beyond those obligations this will be because they make sound business sense.

**1.26** My remaining recommendations will lead to some additional Government expenditure or reduced income from taxes. In general I would expect this to be relatively modest, with the most significant costs arising from the proposals for training tax credits. The costs and benefits from these will depend upon decisions still to be taken on the details of the schemes and on take-up, the assessment of which go beyond the scope of my review.

**1.27** From my consultations I am confident that sufficient organisations will identify actions to promote women's employment and pay that they need to take on business grounds to fully justify the costs of undertaking the reviews and reporting on them. I am convinced that overall, therefore, the benefits will substantially outweigh the costs.

**1.28** Many factors contribute to the existence of the gender pay gap and its persistence over time. In this review I have focused particularly on issues affecting the position of women within organisations. I have done this because I believe that the business case for a major reconsideration of women's employment and pay within both the public and private sectors is becoming overwhelming, and that actions by employers spurred by self-interest offer the greatest prospect of reducing the gender pay gap in the short term. However, this does not mean that I consider other factors are less important. My recommendations are intended to complement rather than replace initiatives to improve careers advice to women to encourage consideration of a wider range of options, to make occupations in which women are under-represented more attractive to women, and to encourage and publicise suitable role models. Nor do I intend to cast doubt on the importance of initiatives to encourage reappraisal of the roles of men and women in childrearing and the home, or to improve provision and funding of parental leave or childcare services. But I am convinced that addressing women's employment and pay issues as part of a more general strategy to improve the development and utilisation of human capital resources offers a way forward that is capable of commanding widespread support both within and beyond the business community, and that adoption of my recommendations would make a significant difference.



# Part 2

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## Evidence and Analysis

### 2. Women's employment and the gender pay gap in Britain

**2.1** I turn first to examine information on women's employment and the gender pay gap in order to provide a basis upon which to consider the relevant issues that impact on my review.

**2.2** In 2000, women accounted for 47 per cent of people employed in the UK (this includes HM forces), or 11.5 million out of a total of 24.4 million people employed. The latest figures show that in the UK 69 per cent of women of working age are in employment.<sup>2</sup> This employment is highly concentrated by occupation; over 60 per cent of women work in 10 occupations (out of 77 recognised occupations). Of all women workers:

Sales assistants and checkout operators	10.2%
Other sales and services	7.5%
Numerical clerks	6.8%
Secretaries, personal assistants, typists	6.3%
Health related occupations	6.0%
Teaching professionals	5.8%
Health associate professionals	5.4%
Clerks not classified elsewhere	4.7%
Childcare and related occupations	4.2%
Catering occupations	3.6%

**2.3** Full-timers in these ten occupations earned 78 per cent of the average hourly pay of male full-timers while part-timers earned 57 per cent.

**2.4** Paci et al. (1995) reported that 62 per cent of women working full-time and 90 per cent of women working part-time are employed in jobs mainly done by women.

<sup>2</sup> Labour Force Survey (LFS) data, May – July 2001.

**2.5** The most comprehensive and recent piece of research available to me on women's employment and the gender pay gap in the UK is the soon to be published report by the National Institute of Economic and Social Research (NIESR). I have relied upon the work NIESR has done, in particular, in disaggregating the headline pay gap by key variables such as age, industry, and work patterns. NIESR has also made headway in isolating a number of material factors or causes of the wage gap.

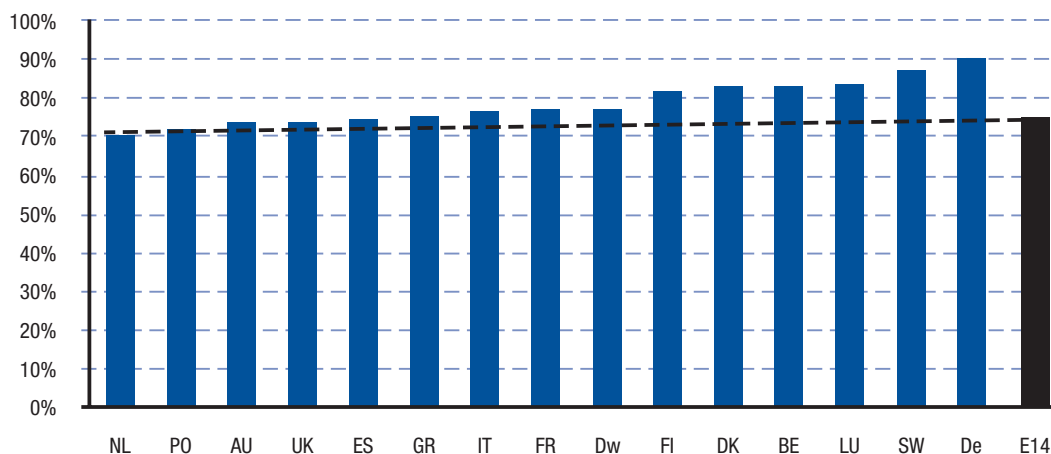
**2.6** Using data on mean gross hourly earnings from the New Earnings Survey (NES), NIESR found that women working full-time earn 82 per cent of full-time male earnings, a pay gap of 18 per cent. Women working part-time earned only 61 per cent of the male full-time wage, a pay gap of some 39 per cent. I return to a breakdown of these figures later in this section.

## Comparisons with the European Union countries

**2.7** The latest comparative data from the fifteen EU member states shows that the UK has one of the widest gender pay gaps (see chart below). The OECD states that there is a pay gap in every member country and that issues of occupational concentration and differences, and of different hours, exist in all countries. International comparisons, however, should be treated with some caution due to the lack of comprehensive, comparable pay data.

**2.8** The data given below is from the 1995 Structure of Earnings Survey (SES) which excluded public sector earnings for all countries and so produced a wider pay gap than the New Earnings Survey for the equivalent year. The ratio of women's full-time earnings to men's was 74 per cent, ranking the UK twelfth out of the fifteen countries surveyed. The country which showed the smallest gap was East Germany with a ratio of 90 per cent, followed by Sweden where the ratio was 87 per cent. The ratio in the UK was only marginally less, however, than the overall survey average of 75 per cent.

## Women's earnings as a percentage of men's (full-time employees), Europe, 1995

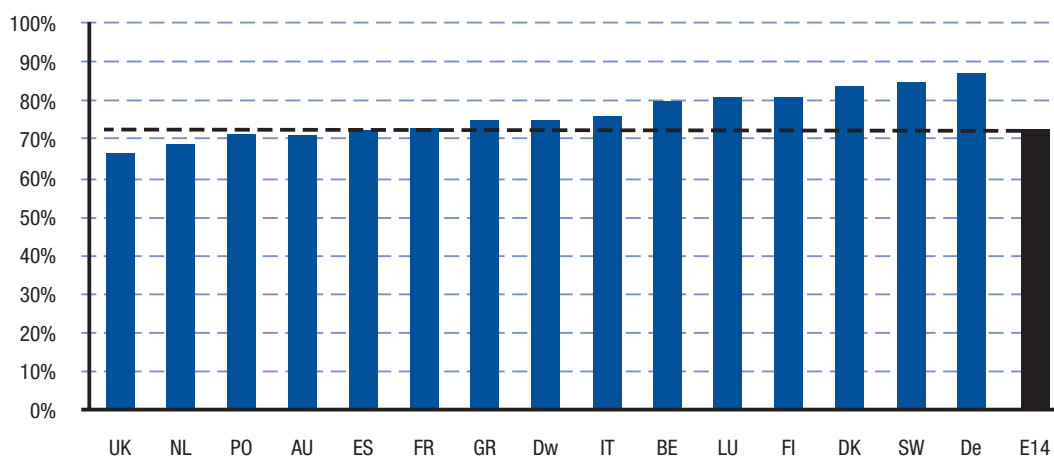


Notes: The gender pay gap is the average earnings of all full-time female employees divided by the average earnings of all full-time male employees. Data are for gross hourly earnings, including overtime. No data for Ireland and E14 based on combined results for Germany.

Source: Structure of Earnings Survey 1995.<sup>3</sup>

**2.9** When part-time employees were also taken into account, the UK had the widest overall pay gap in the SES. Women's average earnings were just 66 per cent of men's compared to an SES average of 73 per cent.

## Women's earnings as a percentage of men's (all employees), Europe, 1995



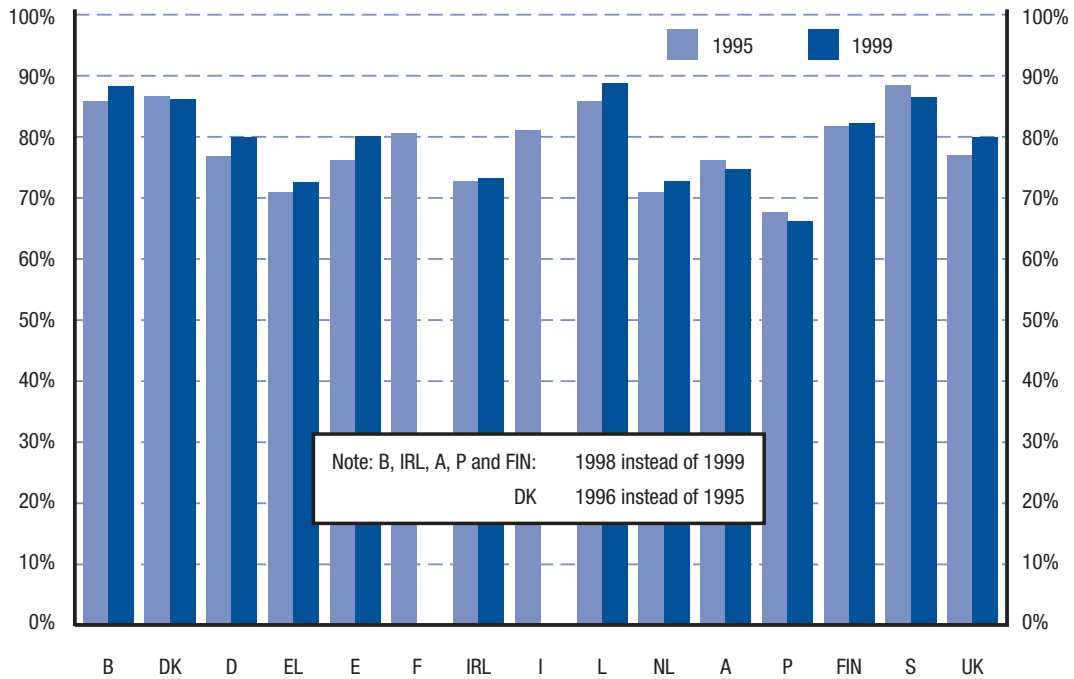
Notes: The gender pay gap is the average earnings of all female employees (full-time and part-time) divided by the average earnings of all male employees (full-time and part-time). The average pay for males and females is calculated using sample sizes for full-time and part-time employees from the SES data set. Data are for gross hourly earnings, including overtime. No data for Ireland and E14 based on combined results for Germany.

Source: Structure of Earnings Survey 1995.<sup>3</sup>

<sup>3</sup> Source of Tables *The Gender Pay Gap – a Research Review*, Grimshaw & Rubery, 2001.

**2.10** Eurostat data show that there has been a small rise in women's average earnings relative to men's since 1995 but the gender pay gap remains in all EU countries. Since 1995 the gender pay gap has decreased in seven of the thirteen member states, including in the UK.<sup>4</sup>

### Women's earnings in industry and services in Europe, 1995 and 1998/9<sup>5</sup>



**2.11** Research available does not provide a conclusive answer as to why the UK has one of the worst gender pay gaps in Europe but the following factors appear relevant: in comparison with other EU countries, the UK has

- high levels of employment; in 2000 it had the third highest employment rate at 71.2 per cent
- a wide spread of employment across all groups unlike countries with lower overall employment rates, where there is relatively low employment amongst groups other than men aged 25-49
- the fourth largest employment rate for women
- the second highest proportion of women working part-time
- a concentration of part-time work in lower paid jobs, and
- a wide pay gap between highly paid women and highly paid men

<sup>4</sup> Data are taken from the Harmonised Statistics of Earnings. Cross country comparability is limited given the many differences in national earnings statistics and the incomplete coverage of service activities.

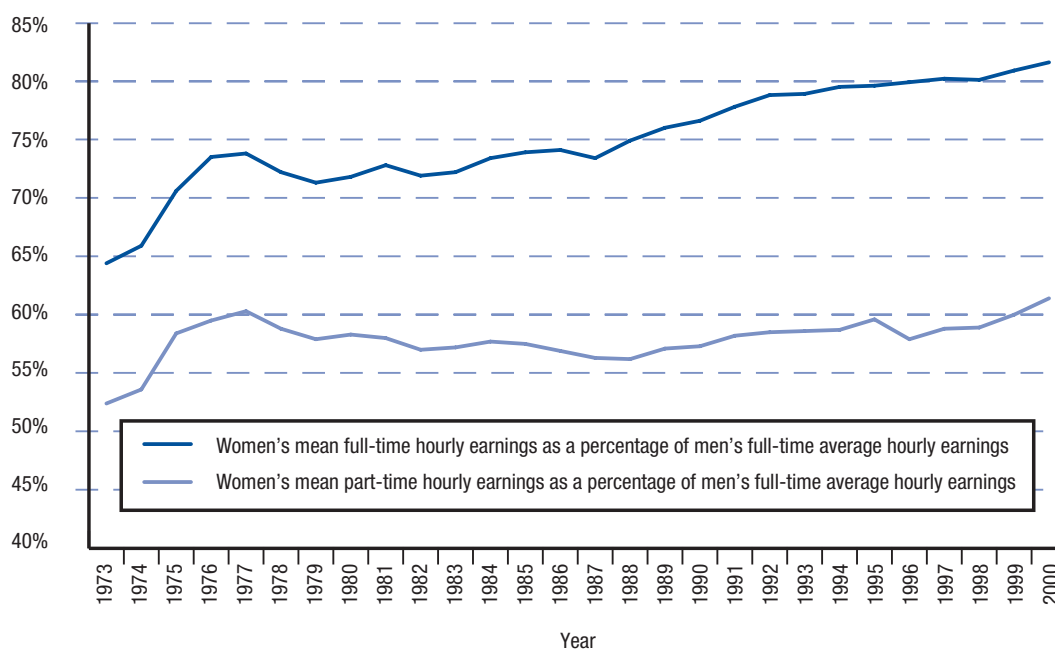
<sup>5</sup> *Earnings of men and women in the EU*, Eurostat, Population and Social Conditions, Theme 3 5/2001.

**2.12** The factors are discussed in greater detail in annex 4. It would be too simplistic to suggest that Britain, or more widely, the UK emerges badly when considering the overall picture on the employment of women. The flexibility and culture that have provided the scope for large numbers of women to enter employment are important. What we need to do now is help to ensure that women have the fullest opportunity to use their potential in employment and contribute further to the economy of the country. Their contribution needs to be properly valued. In order to tackle the pay gap, we should try to understand more about its composition and how it affects different groups of women.

## Trends in the Gender Pay Gap

**2.13** The 18 per cent pay gap in the UK between men and women working full-time and the 39 per cent gap between women working part-time and men working full-time (mean gross hourly earnings) represent a decrease in the gender pay gap since the introduction of the Equal Pay Act in 1970. Chart A tracks changes since 1973.

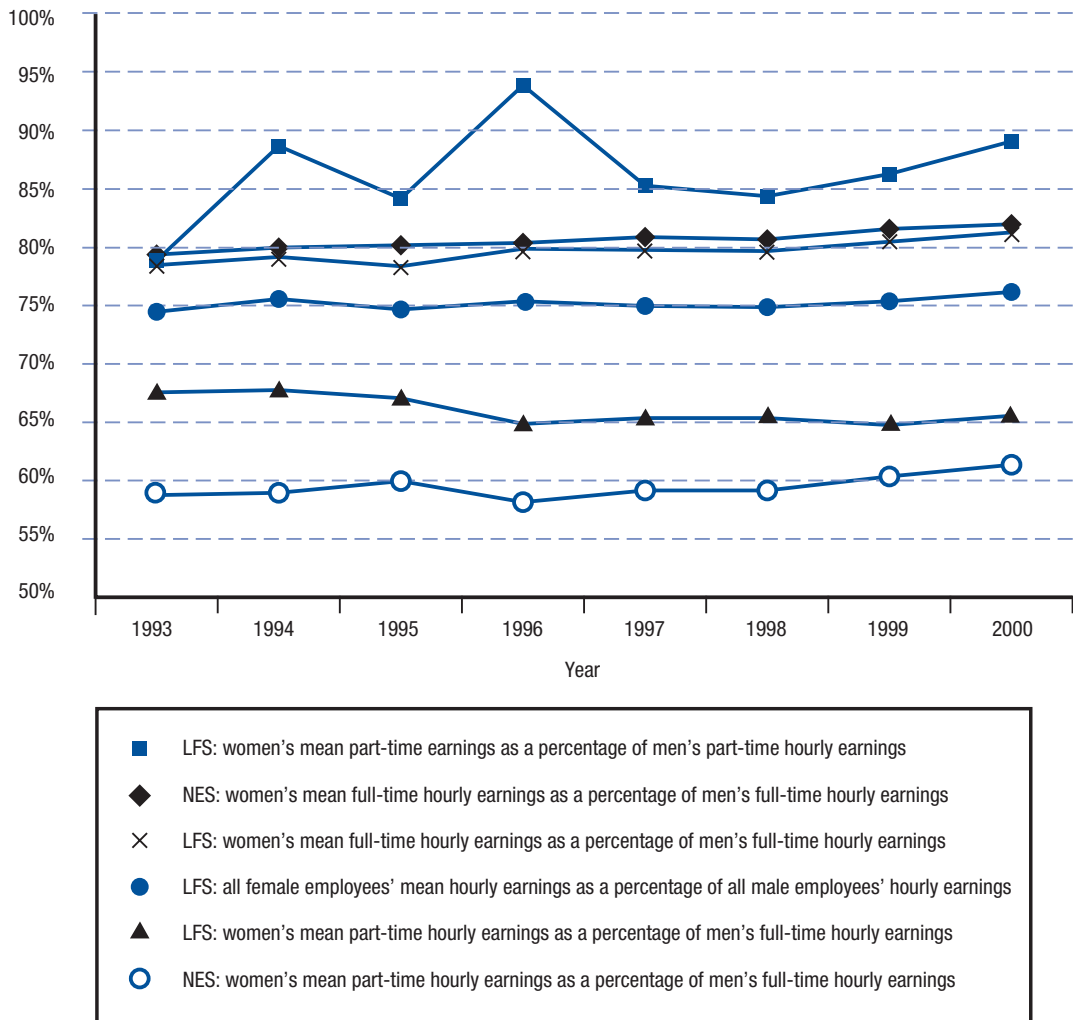
**CHART A: The gender pay gap 1973-2000: Women's average gross hourly earnings as a percentage of men's**



Source: New Earnings Survey.

**2.14** The ratio of women's mean full-time hourly earnings to men's has risen from 64 per cent in 1973 to 82 per cent in 2000.<sup>6</sup> In chart B data from the Labour Force Survey (LFS) and NES is compared for the period 1993 to 2000. In general terms, for women employed full-time, it can be seen that the largest increase in the ratio occurred between 1974 and 1976 after the introduction of the Equal Pay Act with an increase of eight percentage points from 66 per cent to 74 per cent. Over the entire period the gender pay gap for women working full-time has fallen by 18 percentage points.

**CHART B: The gender pay gap 1993-2000: Women's average hourly earnings as a percentage of men's**



Source: New Earnings Survey, Labour Force Survey.

<sup>6</sup> Data used here is from the New Earnings Survey (NES). This source is preferred due to its large sample size but because it is drawn primarily from PAYE records it excludes many women working part-time. The Labour Force Survey (LFS) on the other hand may tend to understate earnings due to proxy respondents but is the preferred source for recent data on part-time earnings.

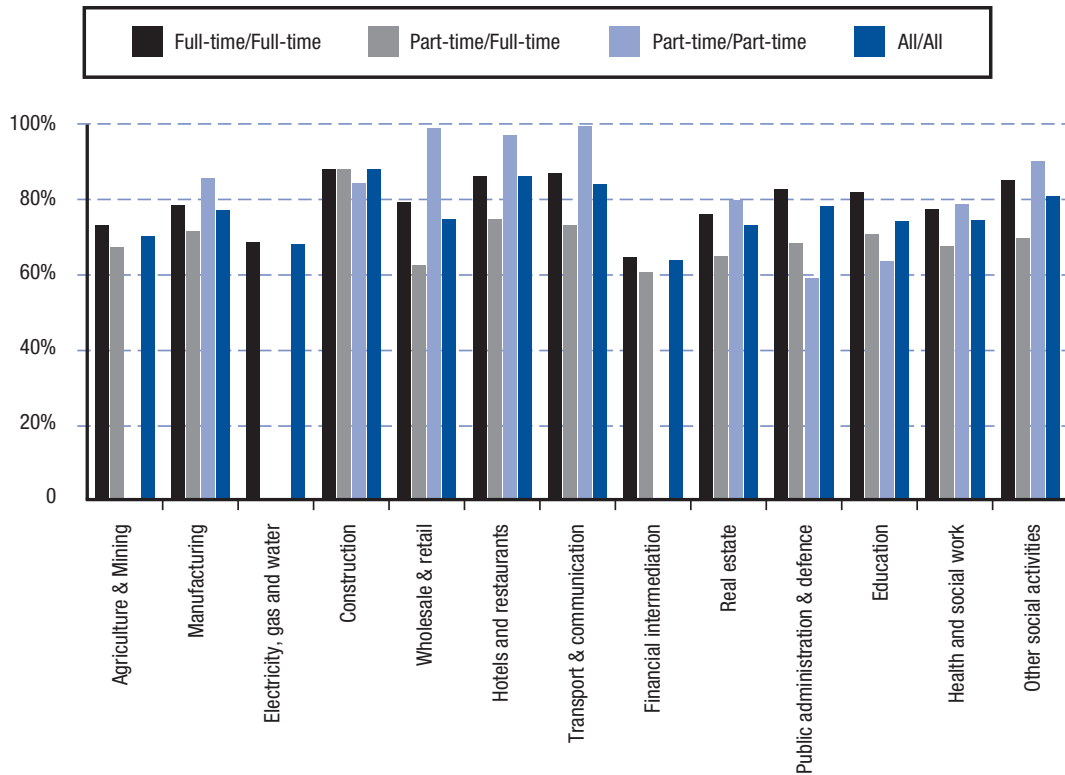


**2.15** For women working part-time both the size and the trend of the pay gap has differed from the full-time position. NES data show an improvement of 9 per cent over the period from a ratio of 52 per cent in 1973 to 61 per cent in 2000. The ratio of women's part-time hourly earnings to that of male full-timers actually decreased between the late 1970's and the late 1980's but there has subsequently been a gradual increase. As demonstrated in chart B, LFS data, which are generally considered preferable when looking at part-time earnings, show a different pattern. The gender pay gap resulting is smaller but growing, with the ratio of women's part-time hourly earnings to male full-time hourly earnings having fallen from 68 per cent in 1993 to 66 per cent in 2000.

## Differences in the gender pay gap

**2.16** Behind the headline pay gap there are some telling variations, by region, industry, occupation and age for example. NIESR found evidence of a North-South divide in the pay gap with a greater gap in the South. This did not appear to be clearly related to the distribution of industry. However, in London, occupational differences appeared to be important in producing a higher ratio of women's full-time earnings to men's: at 82 per cent this was the same as the headline ratio whereas elsewhere in the South the ratio was less than 80 per cent. This difference was attributed to the prevalence of professional and clerical occupations in London where the gender pay gap is relatively smaller. As can be seen in chart C, large variation was found by industry. When considering full-time employees (women's mean hourly earnings as a percentage of men's), the worst industries were financial intermediation (65 per cent), the electricity, gas and water supply industry (69 per cent) and agriculture, hunting and forestry etc. (73 per cent). Additionally, there were variations between the public and private sector. The gender pay gap for full-time employees was smaller in the public sector than in the private sector, with the ratio of women's earnings at 86 per cent in the public sector compared to 78 per cent in the private sector. However, when comparing the pay of male and female part-timers, the gap was wider in the public sector. Female part-timers earned 75 per cent of male counterparts in the public sector as opposed to 99 per cent in the private sector. NIESR were unsure about the reasons for this differential and I have attempted to examine these issues in greater detail in section 6 which considers part-time working and low pay.

**CHART C: Women's mean hourly earnings as a percentage of men's by Industry, 2000**

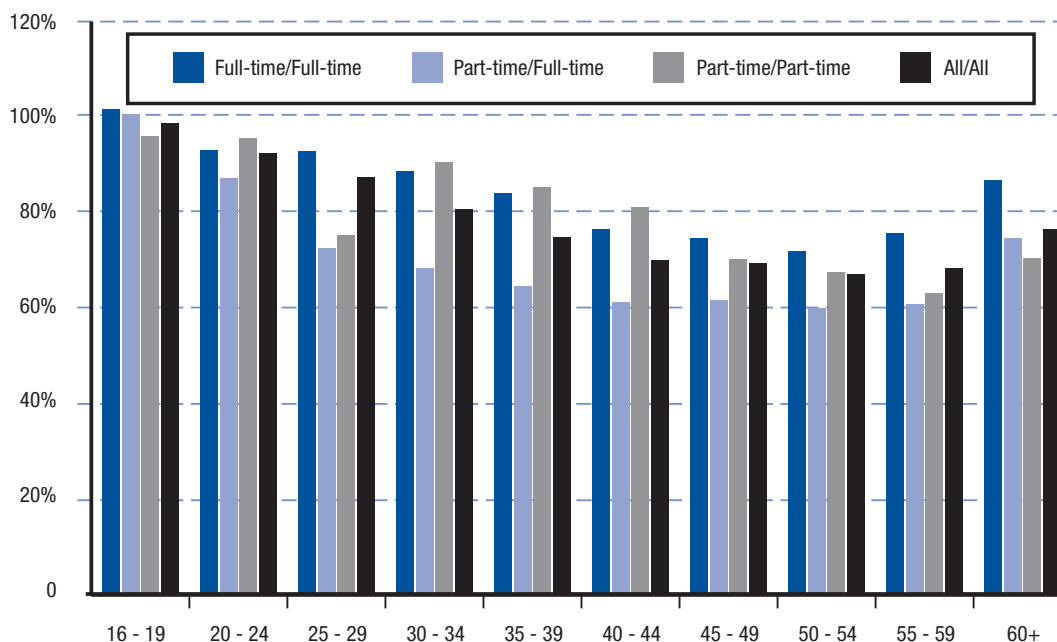


Source: Labour Force Survey 2000.

**2.17** The pay gap varies by occupation as well as by industry with the largest gap in craft and related occupations, with a ratio of 71 per cent for full-time employees. The smallest difference was observed between women and men working in clerical and secretarial occupations, where women working full-time earned 97 per cent of men's earnings.

**2.18** There are also marked differences in the gender pay gap by age. As shown by chart D there is near equity for 16-19 year olds after which point the gap steadily widens, becoming more marked for women over 40 and reaching the low point for women between the ages of 50-54 at 72 per cent for full-time employees. The low point for part-time workers compared to male full-time earnings is also for women aged 50-54 at 60 per cent. A slight improvement is shown for the 60 and over age group. This may be explained by the tendency of higher earning women to remain in the labour market post state retirement age while higher earning men take early retirement. The pattern through the younger age groups is undoubtedly influenced by the more diverse nature of women's working lives. Career breaks for maternity and child-rearing and subsequent part-time working can be seen to contribute to a widening pay gap with age. The researchers also noted a possible cohort effect, with women in the older age groups more likely to be affected by gender differences in education.

**CHART D: Women's mean hourly earnings as a percentage of men's by age, 2000**



Source: Labour Force Survey 2000.

## Characteristics of the Gender Pay Gap

**2.19** The study by NIESR seeks to clarify the gender pay gap. It identifies differences in employment and personal characteristics between women and men, such as concentration in certain types of employment and differences in education, skills and experience, as accounting for up to 75 per cent of the gap for women working full-time and up to 80 per cent of the gap for part-time workers.

**2.20** NIESR found the main characteristics that influenced the gender pay gap to be:

- 'human capital' differences
- part-time working
- travel patterns
- occupational differences
- workplace concentration

### *'Human Capital' Differences*

**2.21** By 'human capital' differences, NIESR means differences in educational qualifications, work experience and training. By the early 1990's the qualification gap had disappeared among full-time workers aged under 35, and the effect of differences in qualifications is declining. However, NIESR found that differences in

educational qualifications may account for a larger gap among older cohorts and part-time workers. Some studies have found that educational qualifications have a greater positive effect on men's pay. A gender bias in the subjects studied at all levels persists. Science and technology remains male dominated while women are more likely to choose to pursue qualifications in humanities. NIESR concludes that this may be both cause and effect of occupational differences, with women deterred from entering certain fields because of perceived barriers. The report also found that differences in the receipt of training may be a contributor to the gender pay gap. In particular, working part-time was found to reduce the probability of training.

**2.22** Patterns of female employment are extremely influential in terms of work experience. Women are more likely to take breaks from the labour market for reasons of parenthood and childcare. They often experience reduced salary on return and there is an overall negative effect on the wage rate resulting from less work experience and more part-time experience, which is less rewarded. NIESR concluded that differences in work experience account for about two to three percentage points of the gender pay gap for female full-timers and between five and nine percentage points of part-timers.

### *Part-time working*

**2.23** The pay gap between women working part-time and men working full-time remains extensive and since part-time working is prevalent among women, this is a major contributor to the pay gap. Some of the gap is due to differences in education, training and work experience. Some is due to differences in occupation. But NIESR concluded that factors that have been taken into account in existing research do not provide a full explanation.

### *Travel Patterns*

**2.24** The NIESR analysis found that women spent, on average, less time travelling to work and that this could be seen to account for around one per cent of the gender pay gap. Women tend to take on primary carer responsibilities and this constrains their choice of work location, with a negative effect on pay. Indeed, the report concluded that the effects may be even more far-reaching, resulting in crowding into certain jobs and further depression of the wage rates for these jobs in which women are concentrated.

### *Occupational Differences*

**2.25** Women's employment is highly concentrated by occupation. NIESR identifies two types of occupational segregation: horizontal and vertical. It characterises horizontal segregation as referring to the separation of women and men into different

occupational groups, and vertical segregation as separation within occupational groups along the lines of job levels. A number of studies have found horizontal segregation to be pervasive and persistent over time. If every occupation attracted the same levels of pay then horizontal segregation would have no impact on the gender pay gap. However, in the UK it is regularly observed that the occupations in which women are concentrated tend to attract lower levels of remuneration than those in which men are concentrated, thereby contributing to the high levels of average wage inequality analysed by NIESR. The association between pay and job level is more straightforward and, some studies have suggested, more important. A series of studies have found occupational segregation, unrelated to differences in other factors such as qualifications, skills and experience, to be an important contributor to the wage gap. NIESR estimates that this occupational segregation accounts for 3 per cent of the gender pay gap for full-time employees and 7 per cent of the part-time gap.

**2.26** The report treats what it calls “workplace clustering”, whereby the majority of employees in a particular job are female, separately. NIESR found that jobs where the majority of employees are female tend to be paid disproportionately less, whilst those where most employees are male, tend to be paid disproportionately well, so a person, of whichever sex, working in a female dominated job will tend to earn less than if they worked in an otherwise similar male dominated or mixed gender job. NIESR estimate that this accounts for 4 per cent of the full-time gap and 5 per cent of the part-time gender pay gap.

## The gender pay gap and organisational hierarchies

**2.27** Using the NIESR research I have sought to understand, on an empirical basis, the factors that underlie the gender pay gap. While discrimination in pay between men and women doing similar jobs still occurs I am convinced, considering all the evidence, that this is not the primary driver of the headline wage gap in the labour market, and it is necessary to look to remedies that go beyond the elimination of such discrimination.

**2.28** Although it is possible to analyse the figures in various ways, it is clear that the continuing pay gap in pay between men and women reflects the concentration of women in lower paid occupations and in lower paying positions within organisational hierarchies. My review has convinced me that the latter is pronounced in almost every organisation that I have studied. Time and again I have been confronted with data demonstrating that women are clustered towards the bottom of organisational hierarchies, whereas men are clustered towards the top. This distribution clearly has a profound impact on the extent of the pay gap.

**2.29** Although I accept the need to address both forms of concentration, I am mindful of the overriding need to find policies that are both practical and effective.

I believe that there are a number of levers available for the policy-maker to target the concentration of women towards the bottom of organisational hierarchies that are not available for combating broader segregation between occupations, and have chosen to concentrate my recommendations in areas where I believe they will deliver results more speedily. To tackle the concentration of women in lower paying occupational sectors I believe we need to focus on education and influencing the aspirations and assumptions which are made in childhood and early adulthood. This process is underway, but it will take time to effect change. To tackle segregation within organisational hierarchies the educational foundation has already been laid. Women and men are now leaving schools and universities in equal numbers with women achieving equal or better levels of educational attainment. Alleviating segregation within organisational hierarchies depends on understanding and changing what subsequently occurs in the labour market, and it is to this that my recommendations in this report are primarily directed.

## 3. Human Capital Management

### Equality, Social Justice and the Economy

**3.1** Why does the pay gap matter? I believe it matters for reasons of social justice, equality and economic performance.

**3.2** The concept of equality of opportunity in the work place is based on a belief in meritocracy. Only the ability of an individual to do a job should determine their access to it, or their remuneration for it. This concept underlies the Equal Pay Act and the Sex Discrimination Act passed in the 1970s. When that legislation first took effect, there were employers who debated seriously the principle that women should be paid on the same basis as men. We are past that stage. During my consultations, I did not meet one employer who suggested in any way that this principle was wrong. Rather, companies and organisations were keen to stress that they agreed and complied with the legislative requirements.

**3.3** That there is still such a large pay gap and a constant flow of discrimination cases to tribunals and courts indicates, however, that we still have a problem. This raises not only equality and social justice issues but the important issue of economic performance. Women make up 51 per cent of the potential workforce. The ineffective use of women's talents and abilities represents a huge loss to the economy. There has been a great deal of research undertaken on the equality and social justice issues and the losses that women suffer through unequal treatment but there has been less of a focus on loss to the economy as a whole of not using effectively our investment in human capital. This is the area I explore in greater detail in my report. In doing so, I do not wish those reading this report to lose sight of the fact that the pay gap also matters for reasons of equality and social justice.

### Human Capital Management

**3.4** The 18 per cent headline wage gap is an indicator of the extent to which businesses and organisations throughout the UK are mismanaging their human capital, by which I mean the capabilities and potential which individuals, irrespective of their gender, bring to the workplace. The logic behind this assertion requires a deeper understanding of what is driving the pay gap.

**3.5** My consultations during the course of the review have highlighted three main ways in which the gender pay gap manifests itself in the labour market. The first and best documented is unlawful wage inequality in which a man and a woman are paid different amounts for doing a similar job, or work of equal value, for the same employer. The fact that such wage inequalities still exist is unacceptable. However the occurrence of unequal pay of this kind does not appear to be as commonplace as an 18 per cent headline gap would suggest. Of the private sector employers who had already performed some form of employment and pay review most reported that although they had found pay anomalies which they had subsequently redressed, they had not uncovered systematic or large gender bias in their remuneration systems (although a caveat should be entered that employers may not have been equally sensitive to equal value issues, which can be far harder to detect.)

**3.6** However, I believe that the clustering of women into lower paid and lower status roles within businesses and organisations, and into a restricted number of, often lower paid, occupations, is a more prevalent manifestation of the pay gap in the market place. The phenomenon of clustering into lower status and lower paid roles was almost universally attested by those organisations to whom I have spoken, and who have submitted evidence to the review. This presents a serious issue for business as it suggests that they are failing to properly develop and utilise the skills and talents of women. The specific ramifications of the mismanagement of human capital are developed in the following section.

## The changing face of the labour market

**3.7** The labour market is changing dramatically. Rapid technological innovation alongside globalisation is placing a premium on human and intellectual capital. In dynamic and highly competitive markets, in which the demand for labour is outstripping supply, organisations will become increasingly dependent on their ability to attract, invest in, and develop their human capital to achieve a competitive edge.

- The primary driver of the present tight labour market is the high employment rate. Labour Force Survey data from April to June 2001 shows that the working age employment rate stands at 74.8 per cent. This is the highest employment rate for 11 years and approaching full employment (75 per cent) as defined by the Government in their March 2001 budget.
- Demographic research suggests that pressure on the supply of labour is set to increase, irrespective of any fluctuations in the state of the economy. The European Commission projects that in the medium to long term, the EU will suffer a considerable shift in its demographic balance. It is argued that decreasing fertility rates, accompanied by increasing life expectancy will affect the ratio of those of working age to those who are not. Indeed it is estimated that by the year 2020 the size of the working age population



will be largely unchanged, but will have to support a further 18 million people over the age of 65. The predicted effect of these changes on the labour market is that a higher proportion of the working age population will have to enter the labour market than at present in order to maintain the levels of growth enjoyed to date. This means that organisations may have to look to currently under-represented groups within the labour market, and make effective use of their investment in human capital in order to maintain their present staffing and productivity levels.

- Beyond the pressure exerted by the size of the labour force is the changing nature of work itself. The most recent labour force survey data points to a continuing trend in the growth of service related employment. From March 2000 to 2001 the service sector, which includes jobs in distribution, hotels, restaurants, transport and communications, financial and business services and public administration and health, grew by 227,000 jobs outstripping the average increase in the whole economy. Alongside this is the growth of the new “knowledge based economy”. In 1998 around 4.3 million people were employed in the ICT sector in the EU.<sup>7</sup>
- This is supported by political action at the European level. At the Lisbon summit in March 2000 the EU established a new strategic goal: *“to become the most competitive and dynamic knowledge based economy in the world capable of sustainable economic growth with more and better jobs and greater social cohesion”*.<sup>8</sup>

**3.8** These intersecting structural changes will act as a catalyst to accelerate a significant change in the way human capital is managed and valued. In a climate in which competition for employees is fierce and in which technological innovation demands the acquisition of knowledge, the potential impact on businesses of the mismanagement of human capital will become increasingly acute. Any business which cuts itself off from such a large pool of talent cannot hope to maintain its productivity and competitiveness in the face of rising demand for, and falling supply of, skilled labour.

**3.9** The need for better management of human capital, including the benefits of diversity in an organisation’s workforce, is now well recognised by leading companies. To illustrate a possible approach to implementing this I asked human capital specialists, Arthur Andersen, to produce a self-analysis tool which could be used. This is appended at annex 5 and sets out a structured approach to effective people management, which optimises diversity, and can be shaped to impact business performance.

<sup>7</sup> Richard Deiss, *Information Society Statistics*, Eurostat, 2001.

<sup>8</sup> Lisbon European Council Presidency Conclusions, SN 100/00 EN, 2000.

## The business case for promoting diversity

**3.10** The loss to women, both in terms of remuneration and career advancement due to various structural inequalities in the labour market has been well documented<sup>9</sup>. What is less often exposed is what businesses are losing by failing to promote and fully utilise the range of skills and experience that women bring to the workforce. A prima facie indication of this loss is the disparity between the educational attainment of women, and the positions they ultimately occupy within the labour market.

**3.11** Data supplied by the Higher Educational Statistical Association shows that 55 per cent of all undergraduates are female. This is the culmination of an ongoing trend towards gender parity in higher education which started in the late 1970s, with women accounting for 40 per cent of all undergraduates by 1984 and surpassing the number of male undergraduates in the mid 1990s. More tellingly women are now outperforming men in terms of the degree qualifications achieved. In 1999 53 per cent of female undergraduates obtained an upper second degree or higher, as against 46 per cent of male undergraduates. In 2000 the numbers reflect a similar outcome with 54 per cent of women achieving the top two grades compared with 47 per cent of men<sup>10</sup>. Furthermore, the fact that since the mid 1990s a greater percentage of girls than boys have received three A level passes, suggest that this trend is set to continue.

**3.12** However, the Autumn 2000 LFS data on occupation shows that only 34 per cent of all those classified as managers and administrators are women, against 66 per cent men. Evidence collected during the course of my consultations for the review indicates that this contrast becomes more marked further up the labour market. In the senior management teams of the companies I consulted it was rare to find more than 25 per cent women. Indeed certain organisations have resorted to expanding the definition of “the senior management team” to ensure that a respectable percentage of women are seen to be operating at the top, with one company claiming to have a management team of 3,000. At board level the inequities are well documented. Only 10 women sit as executive directors on the boards of FTSE 100 companies, with a further 55 as non-executive directors. In total only 5.2 per cent of the Directors of FTSE 100 companies are women<sup>11</sup>.

**3.13** However, this evidence provides no more than a superficial indication of the potential loss to business. Only by analysing the individual elements do we get a true picture of what business gain through promoting diversity, or what the cost is of failing to do so.

9 Joshi and Paci, *Unequal Pay*, MIT Press, London, 1998, passim.

10 Higher Educational Statistical Association website.

11 FTSE Female Index, September 2000.

## Minimising risks and costs

**3.14** There are several areas of risk attached to failing to promote diversity or to ensure that the organisation delivers equal pay. These risks should be considered within the framework of the Turnbull Report which imposed a requirement on Company boards to set up and report on internal control mechanisms to assess and respond to significant risks. The categories of risk referred to are those related to market, credit, liquidity, technological, legal, health, safety and environment, reputation and business probity. I believe that the failure to properly utilise or manage human capital, of which diversity is a key part, exposes a company to the same type and scale of risk as failure to manage financial or other resources.

### *Risk of litigation*

**3.15** This is the most commonly recognised risk which companies face in failing to meet regulatory requirements for equal pay, or indeed in instances where discrimination on the basis of gender is alleged. The costs a company faces can be subdivided into direct and indirect costs. The direct costs of litigation have been well publicised and will tend to incorporate the costs of court time; ACAS independent experts (in the case of equal value cases); legal representation; and any eventual damages which may be awarded to the applicant. In addition employers should consider the potential scale of costs arising out of the application of a tribunal outcome to similar classes of employees or applying the logic of the argument to cover groups of employees.

**3.16** Indirect costs are harder to quantify but may present a more serious concern to businesses than direct monetary outlay. Figures released in the DTI paper on dispute resolution reflect employers' perceptions of the adverse effects which sex and race discrimination cases have had on their businesses.

*Indirect costs incurred by employers from sex and race discrimination Tribunal cases<sup>12</sup>*

Adverse consequence	Percentage of employers
Increased staff stress	27%
Adverse reputation as an employer	12%
Damaged workplace relations	15%
Lower output	9%

<sup>12</sup> DTI Consultation Paper: *Routes to resolution: Improving dispute resolution in Britain*, July 2001.

## *Retention associated risks and costs*

**3.17** Although not as high profile as the risks and costs associated with litigation, retention issues are perhaps the most commonly experienced negative effect of the failure to manage human capital effectively. When national level data is considered, men and women leave and enter the labour market in very similar proportions. However, when organisational level studies are carried out the picture is somewhat different. It has long been recognised that a shortage in flexible working options can increase the turnover rate for women who have caring responsibilities or can discourage women from returning to, or remaining in, work after taking maternity leave. This is supported by evidence from Lloyds TSB who have stated to the review that the introduction of family friendly policies has increased their maternity return rate from 75 per cent to 85 per cent, and is making the business savings of £2 million per annum.

**3.18** However, my consultations with businesses have also highlighted that perceptions of both a “glass ceiling” and a “sticky floor”, and lack of sufficient career development opportunities can also lead to a higher turnover rate for women.

**3.19** A retention case study carried out by PricewaterhouseCoopers provides an interesting counter to assertions that women predominantly leave employment for family oriented reasons. When they examined retention rates for women and men they discovered that the overall figures were relatively equal, but that women and men tended to leave at different points throughout their careers. There were more women leaving the firm straight after they had qualified, and there was a further marked exodus of women at the senior management level at the age of about 40. At this point many of their male counterparts would already have made partner, but women were often still to be found in a managerial role. The firm is currently actively seeking to address these issues.

**3.20** The direct monetary cost of turnover is considerable, however putting a figure on such costs is a highly complex exercise. The CIPD suggest that the cost of turnover can be broken down into:

- **Leaving** – Payroll and personnel administration of leaver
- **Replacement** – Recruitment, interview time and placement fees
- **Transition** – training costs, “unproductive” time while learning, induction
- **Indirect** – loss in customer service / satisfaction<sup>13</sup>

**3.21** Information submitted to the review by Lloyds TSB estimates that the cost of recruiting and training a junior clerical member of staff is £10,000 rising to a minimum of £40,000 for a senior manager. Lloyds estimated in their contribution to

<sup>13</sup> CIPD, *Labour Turnover Survey Report*, 2000, p.8.

the Work Life Balance business case that it costs them between £48,000 – £50,000 to replace a senior female employee. In support of this it has been claimed that the median cost of turnover for key management professionals is two years remuneration<sup>14</sup>. In the financial services sector evidence from Deloitte and Touche in the US is illuminating. They have stated that, as a result of their initiatives to retain and develop their female staff,

*“The firm’s annual turnover rate fell from around 25 per cent in the early 1990’s to 18 per cent in 1999, despite an intensifying war for talent. Besides saving us \$250 million in hiring and training costs, lower turnover has enabled Deloitte to grow faster than any other larger professional services firm in the past several years.”<sup>15</sup>*

## Enhancing returns

**3.22** Getting human capital management right is not only a question of avoiding the generic risks and costs associated with management failures, it is also about harnessing a prime source of competitive advantage: people.

### *Recruitment and the “Talent pool”*

**3.23** It has become a truism that a company’s most valuable asset is their people. This is increasingly the case in an economy in which services and knowledge driven industries are key areas of growth. In speaking to the review John Sunderland, CEO of Cadbury Schweppes said that business success depends on “20 per cent strategy and 80 per cent people”. This sentiment was echoed by the vast majority of those to whom I spoke and is supported by the findings of the 1998 Workplace Employee relations survey in which two thirds of UK firms reported “relying strongly on people for competitive advantage.”<sup>16</sup>

**3.24** If people are providing a competitive edge it is crucial that a company is able to recruit the right calibre of person at the outset. Given the pressures on labour market supply outlined above, this is becoming increasingly critical for company performance. The pressure which companies find themselves under in the present economy are highlighted by AstraZeneca, in their evidence to the review.

<sup>14</sup> See Annex 5.

<sup>15</sup> D.M. McCracken, *Harvard Business Review*, Nov-Dec 2000, p.160.

<sup>16</sup> CIPD, *Performance through People- The new people management – The Change Agenda*, 2001, p. 6.

*“AstraZeneca is aware of the changes required in managing the workforce of the 21st Century; changes brought about by Globalisation, shifting demographics and the competitive business environment. We recognise how this has shifted the job market. Where previously the company viewed itself as the customer, enjoying a powerful position and able to choose from a pool of talent, today the reverse applies, there is a scarcity of talent in the recruitment market and AstraZeneca is competing with other companies to engage the right people.”*

**3.25** It is clear that recruiting the best possible person for a post will depend on looking in the widest possible pool of talent. However attracting women to careers in certain industries can still be problematic. In part this is a societal and educational trend over which employers can have limited influence. But this does not mean that employers are powerless to change the image of their “Employment Brand” within the market place. This may be essential if UK companies are fully to reap the benefits of the skills and expertise which women are bringing to Britain’s economy. Such a proactive approach to tackling the underlying gender concentration in certain occupations in the labour market is given by Professor Julia Higgins DBE of Imperial College, London.

*“While around 40 per cent of undergraduate chemists are female these numbers drop to 13 per cent for lecturers and only three per cent of Professors. Departments report very few applicants for Lecturer positions and a number have no female academic staff at all... With respect to this lack of female applicants for lecturer positions there is considerable hand wringing but relatively little action. My own view is that this is not enough. I was encouraged... by remarks from Professor Brian Johnson who was previously Head of Chemistry in Edinburgh. He pointed out that during his tenure he had recruited numbers of excellent women as lecturers – “by going out and finding them”!*

**3.26** Problems of such concentration of women are not confined to the sciences, or indeed to academia although the problem there is particularly acute. Financial and business sectors are struggling to shed their reputation as an overtly male environment. Citigroup have indicated that they experience greater problems recruiting women than retaining them. The chairman of Citigroup Europe, Sir Winn Bischoff stated to the review:

*“We know that in the UK, some 50 per cent of undergraduates are women – and yet only 30 per cent of our applicants are women. The intake we eventually employ has only 21 per cent women.”*

**3.27** While the difficulties of recruiting women in certain sectors are very real, there is encouraging empirical evidence that when motivated by a desire to attract the most talented and qualified individuals, organisations are able to take a proactive

approach to diverse recruitment, through advertising or work experience programmes, to overcome many of these perceived barriers. Until this becomes the norm, particularly in the lucrative financial and technical sectors in which women are under-represented, recruitment imbalances will remain a driver of the headline pay gap.

### *The impact of gender diversity at all levels of the organisation*

**3.28** Promoting gender diversity does not only mean that organisations will have recruited from the widest possible talent pool and can hope to have secured the people best equipped to deliver their business objectives. It also means that those people can interact in the most productive and innovative way. There are a number of ways in which diversity can have a direct and positive impact on business performance.

**3.29** One of the principle drivers for a diverse workforce is the composition of the consumer and customer base. It is well documented that women make the majority of consumer decisions. In such a market businesses are becoming increasingly dependent, particularly in key areas such as product development and innovation or marketing, on a mix of people who can mirror the concerns and demands of the consumer. As PricewaterhouseCoopers state in an article they submitted to the review:

*“organisations need a mix of people, male, female, young, old, black and white at the top of their management structures who can reflect the reality of the market places they serve; people who think the way their customers think”*

**3.30** Diversity is also a key driver in generating ideas and solutions which lie outside the scope of the experience or the expertise of a single group of people. A London Business School study published by the SMART Company concluded that a diverse or heterogenous workforce could deliver results in terms of increased creativity, problem solving abilities and system flexibility. They state:

*“This rich mixture produces a cross pollination of ideas, attitudes and ways of thinking that inspire creativity and productivity among employees at all levels. Diversity encourages creativity. You get a much wider range of ideas from a group made up of diverse individuals than you do from groups with similar backgrounds, education and experience. Simply put, bringing more views to the table results in more robust products. Diversity is good for business”<sup>17</sup>*

17 J. Dubovskaya-Saumes & M. Gordon Ward, *Diversity at the Top of Organisations*, SMART Co. & London Business School, 2001, p.26 ff.



**3.31** Such a statement resonates strongly with the empirical evidence I have heard in my consultations with UK businesses. It has become apparent time and again that the presence of women at all levels in a company not only brings a new perspective and dynamic to the generation of ideas but also allows men to exhibit differences and not fall prey to perpetuating an institutionalised “male” ethos.

**3.32** Such business benefits have traditionally proved hard to quantify. However, pioneering research in the US is now beginning to look at the relationship between diversity in management teams and business performance. Professor Welbourne, University of Michigan, took a sample of 535 IPO firms that went public in 1993 and explored the impact that the presence of women in top management teams had on initial stock performance and longer term performance. The effects on short-term performance should provide an indication of how investors rate or value the presence on women in top management teams. The effects on long-term performance demonstrate the effectiveness of such investor predictions. The results showed a positive correlation between the percentage of women in top management teams and a firm’s short-term performance (market price to book value per share) three year stock price growth, and growth in earnings per share. While the research does not attempt to untangle the causation behind this positive correlation, its very existence is significant for the debate on diversity. Professor Wellbourne’s concluding remarks are themselves illuminating:

*“It is important to remember that the maximum percentage of women in the top management teams of the firms in the study was 86 per cent (with only one per cent of the firms having more than 50 per cent women). Therefore it is not women per se that make the difference; it is the “mix” of women and men on the top management team that results in higher long term performance.”<sup>18</sup>*

### ***Increasing returns through People Management***

**3.33** Academic research has confirmed the link between people management and productivity. Attempts to quantify the business effects of this are most developed in research which establishes the link between human capital management as a whole, and performance or shareholder value. One of the earliest studies to posit a substantial positive correlation was that of Huselid (1995). Focusing on a range of high performance work practices, such as formal information sharing programmes, employee attitude surveys, and performance related pay and appraisal, he surveyed the senior HR managers of 968 US owned firms employing more than 100 people. His main finding was that one standard deviation increase in HR practices is associated with 7.05 per cent decrease in labour turnover, a \$27,000 increase in sales, a \$18,000 increase in market value and \$3,800 more in profit<sup>19</sup>.

<sup>18</sup> Prof T Welbourne, *Wall Street Likes its Women*, CAHRS, Cornell University, Working Paper 99-07, Ithaca New York, p.11.

<sup>19</sup> R. Richardson and M. Thompson, *The impact of people management practices on business performance: a literature review*, CIPD 1999, pp. 37-41.



**3.34** More recent work commissioned in the UK by the CIPD and carried out by Patterson et al. at Sheffield's institute of Work Psychology, found that in a sample of manufacturing businesses, 18 per cent of variations in productivity and 19 per cent in profitability could be attributed to people management practices<sup>20</sup>. Perhaps the most significant finding was that "Compared with... research and development, technology, quality and strategy, human resource management practices are far more powerful predictors of change in company performance"<sup>21</sup>. Unsurprisingly market forces are now driving professional and consultancy firms to develop metrics and indexes corroborating these research results, and are developing advisory services around these.

**3.35** Given the extent of these and other findings it is perhaps surprising that the take up of good HR practices in UK organisations is so low. Guest's analysis of the most recent Workplace Employee Relations Survey, suggests that less than half of companies use a range of standard practices<sup>22</sup>, and according to the "Future of Work" survey only one per cent make extensive use of more than three quarters of the 18 practices identified as progressive<sup>23</sup>.

**3.36** The next stage in research terms should be to fully integrate diversity arguments within the literature which considers human capital management as a whole. The survey techniques employed in the research summarised above typically rely on measures of the proportion of employees within a company who are subject to various performance enhancing HR practices. However there is little analysis of whether these proportions are equal across both genders, or indeed whether the effect of these practices is the same on men and women.

**3.37** My evidence drawn directly from organisations in the labour market indicates that certain HR practices included in the research will have a positive effect on equal pay and increasing the representation of women at all levels of the organisation. These might include access to employer provided training, pay and promotion dependent on performance and not seniority, access to knowledge information networks, flexible working arrangements or frequent employee attitude surveys. However without a specific attempt to address the question of what proportion of women in an organisation are covered by such progressive practices, and how their effectiveness may differ across each gender group, this will remain little more than a hypothesis. Businesses cannot claim to have effective people management practices in place, and cannot hope to see the desired increases in performance, unless they are sure that they have taken account of all their workforce, not just half.

20 M. Patterson et al., *Issues in People Management No. 22 – The Impact of People Management Practices on Business Performance* p. xi & passim.

21 M. Patterson et al., *Issues in People Management No. 22 – The Impact of People Management Practices on Business Performance* p.19.

22 Guest et al., *Employment Relations, HRM and Business Performance: An analysis of 1998 WERS*, CIPD 2000, p. xii.

23 CIPD, *Performance through People- The new people management – The Change Agenda*, 2001, p. 6.

**3.38** The evidence presented in this section indicates that the debate surrounding women's employment and pay is being played out at the intersection of three mutually dependent sources of pressure. The first is those structural changes in the labour market and the economy which are simultaneously forcing businesses to recruit from a wider pool of talent than ever before, whilst also developing and retaining their people as a prime source of competitive advantage. The second is the many strands of thinking and research which are establishing the inherent business benefits of promoting diversity. The third is the growing body of research which is demonstrating a positive correlation between Human Capital Management and bottom line company performance. These, I believe, are creating an environment in which the further development and progression of women in the labour market is becoming not merely desirable, but a business priority.

## 4. The Public Sector

**4.1** The business case for promoting diversity applies equally to the public and private sectors. The implications of changes in the labour market, the need to minimise risks and costs, and action to enhance returns are highly relevant to the public sector. There are, however, additional factors that bear on the public sector that should be particularly considered.

### The propensity for women to work in the public sector

**4.2** The public sector is an important employer of women. In 2000, it employed 6.3 million people (26 per cent of all employees); almost two-thirds of these were women. (Over 30 per cent of women (3.9 million) employed work in the public sector compared to less than 20 per cent of all men (2.4 million)). A disproportionate number of women are therefore employed in the public sector. The public sector is also a large employer of women who work part-time; 1.7m work part-time and 2.2 million work full-time. Part-time working is particularly important in public administration (209,000), education (627,000), and health and social work (645,000). (source – Labour Force Survey Summer quarters 2000)

**4.3** The sector is characterised by large employers providing essential services to the population as a whole. Women make up the majority in occupations such as nursing, teaching and caring, all providing highly visible, skilled, personalised, services.

### The business case for promoting diversity

**4.4** While it is difficult to assess whether the public sector is more or less adept than the private sector at making best use of its investment in human capital, the differences in the career attainments of men and women are marked. For example:

- Three of the 19 Permanent Secretaries in Departments of State are women
- 21 per cent of hospital consultants and 30 per cent of registrars across NHS specialities are women; women have comprised half the intake of medical schools for the last 10 years. (*Royal College of Physicians of London Consultant census 1999*)
- 12 per cent of full-time professors in the UK are women (*source HESA 1999-2000 record*)
- 11 higher education institutions have women vice-chancellors (*evidence from HEFCE*)

- 84 per cent of teachers in nursery and primary schools in England and Wales are women but only 41 per cent of head teachers of these schools are women
- 54 per cent of teachers in secondary schools in England and Wales are women but only 29 per cent of head teachers in these schools are women
- 12 per cent of Chief Executives in local government are women (*evidence from Local Government Association*)
- Three of the Chief Constables in the national police forces are women

**4.5** In general, this reflects an improvement on the position 10 years ago but faster progress has been made in some areas than others. There is much to be done to secure effectively the expertise of women in the higher grades and better paid jobs in the public sector.

**4.6** There is some evidence to suggest the public sector is less effective than the private sector in its use of women working part-time. In the public sector the mean hourly earnings of women working part-time work are 75 per cent of men working part-time. In the private sector the ratio is 99 per cent; the gap scarcely exists. This contrasts with the better ratio for women working full-time. In the public sector women earn 86 per cent of men's mean hourly earnings as opposed to 78 per cent in the private sector. The disparity in the position of those working part-time suggests that the bigger gap arises because more women working part-time in the public sector are clustered in the lower paid levels and jobs than in the private sector.

**4.7** The potential loss to the public sector from not making optimum use of the investment in women arises not through the effect on the bottom line but through effects on quality of service and productivity. For example, both the [Dearing] Report of the National Committee of inquiry into Higher Education and the Bett Report on the "Independent Review of Higher Education Pay and Conditions" 1999 recognised that:

*"the continuing success of the UK higher education sector is crucially dependent on its people and the way they are led, managed and developed. The recruitment and retention of sufficient staff of the right quality is essential if the vision of sustaining and improving a world class system of HE in this country is to be realised."*

**4.8** In "Making a Difference – Strengthening the nursing, midwifery and health visiting contribution to health and healthcare", the Department of Health in 1999 said that:

*“Improving the quality of working life for NHS staff is one of the Government’s key strategic aims. It is directly linked to our commitment to improve the quality of services offered by the NHS. Building modern, dependable services depends on the skill and dedication of NHS staff.”*

**4.9** Quite clearly in a public sector highly dependent on women, the effective management of their skills and potential is an important performance issue that merits the same level of senior management input and attention paid to financial and other resources.

**4.10** The elements of the business case that bear particularly on the public sector are discussed below.

## Minimising risks and costs

### *Retention*

**4.11** Good human capital management is crucial to retention. Staff shortages in sectors such as the NHS, schools, social services and the police have aroused concern. Official vacancies in secondary schools in London, for example, are running at 3.8 per cent but the definition of vacancy is regarded as narrow and head teachers regard vacancies as significantly higher – about double this rate. The NHS, largest employer in Europe with nearly one million staff and the largest employer of women in Europe, faces shortages of staff in many areas of the country. In London, official vacancies for qualified nurses, midwives and health visitors are running at 6.5 per cent; vacancies for care assistants are 12.4 per cent in the South East. The loss of trained doctors at £200,000 a time, nurses at £34,000 and a minimum of £150,000 to replace a Metropolitan Police officer with 5 year’s service are examples of regular, substantial, costs arising for which the taxpayer has to pay.

### *Litigation*

**4.12** There are particular risks of litigation in the public sector. Because of the size of the employers, the similarity of jobs across different employers like local authorities and those in the NHS, the wide spread of jobs in many of the sectors and the high degree of unionisation, the risks and costs associated with litigation are arguably higher in this sector than in the private sector. Litigation has the potential to lead to substantial costs because employers will translate the individual settlement to cover large numbers of people employed in similar tasks, to reduce the risk of being forced to answer a multiplicity of cases. In addition, the public sector faces a higher risk of exposure to litigation involving claims of work of equal value. The local government sector, for example, has a range of occupations

covering almost two-thirds of the occupational classifications. It is characterised by job and occupational segregation. Women account for a very high percentage of the local government workforce in areas such as the provision of care. Men are in higher numbers in areas such as environmental health, the fire service and regulatory functions.

**4.13** An example of the potential risk to the public sector is the case involving the Carlisle Hospital Trust. Some 500 cases were lodged against the Trust two years ago by nurses, other medical staff, domestic staff and catering workers who are claiming that their work is of equal value to male workers such as maintenance engineers, joiners, plumbers and works officers who earn substantially more, work fewer hours and get higher overtime rates. An independent expert is advising the tribunal and her findings are due shortly. While the particular circumstances of any one case may not apply to another, commentators have assessed the possible outcome from the case as an award of some £35 million from the Trust with a potential for far higher translation across other NHS employers. Cases of equal value may be more difficult for individuals to assess and prove without considerable help. Much of the equal value litigation has been taken with union support and the high degree of unionisation in this sector combined with the factors described above substantially increases the risk of litigation.

## Enhancing returns

### *Recruitment*

**4.14** Public sector employers stressed to me the importance they attached to promoting diversity. Not only are they highly dependent on women to reach their staffing targets but they believe that a diverse workforce is necessary to provide a good quality, personalised, service. They are highly conscious of the business merits of reflecting the population they serve. The Metropolitan Police, in which 16 per cent of police officers are women (out of a full-time equivalent total of 26,000), provides the most recent example of a large public sector employer embarking on a major campaign to attract women and enhance their quality of service. An executive group representing the major organisations presenting woman officers' views developed "The Gender Agenda" which was launched on 21 August. Their case for the gender agenda is the need to attract women to meet future resource needs, to represent the population they serve, to provide innovative, gender-proofed policies to deliver the best services to the public, and to develop and retain women. Further details are at annex 6.

## *Increasing returns through People Management*

**4.15** Local government employers, who spend 70 per cent of their budget on staff of whom 70 per cent are women, have taken far-reaching action to minimise risks and enhance the returns of their investment in people. “Single status”, introduced in 1997 (which places white and blue collar employees on the same conditions), has been the fundamental vehicle of change. The implementation agreement in the National Agreement on Pay and Conditions of Service states that “fair and non-discriminatory grading structures are needed...” “Local Authorities should review their local grading structures...” Key national provisions state that “the pay and grading of jobs must be fair and non-discriminatory, complying with equal pay legislation...” . Part-time employees should have full-time pay and conditions applied pro-rata...” Both sides have agreed a tailored job evaluation scheme which explicitly incorporates the principle of equal pay for work of equal value although Authorities are free to use other job evaluation schemes on the market. Progress is being made but is slow; annex 6 gives details.

**4.16** Local government employers have long recognised the importance of flexible arrangements and work-life balance practices on their performance. Research carried out by DETR (DETR survey of local authorities 2000) found advantages for the employer as well as the employee: of employers;

- 88% thought work-life balance practices fostered good employment relations
- 79% that they helped to retain female employees
- 66% that they helped to reduce absenteeism
- 64% that they improved staff motivation and commitment
- 60% that they helped lower staff turnover
- 50% that they helped to increase productivity and
- 49% that they eased recruitment.

**4.17** There were some negative impacts identified by about a third of the employers (increased managerial workloads, increased overall costs and shortages of staff at key times). Guidance currently being produced by the National Joint Council for Local Government Services, representing employers and trade unions, aims to reap the benefits while mitigating the negative impacts. Both sides will be encouraged to consider new working patterns and new service demands together as an integrated approach to result in better services for the diverse needs of the local population while better meeting the diverse needs of the workforce and mainstreaming equal opportunities. The guidance will contain examples of a range of employers (not only local government employers) introducing flexibilities with advice on points to consider in making the best of the practices and avoiding pitfalls. The findings of the DETR survey and the consequent action has important implications for other parts of the public sector.

**4.18** I was advised about the concerted action that the NHS is taking to deliver a responsive, integrated and high quality service. It acknowledges that it depends on its staff to do this. In July 1999 the Department of Health published “Making a Difference – *Strengthening the nursing, midwifery and health visiting contribution to health and healthcare*” which details what the Government is doing to recognise value of the 332,000 staff in this area. “*They need to be properly paid and properly looked after... We hope to introduce a new pay system which provides better rewards and removes the artificial ceilings to career advancement. We are recruiting more nurses. We are strengthening education and training. We are introducing more family friendly working practices and improving safety in the workplace.*” I was told about work in hand to reform the planning and development of the NHS workforce and about the consideration being given to the messages in the report by a working party of the Federation of Royal Colleges of Physicians published in June 2001 “Women in hospital medicine – career choices and opportunities”, which was a response to the finding that despite the fact that women have accounted for half of medical school graduates for the past 10 years, “hospital medicine remains a male-dominated profession.” More details are at annex 6.

**4.19** I believe that the modernisation of the NHS pay systems will be a significant step forward. The introduction of a new national framework which includes core conditions for all staff under a single negotiating council, a national job evaluation framework, clear and simplified pay spines and a national framework for determining pay increases are major tasks. I was told that the job evaluation scheme will ensure that jobs are ranked consistently with equal pay principles. The aim is to negotiate and agree with the unions by the end of the year a timetable for early implementation in some areas to test the new pay systems over a period of eighteen months to confirm they deliver as planned. I am encouraged that these radical changes will help to ensure not only that NHS staff are paid with due regard to the value of their contribution but that they will assist wider reviews of employment and pay to take place that help in removing barriers to the most effective use of people in this sector.

**4.20** I found some difficulty in assessing what the education sector as a whole is doing to increase its returns through improved management of its people. In schools, the position is complicated because of the autonomy of individual institutions over management and employer responsibilities. In England and Wales, although the local authority is the legal employer, the governing bodies of community and voluntary schools have the power and responsibility to manage and control contracts. I was unable to identify a central body that could speak for all schools. I have been struck by the difficulties of requiring and monitoring standards of good practice when the legal employer does not have the day to day control over human capital management. The relationship between the local authority and individual governing bodies is crucial to this. But this does not mean that the best standards should not be required. There are financial levers available at a higher level, through funding and Whitehall scrutiny if necessary, if changes are slow in coming.



**4.21** Higher education (HE) institutions are autonomous employers. Pay for the great majority of HE staff is determined through ten negotiating committees and institutions. The Bett report noted not only that pay structures were largely unchanged from the 1960's but "there are real concerns about whether universities and HE colleges are fully meeting their statutory obligations to ensure equal pay for work of equal value." "The hard evidence available on patterns of employment by gender... suggest that most HE institutions have yet to become model employers as regards equal opportunities." "Rigidities in pay structures and inflexible people management practices... can hinder necessary adaptation to technological developments changes in employment patterns outside the sector, and variations in the pattern of demand and funding for higher education."

**4.22** There is recognition of the need for change. The Higher Education Funding Council for England (HEFCE) has set up an Equality Challenge Unit to help HE institutions deliver improvements in equal opportunities. I understand that the equal employment reviews being carried out by the higher education institutions look at processes for promotion, the treatment of academics, targets for equal opportunities etc. The HEFCE also has a fund of £330 million to help institutions draw up and implement their human resource strategies. Every institution has applied for funding and has one year to set targets, which will be published. One of the conditions for receiving money is that institutions link their plans to objectives. That efforts to promote diversity are being taken more seriously may be evidenced by the fact that the HEFCE has denied two institutions funding from the HR strategy fund because of the weakness of their plans. This is a useful example of using financial levers as a real sanction where educational institutions lag behind the push to improve human capital management and is in keeping with my views on the importance of using these levers where there is unacceptable progress.

**4.23** All pay matters are dealt with by the Universities' and Colleges Employers Association (UCEA) and I am informed that the latest position is that agreement has been reached between the UCEA and all the higher education trade unions on pay and new industrial relations machinery. Three joint working groups aim to report by the end of March 2002 on the establishment of a single pay spine and the design of new pay structures, the arrangements needed to ensure the pay system delivers equal pay for work of equal value, and modernisation issues arising from the Bett report. An early task will be to develop guidance on equal pay audits. I regard this as very promising progress.

**4.24** Under the "Modernising Government" programme launched in March 1999, central government is committed to reviewing its pay and performance management systems. The Government has said that *"Departments and Agencies [will] undertake pay reviews and prepare action plans within two years, as they review their pay systems, in order to close any equal pay gaps. For other public sector employees, such as local government and the further and higher education sectors, we will*

*also promote action in line with the EOC's Task Force recommendations." (Speech by Rt Hon Tessa Jowell, then Minister for Employment, to the Industrial Society on 27 March 2001.)*

**4.25** My conclusion from consulting a wide range of public sector employers is that notable progress overall is being made to ensure that people are properly valued and their potential recognised. I recognise that the pay review exercises and job evaluation being planned or undertaken will involve substantial, gross implementation costs and will require sensitive handling. The statement from the Local Government Association contained in section 7 is clear about the issues while showing that the difficulties can be met. For all the reasons I have discussed in both this section and the preceding section, I am convinced that they must be overcome.

**4.26** I have also heard how the sector as a whole has implemented an impressive range of flexibilities to enhance returns from its people management. The introduction of these practices have covered large numbers of employees irrespective of grade or job, so that all can benefit. But, as in the private sector, some employers are more advanced than others and I found little evidence to suggest that the promotion of diversity generally has been linked to specific business objectives and targets and monitored to assess the effect on performance. Nor did I find widespread evidence that the achievement of diversity measures has been linked to Board or senior managers' remuneration. The public sector appears to be lagging behind the private sector in this visible manifestation of the importance that business affords to its diversity practices.

## 5. Making it happen

**5.1** The question remains why, in the face of so much evidence that promoting and developing the talents of women is in the best interests of business and public sector organisations, have greater changes in women's pay and employment not yet materialised?

### Importance of quantitative analysis

**5.2** The driver of the virtuous circle in which business incentives prompt a strategy to promote diversity, which in turn deliver greater profits, is information. This means information and quantitative data available at the firm level to generate both an understanding of where best practice lies, and a situation in which those firms which are getting their human capital management right are rewarded through higher levels of investor confidence and ultimately higher shareholder value.

**5.3** My consultations with businesses have left me convinced that there is an information gap surrounding what is actually happening to women in the workforce. It is symptomatic of a weak area of management that human capital and diversity policies are not tied to corporate objectives and the outcomes are not measured. The vast majority of the organisations to whom I have spoken have recognised that promoting and developing the skills and expertise of their female employees is a business imperative, and many of them have instituted a range of policies to deliver diversity at all levels of the organisation. However, very few organisations have the data available which allows them to measure the success of these policies, nor indeed to question many of the assumptions that are made on where the problem lies and how it can be addressed. This is of fundamental importance if businesses are to avoid the pitfalls of underestimating either the scale or the complexity of the issues surrounding women's employment and pay. However, there are pioneers in the area of measurement and management. In my recent meeting with the BBC I was impressed by their methodology of incorporating diversity objectives into their corporate strategy, setting goals and periodically and rigorously measuring their progress towards them.

### Voluntary employment and pay reviews

**5.4** I believe that an employment and pay review is the first step in addressing this information gap within companies. The remit of an employment and pay review is to consider the full range of issues surrounding the pay and progression of women in an organisation through indicators such as recruitment and retention rates, promotion, access to training and development in addition to pay. It therefore

goes beyond a pay review to uncover issues of unequal pay for work of equal value, to highlight structural issues surrounding women's employment within an organisation. Comparisons of pay provide the initial indicator which opens the door onto a whole range of employment and human capital management issues including job segregation or clustering of women in lower paid and lower status roles within an organisation, rates of promotion for each gender, the extent to which length of service is disproportionately rewarded in salary terms, blockages in an organisation's structure which are preventing the promotion of talented individuals lower down in the hierarchy, or the take up of part-time, job share or flexible working options by both genders and the impact these may have on subsequent salary and promotion.

**5.5** While I firmly believe that organisations themselves will need to consider carefully the questions to which they require answers, and the data that will supply those answers when formulating their own employment and pay reviews, I nonetheless welcome the variety of tools being developed by various sources. The value of such tools lies primarily in providing companies with a practical framework to approaching an employment and pay review which individual businesses can customise and tailor to deliver their own specific objectives. The Chartered Institute of Personnel and Development are currently developing a comprehensive employment and pay review tool to be published in late November, an executive summary of which is contained at annex 7. The Equal Opportunities Commission has already published a first version of their pay review model as an appendix to their Equal Pay Task Force report<sup>24</sup>, and is working to complete a full version. Finally the Industrial Society have positioned themselves to provide advice and consultancy on employment and pay reviews, and similarly have their own model in place a first version of which is also included at annex 7. At the same time commercial and professional organisations are developing tools and methodologies in this area.

### ***What have employment and pay reviews revealed?***

**5.6** Those organisations who have already completed pay reviews or employment audits have uncovered a number of strategic issues which have had a real impact on their businesses.

**5.7** One of the things a review can uncover is unlawful wage inequality. In both the private and public sectors, a number of occurrences of unequal pay for equal work or work of equal value have been uncovered. Those I have consulted have frequently pointed to two main factors which appear to cause unequal pay in the workplace. The first of these is when pay is a legacy of historical differences in the jobs which men and women do. For example, the relatively greater degree of past unionisation of jobs dominated by men has led to wage inequalities in a number of cases.

<sup>24</sup> Equal Pay Taskforce: *Just Pay – A report to the Equal Opportunities Commission*, 2001 pp.31-41.

**5.8** Another key contributor to occurrences of unequal pay is the disproportionate reward for length of service which forms part of certain pay schemes. This can frequently be an issue in public sector organisations, but also occurs in the private sector, especially where the pay bands for each job or grade are very broad, and pay is increased incrementally for every year of service within a designated band. This can unfairly disadvantage women within an organisation, as career breaks made for family or other reasons often mean that women experience a more fractured career structure and spend less time in a continuous period on a job. It is therefore possible for women and men to work alongside each other in the same job, at the same skill level, and with the same performance and productivity, but get paid substantially different amounts that cannot be justified on the grounds of experience.

**5.9** However, as has been stressed above, I am not convinced that the primary labour market outcome which is driving the pay gap is unlawful wage inequality. Rather it is the clustering of women in lower paid and lower status roles within firms and within a limited number of occupations across the labour market. It is the first of these factors, the concentration of women towards the lower end of hierarchies within organisations, which I believe is best addressed through employment and pay reviews. To provide top management with the sort of systematic and structured information on the ways in which their organisations recruit, develop, and remunerate staff which they will need to review human resource issues in terms of their contribution to corporate objectives, I am convinced that the reviews will have to go beyond a narrow consideration of pay and pay structures.

**5.10** A number of the organisations which have already undertaken voluntary pay reviews have found that pay has been the indicator which has opened up a whole range of structural business issues including clustering of women in less senior roles. One of the UK's financial institutions discovered that on conducting a pay review the headline figure had shown a substantial gap in average pay between full-time men and women. However, at each individual grade the differences in pay were small. This suggested that there was not a problem of unlawful wage inequality but a problem of the disproportionate distribution of women and men in the organisation's hierarchy.

**5.11** On a closer examination of the evidence it was discovered that the headline pay gap had arisen because women were concentrated in the lower grades, primarily the "staff" grade which covered many of those working in local offices. Over 80 per cent of those employed at this grade were women giving rise to concerns that a high proportion of women were remaining static within the organisation while the men moved through to higher grades. This presented a business problem both because it was felt that many of the women were operating below their potential and thus depriving the company of valuable skills and expertise, and that such stasis at a single grade impeded the promotion opportunities for those below them in the organisation.

**5.12** The experience of the organisations whom I have consulted indicates that pay reviews are most effective in uncovering the strategic information which will be of benefit to companies when they are driven by business incentives and tied to corporate objectives. The path that a pay review takes will largely be dictated by the specific concerns of the company involved, and in this respect it is difficult to generate a “one size fits all” model. There is a real danger that at this early stage a mandatory requirement for pay reviews could engender a box ticking approach which will neither serve the purposes of the company, nor uncover the complexity of issues which are causing the headline levels of wage inequality.

**5.13** *I therefore recommend that, at this time, employment and pay reviews should be voluntary and not mandatory for the private sector. I further believe that private sector organisations should be encouraged to have completed such reviews by the time that the recommendations in relation to company reporting in the Operating and Financial Review are introduced, which is likely to be 2003 (see paragraphs 5.31 to 5.44). The information uncovered through the employment and pay reviews will be of assistance to companies reporting on their human capital. If it becomes apparent over the next few years that a voluntary approach is leading to an unacceptable tail of organisations who are simply not putting in place systems to enable them to answer basic questions about their employment of women and the extent of any gender pay gap, then it would be appropriate to reconsider the issue of whether some form of mandatory requirement would be appropriate.*

**5.14** As in the private sector, unequal pay in the public sector is a sign of management's failure to optimise their use of their human capital and evidence that women's talents are not being efficiently employed. Much of the public sector is already preparing to undertake pay reviews. Central Government Departments and Agencies are committed to undertaking equal pay reviews and preparing action plans within two years from March 2001. Local government is undertaking pay and grading reviews. The NHS is also modernising its pay system and conducting job evaluation.

**5.15** There is a strong case however for requiring the whole of the public sector to undertake pay reviews. Not only is the business logic compelling, but it is arguable that Government should set a lead. As a large, highly visible employer of women, the public sector has an important influencing role. Its actions on pay and conditions have a substantial impact in determining the position for women in general both because of weight of numbers and because of the visibility of the changes. If the public sector does not act, not only will there be losses to the economy arising out of inefficient use of human capital, but it will be difficult to improve the overall position of women.

**5.16** Furthermore, it could be argued that Government has a particular responsibility to ensure that organisations that are publicly funded act in accordance with Government policy and meet legislative requirements. Both legislation and Government policy are aimed at ensuring equal pay and equal opportunities for women.

**5.17** *I therefore recommend that all public sector organisations should be required to undertake employment and pay reviews and prepare action plans to the same timetable that I have recommended for private sector voluntary reviews.*

## Contracting out public services

**5.18** To reap the benefits of private sector expertise in improving productivity and performance, the last 20 years has seen a change to the separation of public and private sector delivery. The private sector has been involved in the delivery of work previously wholly delivered by the public sector by arrangements such as contracting out, private finance initiatives and public private partnerships. This report does not seek to assess the advantages and disadvantages of those particular policies. However, their effects on women's employment and pay are highly relevant to the review. Women have to date been disproportionately affected by the various forms of arrangements for securing private sector involvement in delivering "public" services. It has been argued that there have been two main effects:

- a. the undermining of the level playing field for bidders for contracts where the public sector has carried out job evaluation and/or pay reviews and the private sector contractors have been able to incorporate lower pay levels into their bids; and
- b. the creation of a two-tier workforce because new recruits can be taken on at lower levels of pay or inferior conditions than employees transferred to the new employer under the Transfer of Undertakings (Protection of Employment) (TUPE) regulations.

**5.19** The effect on women has been particularly noticeable in the local government sector where the "best value" requirements in the provisions of the 1988 Local Government Act initially deterred Authorities from taking "non-commercial" factors into account and de facto placed a duty on them to seek out the least costly supplier. The requirement has been tempered by statutory guidance put out by the then DETR in this year which stated that in best value or TUPE cases, Authorities can take factors other than commercial factors into account, namely terms of employment etc. of the contractors workforce and conduct of either party in industrial disputes, when deciding contracts.



*“Since a motivated workforce is critical to the provision of high quality public services, correct handling of employment issues in local government tendering is essential to best practice... Good quality services depend on appropriately skilled and motivated workforces. Neglecting relevant workforce matters in order to drive down costs can have adverse effects on the desired quality and value for money of the services being provided.”*

**5.20** Also significant is the Opinion of James Goudie QC given in June 2001 in the matter of the Greater London Authority Act 1999, Local Government Act 1988, the Local Government Best Value (Exclusion of Non-Commercial Considerations) Order 2001, Fair Employment Contract Clause for Employees. The Greater London Authority (GLA) had sought advice on the lawfulness of adopting “a fair employment clause” in contracts in circumstances of contracting out services when the “best value” provisions of the 1999 Act, TUPE and the EU Acquired Rights Directive applied or in procuring services or the supply of goods when best value applied but not TUPE or the Acquired Rights Directive. The aim was to ensure staff transferred out or new staff taken on to perform the contracted out work would be employed under conditions in line with equivalent staff employed by the GLA. Where the contract did not involve contracted out services but was a procurement contract, the GLA wished to ensure that those working on it to be employed under conditions in line with equivalent staff employed by the GLA. The conclusion was that a fair employment clause, provided it was consistent with best value principles, would be lawful.

**5.21** “Building Better Partnerships”, the final Report of the Commission on Public Private Partnerships published earlier this year, discussed the position of public private partnerships and the workforce. It observed that: *“government must play a pivotal role in promoting good employment practices across the public service sector: public money should not support poor employees. A motivated workforce is critical in delivering high quality services to the public.”* Amongst its conclusions were:

*“Public purchasers need to be made aware that the principles of Best Value and value for money do not imply going for the lowest cost bid and that good management of the workforce is integral to the achievement of high quality public services... Purchasers should always be allowed to make training, health and safety and equality features of PPP contracts.”*

This widely reviewed and publicised report confirms in this respect the importance of DETR guidance.

**5.22** In practice it is not clear how far Authorities have moved to take on board the new guidance. I have been told that Authorities are conscious that they are strictly audited to ensure that they discharge their best value duty and that they are likely to be cautious in their consideration of other factors. This means that there will continue to be a question mark over the motivation of those performing contracted out work and the quality of those services. I am therefore encouraged that the government has



announced a three month review of the best value regime starting from 1 October. Stephen Byers, Secretary of State for Transport, Local Government and the Regions, said:

*“The review of Best Value... will have a number of aims. It will aim to ensure that Best Value reduces bureaucracy and, in particular, examine whether Best Value Performance Plans can be simplified to ensure they add real value. We will review the statutory guidance on Best Value to focus on higher standards and not just lowest cost. We will also seek to ensure that best value is neutral as to whether services are best provided by the public, private or voluntary sectors... We will also review the particular concerns of local government employees transferred to the private sector. We will include in the review the issues of a two-tier workforce... and where evidence of a two-tier workforce is found to exist we will take action to end it... Lastly, we will review the scope for giving successful authorities more opportunities to carry out work for other authorities, or for private and voluntary sector bodies, as a way of incentivising managers and employees in the public sector.”*

**5.23** It is clear that contracting out work previously done in the public sector and funded by that sector can result in women’s pay for essentially the same job being reduced. While it may not contravene current legislation, it does nothing to close the pay gap, reward women properly for their skills and performance or engender loyalty and productivity. In this respect it is interesting to note the pilots proposed through the NHS under PFI arrangements. The three pilots, at Stoke Mandeville, Roehampton and Havering will allow support staff (typically catering, portering, domestic and cleaning staff) to retain their NHS employment terms but be managed by the private sector. This would entail legal secondment to the private sector partner. Under this model, the private sector will not be able to rely on reducing pay to undercut public sector competitors. I also note recent reports that the largest private contractors’ association, the Business Services Association, is willing to consider paying new recruits broadly equivalent terms and conditions as the workers transferred from the public sector, when contracting to deliver public sector services.

**5.24** The Prime Minister, Tony Blair, in his speech to the Labour Party conference in Brighton on 2 October this year said, with reference to partnerships between the public and private or voluntary sector,

*“Nobody believes the private sector is a panacea.*

*There are great examples of public service and poor examples. There are excellent private sector companies and poor ones. There are areas where the private sector has worked well, and areas where, as with parts of the railways, it’s been a disaster.*

*Where the private sector is used, it should not make a profit simply by cutting the wages and conditions of its staff.”*

**5.25** A requirement that bidders or partners for contracted out or out-sourced public sector work should state that they are prepared to pay the previously agreed rate for the job, where this has been established fairly through a pay review or job evaluation, would assist in reducing the risk of a two-tier work force. Companies who undertake government contracts in America advise me that they regard Federal Orders regarding discrimination and State requirements on pay equity and other matters, to be part of the quite acceptable routine of doing business with government and they would regard similar requirements in the same light if introduced in this country. They have a great deal of experience in dealing with all aspects of equal opportunities under affirmative action planning and compliance. Despite encouragement from some companies with this experience to explore affirmative action for bidders for all government contracts; i.e. purchasing or procurement contracts as well as contracts to deliver public services, I am at this stage looking only at work that has been previously undertaken by the public sector and is being or has been contracted out. ***I believe that the bidders for these contracts should be required to demonstrate that they will offer the terms and conditions prevailing previously where they have been established through a pay review or job evaluation and so recommend.*** The recommendation covers bidders for new services to be contracted out by the public sector as well as bidders for contracts that come up for renewal where there are clear comparators for the contracted out services still retained by the public sector employer.

## Case for a reporting recommendation

**5.26** The second level at which I believe there is a lacuna is in the information which companies routinely convey to investors, shareholders and the public at large through their reports and accounts. In the rapidly evolving labour market outlined above it will be crucial to engage both institutional investors and individual shareholders in the human capital debate. It is becoming commonplace to refer to knowledge, innovation and technical or product development as key elements of competition, and yet the management of human capital, which is the very resource which will deliver these business benefits, is routinely under reported. I believe that increased transparency of human capital management practices is necessary to aid the efficient and well-considered allocation of resources by investors and shareholders. The importance of disclosure of information in company reports has long been recognised. It is not only the primary vehicle for accountability to shareholders and investors, but it is increasingly becoming a means to promote better corporate performance. Within annual reports human capital management is very poorly documented or indeed understood. Increasing the level and standard of reporting on human capital management will be of benefit to all the key stakeholders: to those taking investment decisions, to businesses themselves, and to individuals within the labour market.

**5.27** There is a growing recognition in the investment and corporate community that company report and accounts no longer go far enough in disclosing the kind of information which will prove invaluable to investors in predicting future growth and performance. In recent years, fuelled by the growth of the knowledge-based economy, the ratio of the book to market value of a company has risen dramatically. This reflects the fact that although intangible assets, such as human capital, innovation and brands, increasingly drive company performance, they are not adequately accounted for in the valuation process. This trend is amply illustrated in the Arthur Andersen publication “Cracking the Value Code”:

*“In 1978, on average book value represented 95 per cent of market value, while 10 years later it was 28 per cent. In 2000 it was estimated to be below 20 per cent. In other words, 80 per cent of stock market value is derived from assets that do not appear on the balance sheet – assets like knowledge, brands, people and relationships.”<sup>25</sup>*

**5.28** There is also empirical evidence that firms are indirectly assessing the value of their intellectual capital. It is not unusual, for example, for corporations to invest heavily in employment contracts restricting the freedom of key employees to transfer their skills and expertise to competitors.

**5.29** The research carried out by Patterson et al. at Sheffield’s Institute of Work Psychology, further supports the contention that information on human capital management will become increasingly important for investors seeking to invest in future high performing companies. Their finding that *“Compared with... research and development, technology, quality and strategy, human resource management practices are far more powerful predictors of change in company performance”<sup>26</sup>* is a key indication that the disclosure of such information will be high on the investment community’s agenda over the next few years.

**5.30** In a knowledge driven economy the key sources of competitive advantage, such as innovation, product development and effective leadership must all be delivered through one primary asset, namely people. For this reason company performance in relation to the recruitment, retention, training and development of their human assets is a vital piece of investor information.

<sup>25</sup> Boulton, Libert and Samek, *Cracking the value code*, New York, 2000.

<sup>26</sup> M. Patterson et al, *Issues in People Management No. 22 – The Impact of People Management Practices on Business Performance*, p.19.

## *Company Law Reform report*

**5.31** The main findings of the final report on Modern Company Law for a competitive economy support the thrust of this argument. They state,

*“companies are increasingly reliant on qualitative and intangible assets such as the skills and knowledge of their employees, their business relationships and their reputation. Information about future plans, opportunities, risks and strategies is just as important as the historical review of performance which forms the basis for reporting at present”<sup>27</sup>*

**5.32** For this reason the Company Law Review recommends that all companies of significant size produce an Operating and Financial Review as part of their annual reports and accounts to include the information which the directors judge necessary to an understanding of their business and its future performance. This appears to be the natural place in which to include disclosure on human capital management and the effective use of people. The Company Law Review final report sets out a schedule of items which should be included within the OFR on either a mandatory or a voluntary basis.

<sup>27</sup> *Modern Company Law for a competitive economy – Final report*, Volume 1, p. 49.

	Always Required	Required to the extent material
<p><i>The company's business and business objectives, strategy and principal drivers of performance:</i></p> <p>The criteria by reference to which its success is evaluated and the source from which that success is derived, including development of each part of the business against objectives, and competitive positioning.</p>	Yes	
<p><i>A fair review of the development of the company's and/or group's business over the year and position at the end of it, including material post year events, operating performance and material changes:</i></p> <p>Including:</p> <ul style="list-style-type: none"> <li>market changes,</li> <li>new product and service introductions,</li> <li>changes in market positioning,</li> <li>new and discontinued products and services</li> <li>acquisitions and disposals.</li> </ul>	Yes	
<p><i>Dynamics of the business – i.e. known events, trends, uncertainties and other factors which may substantially affect future performance, including investment programmes:</i></p> <p>Risks, opportunities and related responses in connection with:</p> <ul style="list-style-type: none"> <li>competition and changes in market conditions,</li> <li>customer/supplier dependencies</li> <li>technological change</li> <li>financial risks</li> <li>health and safety</li> <li>environmental costs and liabilities</li> </ul> <p>And projects and programmes to maintain and enhance:</p> <ul style="list-style-type: none"> <li>tangible and intellectual capital</li> <li>brands</li> <li>research and development</li> <li>training</li> </ul>	Yes	

<p><i>Corporate governance – values and structures</i></p> <p>An account of the company's and/or group's systems and structures for controlling and focusing the powers of management and securing an effective working relationship between members directors and senior management, including the names, roles and qualifications of directors.</p>		Yes
<p><i>An account of the company's key relationships, with employees, customers, suppliers and others, on which its success depends:</i></p> <p>Including employment policies and practices (including disability and non-discrimination policies); policies and practices on employee involvement and compliance with international labour conventions and anti-discrimination laws; policies and practices on creditor payment.</p>		
<p><i>Policies and performance on environmental, community, social, ethical and reputational issues including compliance with relevant laws and regulations:</i></p> <p>Including any social or community programmes, policies for the business on ethical and environmental issues and their impact for the business, policies on international trade and human rights issues and any political and charitable contributions.</p>		Yes
<p><i>Receipts from and returns to shareholders:</i></p> <p>Including distribution policy, distributions, share repurchases and capital issues.<sup>28</sup></p>		Yes

**5.33** This schedule comprehensively sets out the proposed scope and tone of the OFR, however, it is not sufficiently clear how and where information on human capital and its management should be included. There are a number of areas in the present schedule in which disclosure of such information would seem appropriate. Indeed, I believe that information on human capital management is material to sections (i), (iii), (iv) and (v) of the proposed layout of the Operating and Financial Review.

<sup>28</sup> *Modern Company Law for a competitive economy – Final report*, Volume 1, pp183-4.

**5.34** I concur fully with the analysis of the Company Law final report that it is imperative to avoid the kind of boilerplate reporting which serves neither the interests of investors nor the companies themselves. However, I do not agree that such an outcome will be the consequence of including human capital management as one of the items to be addressed under mandatory areas (i) or (iii). It is proposed that at this stage the OFR is only a requirement for companies above a certain size and scale. In terms of employees the suggested threshold for public companies is 500. For companies employing a workforce of 500 or more, the way in which they manage and capitalise on the significant investment which has been made in their human resource cannot be immaterial either in terms of their “*business objectives*”, their “*principal drivers of performance*”, or indeed as “*a factor which may substantially affect future performance*”.

**5.35** More precisely a number of the specific items included under the mandatory section (iii) of the schedule can only be delivered through the effective management of people and hence cannot readily be divorced from it. I believe that the “projects and programmes to maintain and enhance tangible and intellectual capital... research and development, and training” fall into this category.

**5.36** I do not believe that it will be sufficient simply to include information on policies surrounding employee relations and anti-discrimination under voluntary item (v). In talking to a wide range of companies over the course of the review I have discovered that while many have a range of progressive human capital and diversity policies in place, few have done the necessary analysis as to how such policies relate to their key corporate objectives and whether the policies in question are actually delivering the desired results. Yet this is precisely the kind of information which investors need to inform their investment decisions. I believe that failing to provide sufficient detail in the guidance to companies on how they should report on their human capital, and failing to make it clear in the OFR standards that human capital is a key driver of business performance and a core contributor to future success, will lead to exactly the kind of boilerplate reporting which the Company Law Review has been so keen to avoid.

### ***The way towards a reporting recommendation***

**5.37** I am, however, alert to the dangers of stifling innovation and imposing impractical burdens on companies in an area in which the metrics are comparatively new and underdeveloped. The Company Law Review states that any mandatory requirement relating to the OFR:

*“must be done in a way which gives companies wide scope to report in the way which best enables them to describe their business – in terms both of the format or the content of the report. And it must allow for development over time, rather than seeking to “freeze” best practice”*

**5.38** In microcosm the same is true of guidance and requirements related to the reporting of human capital management issues. The Accounting Standards Board have indicated to the Review their intention to include human capital management in their operating and financial review guidance when they update the existing document next year. Mary Keegan, chair of the ASB, has told the review:

*“The Board has in hand a project to update its Statement “Operating and Financial Review”...so that it may reflect current thinking on the matters it addresses. For many entities considerations of general policies and practices in relation to human capital management may be of relevance to a user’s understanding of future financial performance. The Board therefore plans to include such a point in the draft of an updated statement that it hopes to publish next year for consultation.”*

**5.39** This is a crucial first step in encouraging and promoting best practice reporting in this vital area.

**5.40** However, more needs to be done to build on the foundations laid by the Company Law Review. I believe that this is a vital opportunity to make headway in improving what is currently a neglected area of management for UK organisations, and it is crucial to get it right. The final report proposes that a Standards Board is established in whose remit it will be to produce standards and guidance in relation to the OFR. ***In anticipation of this process I recommend that the most productive step forward would be to institute an inquiry to advise on incorporation of human capital management information, including information on women’s employment and pay, as part of the mandatory requirements in OFRs, which would ultimately present its findings to the proposed Standards Board.***

**5.41** In his evidence to the review Sir Adrian Cadbury indicated his support for an enquiry of this kind:

*“one of the aims of any inquiry would be to determine what key indicators would be most helpful to organisations in monitoring how effectively they are developing the people on whom they depend. What measures of investment in training, development and career guidance and of return from that investment in terms of retention and career progression would be most useful? Companies will increasingly be asked to provide this kind of information under the Company Law Reform proposals and investors and analysts will be assessing it in corporate prospects. It would also provide valuable information for those making career choices, a powerful reason why other than corporate employers will wish to publish their record in this respect.”*



**5.42** I believe that such an inquiry should be instituted by the government and should include business, investors, trade unions, human capital management specialists and representatives of the accountancy profession. The ICAEW who were instrumental in the Cadbury, Greenbury and Hempel inquiries, have indicated their willingness to participate, as have a number of businesses and other professional bodies. A clear understanding of the issues related to gender must underpin the work of this group. I believe that the present lack of experience and models for reporting on human capital management justify the establishment of such a body.

**5.43** My consultations undertaken by this review have uncovered a number of areas which I believe to be essential to generating an effective tradition of reporting in this area, and which will ensure that the information which provides the vital link between basic policies and better corporate performance is widely available.

- Human capital management reporting should be both input and output based. This means that as well as addressing the policies used (the inputs) there must be an assessment of the effects they have had (the outputs).
- Measures of outputs should be, wherever possible, quantifiable and data based. Outputs must also be linked to strategic objectives, it should be clear what the company was trying to achieve through a certain policy and how close they have come to reaching that target.
- There should be trend analysis included so that progression over time is conveyed.
- Gender should be mainstreamed throughout the analysis of human capital management and data should be provided wherever possible as to how the various output related measures apply to each gender.
- Data should include, as a minimum, information on recruitment, retention, grading, promotion, training and pay.
- The reporting of such information should be signed off by the remuneration committee.

**5.44** I am aware that the recommendations in relation to the OFR will only affect companies over a given threshold. However, I believe that there is a role for the proposed inquiry, with the appropriate expert input, to consider how best to encourage and disseminate best practice reporting of human capital issues in other organisations, for example partnerships, charitable bodies, as well as companies which fall below the threshold.

### ***Support for a reporting recommendation***

**5.45** There is a significant support from leading UK businesses for the inclusion of human capital management practices in reports and accounts. Some organisations, for example the BBC, already include such information voluntarily in their reports

and accounts, while others have indicated that they are considering expanding reporting in this area. British Airways stated to the review:

*“We support the idea of encouraging companies to improve the extent and transparency of their reporting on people-related issues. We already report annually through both our Report and Accounts and Social and Environmental Report and we intend to increase the range of issues on which we report. Our experience has been that reporting data in a simple and transparent manner helps to ensure focus within the Company without imposing excessive bureaucracy.”*

**5.46** I have also had clear indications from the investment community that they would welcome greater disclosure of human capital management practices. The practical steps being taken by the Accounting Standards Board are outlined in paragraph 5.38. Hermes Investment Management, one of the largest pension fund managers in the City of London, has taken an active stance on this issue and has agreed to encourage the disclosure of human capital management in correspondence with the companies in whom they invest. Hermes chief executive Alastair Ross Goobey has told the review:

*“Investors will only put value on measures of employment of women once they have data on which to work. Companies should consider publishing appropriate statistics as part of their non-financial reporting”.*

**5.47** I believe that the public sector would also benefit from establishing a more robust tradition of reporting on human capital management. All central government departments and agencies and major public sector organisations publish detailed annual reports. Data-based information on gender with trend analysis of their human capital management should be incorporated in these reports. I have, for example, noted how the collection of data on attainment of pupils in schools by gender and race has led to strategic decisions to make appropriate changes to tackle underachieving areas. The requirement for boards to publish information on staff would similarly focus the attention of senior management to take action to deal with adverse trends and explore the effects of poor human capital management on performance. ***I recommend that annual reports from public sector organisations should include data-based, gender, trend information on their human capital management.***

## The importance of leadership

**5.48** A further benefit of a reporting recommendation is that it will place human capital management on the board agenda every year, which is appropriate as the board is the representative of stakeholders and shareholders. I believe that this is necessary as increasing empirical evidence suggests that unless diversity and human capital management policies are integrated into the organisation's key corporate objectives they stand little chance of succeeding. There needs to be a firm commitment from the board level of an organisation that diversity is a priority, if an organisation truly wishes to become an employer of choice with the whole spectrum of its potential and actual labour market. In practice the top-level strategic direction through which the CEO and the board give their personal endorsement and commitment to the proposed human capital strategies can be generated through the placement of the Director of People or Human Resources on the board, and the introduction of human capital and diversity objectives into the Key Performance Indicators on which the remuneration and appraisal of the senior management team will depend.

**5.49** During my consultations I have come across a number of companies in the private sector who have successfully included diversity objectives in the key performance and appraisal indicators for senior management by linking it to their remuneration, and this has had a substantial effect in bringing about a culture change within such organisations. However, such a practice is in its infancy in the public sector. The current modernisation of pay and performance being undertaken across substantial parts of the public sector provides an ideal opportunity to introduce a measure of this kind. I believe that part of the remuneration package of members of the boards of government departments and agencies and other public sector organisations (and the top level of management of those public sector bodies not governed by boards) should be dependent on the achievement of diversity objectives and indicators just as it is in the leading parts of the private sector. I understand that this approach has been adopted for the top management of Civil Service departments. I am convinced that it should be adopted throughout the public sector. Objectives and indicators should be included in the key performance objectives of senior management and examined during the regular performance appraisal of all their objectives. I have seen consistently that unless top management take a lead and maintain regular involvement, the effective management of human capital becomes a matter of policies and practices operated by the lower levels of human resource departments, unanchored to the business objectives of the organisation and of lower priority than the management of other resources. ***I therefore recommend that an identifiable element of the remuneration of senior officials (board level) of government departments and other public organisations is linked to the achievement of stated diversity objectives and that these are subject to regular review and appraisal.***

## Promoting economic understanding, and sustaining and rewarding best practice

**5.50** My consultations with organisations uncovered an overwhelming degree of consensus on the ambition to become an “Employer of Choice”. It is stated as a clear business priority by a number of organisations in their statements of evidence to the review, and was a latent theme for many others. While there is widespread recognition that attracting, retaining and developing women is a key element in achieving “Employer of Choice” status, there is confusion and uncertainty as to how this can be delivered. The recommendations and discussion outlined below are designed to aid organisations to achieve employer of choice status through the promotion and reward of best practice. The benefits of best practice are not solely to provide benchmarks to aim for, but to increase the transfer of ideas and to enable organisation to pool their experiences and learn from initiatives as they are developed across the economy.

**5.51** During the course of the consultation process my attention has been directed to a US organisation called Catalyst whose mission is twofold: to enable professional women to reach their full potential and to help employers fully utilise the talents of their female employees.

**5.52** Founded in 1962, Catalyst has grown to become a high profile and influential non profit-making organisation which both conducts research and provides consultancy services to organisations, advising them on how to attract, retain and advance women. Indeed much of the Catalyst philosophy, that both measurement and committed leadership are crucial drivers of change in this area, has influenced my own approach.

**5.53** The advisory service works with organisations to identify barriers that prevent women from advancing and lead to higher turnover of women and advises on practical solutions to create environments where women can thrive. As such a business focused and high profile organisation, Catalyst has also begun to play a role in redressing grievances which have been subject to litigation. In a recent Wall Street sex discrimination case, part of the remedy proposed by the court was for Catalyst to provide a diagnostic and consultancy service to the business in question to decrease the likelihood of such discrimination reoccurring.

**5.54** Catalyst is a membership organisation with just under 300 members, many of whom are drawn from America's leading Fortune 500 corporations. I have also consulted with a number of global UK based companies who have direct and positive experience of working with Catalyst. In terms of funding, Catalyst's total revenue and support in 2000 for running costs totalled just under \$7.5 million, of which approximately \$2.3 million was provided by grants and contributions; \$2.2 million from special events revenue; and \$775,000 from advisory fee income.

**5.55** I believe that the establishment of a similarly high profile and prestigious organisation is invaluable to continuing the debate in the UK at a high level, and also for providing a forum for independent practically oriented research. However, Catalyst was established in the US at a time when the equality movement was incipient and while Catalyst has been highly successful in adapting itself to the times, in the UK we have the opportunity to begin with a clean slate.

**5.56** I envisage an organisation which has a number of different strands:

- Such an organisation must be a genuine partnership between business and government. A number of organisations have indicated to me that they would be happy to contribute financially to such an organisation, and I would advocate that the government match any such revenue forthcoming from businesses. I estimate that £10 million would be a sufficient allocation of resources to cover the start up costs for such an organisation, the first year running costs, and provision for three initial research projects.
- I do not believe that it should be a traditional membership organisation. My concern is that this would jeopardise both the independence and the transparency of the organisation, both of which are essential to its standing.
- To achieve this end, and to ensure that the organisation is as effective as possible, it should have a fully funded independent secretariat.
- The remit of the organisation should cover the careers and labour market prospects of all women.
- The organisation should have a dual function both of initiating, sponsoring and coordinating academic research, and in providing practical market driven consultancy solutions for businesses keen to make progress in this area. Both of these functions will be mutually supporting and will benefit from the independent and transparent ethos that will be at the organisation's core.

**5.57** The research function is crucial. I have been struck, while conducting this review, on how little economic research exists into the effects of gender imbalance, and I firmly believe that there should be a forum to propagate ideas in this field. As an underpinning for the quality and rigour of the research the organisation could be allied to an existing academic institutions. This would also allow the organisation to establish a network between different research centres working in this field.

**5.58** The economic and market driven research will support the consultancy role, and ensure the organisation will have a real impact on UK business. The consultancy function will also allow the organisation to gather information on and disseminate examples of best practice.

**5.59** *Having considered this in some depth I am very clear that none of the existing organisations in the UK fulfil this mix of criteria and purpose, so I recommend that the Government seek to establish a new academic centre of*

*excellence, jointly funded by government and business, with the dual function of initiating, sponsoring and co-ordinating research on issues affecting the careers and labour market prospects of all women and providing practical market driven solutions to business, as a matter of priority.*

**5.60** There are a number of areas of research on which I believe the organisation might initially focus. These are:

- a. Investigating the link, in quantifiable terms, between good human capital management, in which gender is mainstreamed, and bottom line business performance.
- b. Examining anomalies in the part-time labour market, in particular the perceived mismatch between skills and available part-time jobs, and ways of breaking down rigidities between full and part-time work.
- c. Quantifying the cost to the UK economy of failing to develop and optimise the skills of women in the labour market.

### *Disseminating good practice*

**5.61** Much of the work and research generated by Catalyst in the US revolves around identifying work environments, human resources policies, and employment practices which effectively advance the position of women in the workplace. Three decades of focusing on results driven, practical solutions which benefit both businesses and the women they employ have led to the accumulation of a wealth of information on good practice as found in many of the US leading edge corporate firms. Similarly research and surveys conducted in the UK, for example by Opportunity Now, Employers for Work Life balance, and the Sunday Times survey of the best employers to work for, have laid down their own benchmarks in terms of progressive attitudes to human capital management. Many of the conclusions reached by such bodies have been supported by my consultation process in which many UK companies, public bodies, and partnerships have demonstrated their commitment to promoting diversity through a whole range of innovative and far-reaching practices.

### *Moving beyond the identification of good practice*

**5.62** However, the identification of individual best practices is not, as Catalyst themselves are at pains to stress, the whole solution. The President of Catalyst, Sheila Wellington, states in the preface to *Advancing Women in Business – the Catalyst Guide*:

*“Best practices for gender diversity cannot be dropped into an organisation and expected to dissolve problems magically. Companies and firms must avoid the common temptation to leap at solutions, diversity structures, and training before diversity is secured as part of the organisation’s overall business plan and the real issues have been identified and understood.”<sup>29</sup>*

**5.63** This caveat mirrors the concerns voiced by the CIPD and others surrounding the research which establishes a link between good human capital or resource management and greater productivity, performance and ultimately shareholder value.<sup>30</sup> Although the findings of this research are significant they leave a considerable amount still unexplained and do not provide a panacea for business. The primary difficulty lies in knowing which particular human capital management practices will deliver value and enhance performance for individual companies. The most recent management literature stresses that the way in which HR practices are applied, and the market situation of the business in question, will have a significant bearing on the outcome. Companies must ensure that their human resource strategies are designed to be both internally coherent and to be aligned with key business priorities and values.

## Flexibility

**5.64** Flexibility has become the byword for best practice in recent years, and there can be no doubt that flexibility offers the most dynamic and promising means of uniting the demands arising simultaneously out of a changing economy and a changing society. However, empirical evidence of how flexibility is at times implemented in organisations also provides a good illustration of how “best” practices can have negative consequences if they are not accompanied by a strategic appreciation of how they interact with corporate objectives and the corresponding commitment at every level of the organisation to making them work.

**5.65** Globalisation is placing new pressures on the way in which we do work, and indeed on the very nature of the contract between employer and employee. In a work environment in which international transactions and international clients are the norm generating a 24-hour service culture, and in which technology has transformed the means of communication, the concept of the eight-hour office based day is becoming obsolete. At the same time changes in the demographic balance and in patterns of family responsibility are leading to an increasing number of parents entering the workforce and consequently a new set of work-life balance demands. These pressures should be viewed as an opportunity, rather than as a constraint, radically to rethink the way in which work is done, to the benefit of both

<sup>29</sup> Catalyst, *Advancing Women in Business: The Catalyst Guide*, San Francisco 1998, p. xii.

<sup>30</sup> Summarised at paragraphs 3.33- 3.35.



businesses and individuals in the labour market. Indeed the business case for flexibility is in many ways a microcosm of the business case for good human capital management and promoting diversity. Among the advantages confirmed in empirical studies by employers are reduced turnover and sick leave, increased maternity return rates, alongside the ability to cover longer working hours and to use working time more efficiently.

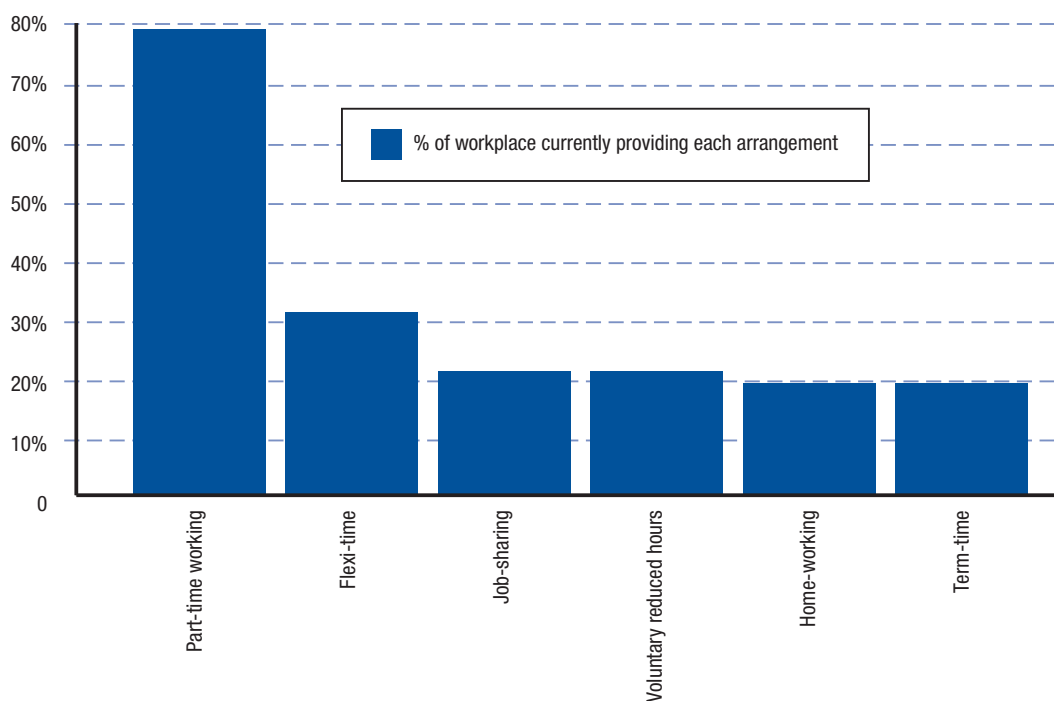
**5.66** Flexibility in the work place has been addressed in some detail by a number of policy makers both within government and in the labour market itself including the taskforce on Parents at Work and the Work Life Balance policy unit, both within the DTI, and employer driven initiatives such as Employers for Work Life Balance and Parents at Work. Much of their work has a direct bearing on the concerns of this review.

**5.67** Flexibility entails a number of different elements. At its core flexibility means rethinking the time demands which work places on any single individual. In the 24 hour work place the rigid distinction between part-time and full-time is becoming increasingly arbitrary. What is required is a dynamic individualised approach to working time which marries the needs of the organisation with those of the workforce. Such an approach has the scope to allow people to change their time contract with work as their needs and those of the organisation develop. However, time related flexibility depends crucially on a flexible understanding of how and where individuals within an organisation interact to deliver the organisation's objectives. A flexible approach to work will depend on the traditional "possession" of areas of work by individuals being superseded by a multi-skilled approach in which different members of a team are able to cover a number of different work areas. Similarly technological innovation needs to be used to the full to break down rigidities surrounding where work is carried out.

**5.68** UK organisations have made some progress in providing flexible working options. Figures published in the DTI Work and Parents, Competitiveness and Choice Green Paper give these figures for the percentage of work places employing more than ten people providing various flexible working options:



## Provision of flexible working arrangements<sup>31</sup>



**5.69** In terms of locational flexibility there are also encouraging signs with over 1.8 million people teleworking from home in their main job during spring 2000. However the differences between the public and private sector in this capacity are marked. The DTI green paper states that “in the public sector, 82 per cent of women and 73 per cent of men have access to either flexi-time, job sharing or working at home. In the private sector the figures are 73 per cent and 40 per cent respectively”.

**5.70** Although these trends are generally positive they do highlight two factors which may be detrimental to the interests of women in the labour market and the aspirations of organisation to become an employer of choice. The first is the fact that by far the most widely available flexible working option is part-time work. While part-time work can be invaluable to individuals at certain times in their career I am concerned that such work is often not available at an appropriately high skill level and a mismatch can develop between an individuals capacity and the work opportunities available on a part-time basis. Further empirical evidence also suggests that traditional rigidities still exist in transferring between part-time and full-time work which can be detrimental to the advancement of women in the labour market. This may fail to respond to the fact that individuals will have different requirements for different forms of flexible working at different times in their career. A discussion of part-time working can be found in section 6. As a practical way forward I believe that both employers and individuals should be considering how flexible working

<sup>31</sup> DTI, *Work and Parents: Competitiveness and Choice Green Paper*, paragraphs 2.16-2.17.

arrangements can form a bridge between conceptions of part-time and full-time work and encouraging an environment in which different ways of working are seen as lying on a continuum.

**5.71** The second worrying factor is the low availability of flexible working options for men in the private sector. This is indicative of two fundamental misconceptions of the place for flexible working. It appears to presume that flexible working is only a solution to deal with caring, and specifically maternity, responsibilities. And that in the twenty-first century men are not also likely to become increasingly involved in undertaking such responsibilities. I believe that it is absolutely imperative that the same flexible working options are made available to both women and men for them to take up for whatever reason, be that the chance to spend time with their children, or the opportunity to pursue other interests outside work. A good practical application of this principle is the three day weekend policy being piloted by Abbey National which is designed to provide reduced hours working on a gender neutral basis which will encourage high take up from both men and women.

**5.72** Only when both the availability and the take up of flexible working is equal across both genders can we truly be convinced that alternative ways of working are fully destigmatised and that we have not generated a two-tier workforce to the detriment of the further advancement of women's careers.

**5.73** *I have not made a formal recommendation in this area as it is the subject of another inquiry, which is being conducted by Professor Sir George Bain.*

## Rewarding and recognition of good practice: Investors in People

**5.74** Many of those I consulted thought that there should be some form of public recognition or award for those organisations that managed their human capital investment well and had the evidence to show that they did so. It would add to their attraction as employers of choice. The evidence should include gender based trends and the mainstreaming of pay reviews to provide the conclusive information about the employment of women in the organisation and their progress through grade levels and higher paid jobs.

**5.75** Many referred to the Investors in People UK (IiP) organisation as being the sort of organisation that should be doing this work. But they said that although IiP had been a leading light when first set up and the IiP standard had carried real authority and credibility, IiP UK had failed to keep up with developments in people management. It did not recognise gender based differences and trends or the work-life balance agenda. Many suggested that IiP needed a radical overhaul or reform to regain credibility and become again an award that conveyed real status

on the organisations achieving the standards set. There was widespread criticism of the standard and organisation. The standard had only one indicator connected to principles that referred to equality and had an evidence requirement attached that was insubstantial. It was not clear how an employer could assert that their organisation was “committed to ensuring equality of opportunity in the development of its people” if the evidence required did not track the progress of women through the organisation and the effect on their pay. The current evidence requirement specified description of strategies and actions and confirmation by the people in the organisation that these were taking place but this was not outcome evidence.

**5.76** I agree with these views. liP UK was set up in 1993 to promote, quality assure and develop the Investors in People Standard. The objective was to help companies succeed and compete through improving employees’ performance; an objective which is wholly in line with measures I am advocating in my review. Almost 23,000 organisations, covering a quarter of the workforce, are meeting the standard. The organisation is well known and is acknowledged by employers to have done some excellent work in the past. Rather than set up a new organisation, ***I believe the liP organisation and standard and should be radically overhauled and I so recommend.*** The organisation should be able to build on its previous record and reputation and make a substantial impact with a revised standard that incorporates solid outcome evidence requirements, including gender-based pay reviews. Employers should be asked to demonstrate conclusively that their people policies and work-life balance practices are tied into business objectives and that they offer all employees equal opportunities to succeed.

## Existing legislation and the handling of claims

### ***The Equal Pay Act 1970 and the Sex Discrimination Act 1975***

**5.77** Remedies for individuals who believe that they have suffered discrimination in their employment are available under the Equal Pay Act 1970 and the Sex Discrimination Act 1975 as amended. The Equal Pay Act aims to eliminate discrimination between women and men in the same employment in pay and other terms and conditions of their contracts of employment, including piecework, output and bonus payments, holidays, sick leave, redundancy payments, travel concessions and employers’ pension contributions and payments. It applies to a woman where she is employed on:

- like work to that of a man’s;
- work rated as being of equal value or equivalent to that of a man; or
- work of equal value to that of a man’s in terms of the demands made on her, for example in relation to effort, skill and decision-making.

**5.78** The Sex Discrimination Act makes sex discrimination unlawful in employment, training and related matters; in education; in the provision of goods, facilities and services and in the disposal and management of premises. It covers claims which do not relate to contractual issues. The Act also established the Equal Opportunities Commission to help enforce the legislation and to promote equality of opportunity between the sexes.

### *Proposals designed to speed up and simplify tribunal cases*

**5.79** The legislation has undoubtedly contributed to a major change in the position of women at work. The large reduction in the pay gap at the time of its implementation is testament to that. However, the legislation has its critics. It is regarded as complicated, particularly in the matter of equal pay claims, with complex cases taking well over a year to decide, resulting in considerable cost to the public purse, to the individual and to the employer. The length of cases represents a delay in access to justice for both parties. In 1999 – 2000, there were 4,926 complaints about sex discrimination, and some 2,391 complaints about equal pay.

**5.80** The Government consulted<sup>32</sup> last year on proposals to speed up and simplify tribunal cases. Annex 8 gives detail about the proposed changes that will affect equality cases. I welcome all these changes which seem to me to be important and necessary and look forward to seeing a timetable for implementation. The measure to simplify multiple cases, in particular, may be of significant help in dealing with similar applications involving the same employer.

### *Pre-tribunal right of disclosure*

**5.81** The government has also sought to act on the workload of employment tribunals and on the resolution of disputes at workplace level. The overall workload of tribunals increases year by year; last year there were 130,400 applications in total, a threefold increase in ten years that cannot be explained by the additions to jurisdiction. In July this year the government published a consultation document “Routes to Resolution; Improving Dispute Resolution in Britain”<sup>33</sup>, which includes proposals to promote conciliation at the workplace. On 20 July, Alan Johnson, Employment Relations Minister, said:

<sup>32</sup> Department for Education and Employment, *Towards Equal Pay for Women*, 2000.

<sup>33</sup> Department for Education and Employment, *Towards Equal Pay for Women*, 2000.

“The Government is convinced that many disagreements can be successfully resolved through better procedures in the workplace between an individual and their employer... Over three in five of applications to tribunals come from applicants who have not attempted to resolve the problem directly with their employer in the first instance... Many of the disputes concerned are such that they could potentially have been resolved before they get to the tribunal stage... That is why the Government is proposing that an in-house system for disputes resolution should be a requirement in all businesses that do not already have one.”

**5.82** Where employers do not use the disputes procedure, the proposal is that an award will be increased; likewise, where the employee does not use the procedure before applying to a tribunal, the award will be reduced.

**5.83** The benefits of resolving disputes at workplace level were foremost in my mind when discussing with organisations the case for a pre-tribunal right of disclosure for employees. It was put to me repeatedly that the absence of transparency on pay information has allowed large differences in pay to be perpetuated because employees are unable easily to confirm whether they are being paid equally with reference to their colleagues. Currently, there is no requirement for an employer to disclose pay data until after formal tribunal proceedings have been started. This has the disadvantage of taking the dispute straight into the tribunal arena, with all the stress and costs involved. It is possible that some cases could be settled at a far earlier stage.

**5.84** I have in mind the situation where a woman believes that her male colleague undertaking similar work or work of equal value is receiving a better remuneration package. She cannot require the employer to disclose information to confirm whether or not her understanding is correct without first making a tribunal application. I believe that there is a strong case to consider a pre-tribunal right of disclosure in this situation. The employee should have the right to write to the employer giving the basis as to why she/he believes her/his work is similar or of equal value and requesting that the employer confirms whether she/he is receiving remuneration equal to the named colleague. The employer should be required to respond within a certain period, giving information as to why the work is not similar or of equal value or confirming that the action to be taken to rectify the position in view, as appropriate. If the employee concerned is in fact receiving the same remuneration package, the employer should say so; if not, the employer should give an appropriate explanation of the reasons for the difference or refer to the action planned to correct the matter. Where the employer does not feel competent to assess whether the work is similar or of equal value, there should be a route of referral to an independent third party, possibly an organisation like ACAS, who would provide advice. If the third party were to use an assessor, it would make sense for that assessor to be

one of the independent experts commonly used by tribunals. Where the employee believes that the employer is not giving serious consideration to her/his case after a specified period, the employee should be able to refer her/his case to the independent third party.

**5.85** None of this should preclude the employee from making an application to a tribunal but, like the proposals under the “Routes to Resolution” consultation document, it might affect any award made.

**5.86** *I believe that Government should give serious consideration to the introduction of such a right.* It is clear to me from my consultations that even the best employers are not aware of anomalies in their pay structures. The often unexpected outcome of their voluntary pay reviews bears this out. Those who have carried out such reviews, however, are a step ahead in identifying structural and pay system issues that might impact on their employees. Such a right would allow an employer to resolve issues amicably and help to preserve good working relations. Employees would be less likely to damage their employment prospects. The right would reduce the number of tribunal applications that arise in the first instance as “fishing expeditions” mainly to obtain information of this sort. It would give the employee the confidence to make such a request of an employer. I received a great deal of interest and support for this proposal during my consultations.

## 6. Gender, Low pay and Part-time working

**6.1** The gender pay gap affects women at all levels on the earnings scale. Table 6.1 below shows that, comparing women and men who work full-time, the gap is greatest for those on higher earnings, although it is significant at all levels. In this section I focus on the employment of women at the bottom end of the labour market and consider whether there are features of women's employment in low paid jobs, and in particular part-time jobs, that help to create and maintain the gender pay gap.

**Table 6.1:** Women's mean hourly earnings as a percentage of men's by earnings decile, 2000.

	Full-time/ Full-time	Part-time/ Full-time	Part-time/ Part-time	All/ All
Earnings decile <sup>34</sup>				
10 per cent	88.0	71.7	108.7	86.1
20 per cent	86.6	68.2	104.9	79.6
30 per cent	86.2	64.4	106.1	77.5
40 per cent	85.3	62.5	106.5	76.3
50 per cent	85.0	61.6	106.4	76.5
60 per cent	84.1	59.9	102.1	75.8
70 per cent	83.0	60.1	98.9	75.9
80 per cent	81.8	62.0	87.3	76.5
90 per cent	77.7	66.3	81.5	74.8

**6.2** Women are considerably more likely than men to be on low pay. One in six female employees aged 25-54 recently earned below £64 per week, compared to one in 100 male employees in the same age range.<sup>35</sup> Of the 1.2 million workers estimated to have benefited from the introduction of the national minimum wage over two-thirds were women.<sup>36</sup>

**6.3** Part-time work is particularly likely to be low paid. Women working part-time (defined officially as less than 30 hours per week) earn on average 77 per cent of the hourly earnings of women working full-time, and of the more than 800,000 women estimated to have benefited from the introduction of the national minimum wage

<sup>34</sup> Labour Force Survey 2000. Figures represent the ratio of the *i*th decile in the female earnings distribution to the *i*th decile in the male earnings distribution. Annual estimate compiled by aggregating over Spring, Summer and Autumn quarters.

Employees of all ages are included. Overtime hours and pay are included in all measures. Estimates adjusted to account for the underestimation of earnings by proxy respondents.

<sup>35</sup> EOC/Institute for Employment Research, *The Lower Earnings Limit in Practice*, 1999.

<sup>36</sup> Low Pay Commission, 2000.

some two thirds work part-time.<sup>37</sup> Women are also much more likely to be working part-time. Of the 6.6 million part-time employees in Britain some 5.5 million (over 80 per cent) are women and most women work part-time at some time in their lives.<sup>38</sup>

**6.4** My consultations confirmed a widespread recognition of the importance of part-time work issues for the debate on the gender pay gap. Although there is little evidence that women who work part-time are paid less than men who work part-time, the concentration of women in poorly paid part-time work is a significant contributor to the position of the UK as having the widest overall gender pay gap in the 15 EU member states compared in the 1995 Structure of Earnings Survey (see paragraph 2.9). That survey found that of all the EU countries the extent to which part-time work pays less than full-time work on an hourly basis is highest in the UK.

**6.5** The concentration of women in poorly paid part-time work is also a significant factor in the persistence of the overall gender pay gap. As noted in section 2 (paragraphs 2.14 to 2.15), whereas the average pay gap between men and women working full-time (measured in terms of hourly rates) has declined from just under 30 per cent to some 18 per cent since the late 1970's, the gap between women working part-time and men working full-time has changed relatively little over the period and remains between 30 per cent and 40 per cent. The progress in women's education, skills and work experience, and the reduction in barriers to career progression by women who remain in continuous full-time employment, that have narrowed the gap between men and women who work full-time has not yielded similar benefits for those who work part-time. This matters not simply because of the numbers of women who work part-time but also because women's experience of part-time working is very different to that of men. Whereas men who work part-time typically do so for short periods either at the beginning or end of their working lives, women have more divergent employment histories and are much more likely to work part-time at other stages in their working lives and may work part-time for significant periods.<sup>39</sup>

## Legislation and the National Minimum Wage

**6.6** Recent legislative changes have sought to ensure that those who work part-time are not unfairly treated compared to those who work full-time. The Part-time Workers (Prevention of Less Favourable Treatment) Regulations 2000 require part-time workers to be treated on a basis comparable with full-time workers employed by the same employer under the same type of contract and engaged in the same or broadly similar work having regard, where relevant, to whether they have a similar level of qualification, skills and experience. The Part-time Workers (Prevention of Less Favourable Treatment) Regulations 2001 extend to part-time workers the

<sup>37</sup> The Labour Force Survey 2000.

<sup>38</sup> The Labour Force Survey 2000.

<sup>39</sup> P Hewitt, *About Time*, Rivers Oram Press, London, Pages 11-12, 1993.



powers conciliation workers appointed by ACAS have in relation to full-time workers. These should bolster the effect of The Equal Pay Act 1970 and the Sex Discrimination Act 1975 by reducing the scope for pay discrimination where women are employed part-time alongside men working full-time on similar work. However, they will not help those women who work in areas where work is done exclusively on a part-time basis, and since there is some evidence suggesting that direct pay discrimination between full-timers and part-timers doing the same jobs is not a major factor in the overall gap between women who work part-time and men who work full-time the impact is likely to be modest.

**6.7** The introduction and subsequent increases in the national minimum wage would also have been expected to have had a positive impact. As noted above (paragraphs 6.2 and 6.3) the national minimum wage has benefited women more than men, and women who work part-time in particular. However, research undertaken by Helen Robinson at Cardiff Business School suggests that the immediate effect has been limited.<sup>40</sup> She concludes that although the raw gender pay gap fell by around two percentage points between 1998 and 1999, her findings were such that this was on the border of statistical significance and the gender pay gap was similar to that in the years before 1998. Furthermore, she estimated that it would take a national minimum wage as high as £5.00 per hour to reduce the gap by a relatively modest three per cent.

**6.8** Whereas these initiatives are helpful so far as they go, it appears that further action is needed if substantial progress is to be made in reducing the pay gap as it most affects women who work part-time on lower earnings. As a first step it is necessary to understand the factors that are causing and maintaining that gap.

## Low skill, productivity and part-time working

**6.9** The causes of the low value placed on part-time work generally are poorly understood. I examined the suggestion that this gap between the pay of part-time and full-time workers reflects lower skills and productivity, and that the persistence of the wage gap between part-time women and full-time men in contrast to that between full-time women and full-time men can be explained by the growing skills pay differential in which low skilled occupations are losing ground to higher skilled occupations generally. It is certainly likely that some part of the gap reflects lower average skill levels. I was shown evidence that women working part-time are 1.5 times more likely than all workers to have no qualifications and 0.6 times less likely to have high level qualifications, and that only 28 per cent of part-time workers had received training in the previous 12 months, compared to 46 per cent of full-time workers.<sup>41</sup>

40 Helen Robinson, *Wrong side of the track? The impact of the minimum wage on gender pay gaps in Britain*, Cardiff Business School Discussion Papers in Economics, 2001.

41 DfEE Skills Survey 1997.

**6.10** The government has introduced a number of initiatives to improve access and participation in training by people from disadvantaged groups, particularly those working part-time. However, I believe that it is necessary to go further. The growth in part-time jobs, particularly in the service sector, has enabled many more women to participate in employment. But in many cases their ability to progress will be dependent upon the acquisition of new skills. Women at the bottom of the employment ladder may be reluctant to press their employers to provide training and employers may need an incentive to provide it, particularly if they fear that the benefit may ultimately accrue to another employer. To encourage the development of new skills ***I therefore recommend the introduction of training tax credits for employers, available in respect of employees on lower pay, who provide or fund training to enable those employees to move to higher paid jobs.*** Further work is required to establish appropriate earnings thresholds in order to maximise the expected impact and benefits to costs. Giving the tax credit to the employer is designed to encourage employers to adopt a proactive role in initiating training and avoid any risk that it might lead to downward pressure on pay rates for trainees. To avoid sex discrimination the credits should be available in respect of both men and women. However women are particularly likely to benefit because of their concentration in lower paid jobs. In order to avoid reinforcing distinctions between part-time and full-time jobs or between part-time workers the credits should not be dependent upon the number of hours worked per week.

## Concentration of part-time working in particular occupations and industries

**6.11** Although differences in education, skills and experience may explain part of the gap they do not appear capable of explaining anything approaching the size and persistence of the gap as a whole. Another significant factor is the tendency for part-time workers to be concentrated in a limited number of industries and occupations with relatively low wages. I noted earlier the extent to which women are in general highly concentrated by occupation, with over 60 per cent of women working in 10 occupations (paragraph 2.2). But this effect appears even more marked for women who work part-time with almost three-fifths working in industries where 70 per cent or more of the employees are women, with particular over-representation in the hospitality sector and education and social work.<sup>42</sup>

**6.12** A number of initiatives have been taken in recent years to encourage greater participation by women in traditionally male dominated occupations in which women are seriously under-represented. Initiatives to improve careers advice to women and give 'taster' experiences to encourage consideration of a wider range of options, to make occupations in which women are under-represented more attractive to

<sup>42</sup> NIESR, page 98.

women and to encourage and publicise suitable role models. But I believe that it is necessary to go further for women on lower earnings. In order to give employers in occupations in which women are currently seriously under-represented an incentive to actively seek out suitable female candidates for training. ***I propose the introduction of training tax credits available to employers who recruit and train women who would otherwise be unemployed or on low earnings for jobs in occupations in which women are seriously under-represented.*** It is not clear that this would be equally appropriate in all the broad occupational groups in which women are under-represented, and further work, including the possibility of pilot schemes, is required to establish appropriate earnings thresholds and definitions. Such schemes may be most effective in occupations in which changing ways of working or customer requirements are demanding a shift in traditional skills. In this case the credits should relate only to women, as allowed under sex discrimination legislation. As before, in order to avoid reinforcing distinctions between part-time and full-time jobs and workers the credits should not be dependent upon the number of hours worked per week.

## Part-time working and the operation of the labour market

**6.13** Although differences in education, skills and experience, and in types of occupation, are all relevant it appears likely that they are still not sufficient to explain the size and persistence of the pay gap between men who work full-time and women who work part-time. From an analysis of British birth cohort studies under the Medical Research Council's National Survey of Health and Development and the National Child Development Study, Joshi and Paci concluded that although the low pay of part-timers is partially explained by the fact that average qualifications in this sector are lower than in the full-time labour market, part-timers appear to be penalized even relative to women with comparable attributes in full-time employment.<sup>43</sup> Similarly the NIESR report concluded that all other variables being equal, women who work part-time are paid less than women who work full-time or men. In its evidence to me the Institute of Chartered Accountants reported some preliminary findings from a three year study of flexible working arrangements and work-life integration in the profession lead by Professor Cary Cooper of Manchester School of Management and Professor Susan Lewis of Manchester Metropolitan University. Many women in the accountancy profession work part-time in relatively senior and well-paid positions, and some accountancy practices recognise the value of part-time work as a retention and productivity measure. The Institute reported that nevertheless part-time work appears to be undervalued, here as elsewhere, with opportunities for promotion and pay increases reduced.

43 H. Joshi and P. Paci, *Unequal Pay*, The MIT Press, London, 1998.

**6.14** The concentration of women in part-time work appears to arise primarily from pressure to combine work with home demands (including, but not limited to, care for dependent children or other relatives). These pressures also lead to many women seeking work within a limited travel distance from home. According to the Labour Force Survey, in 1999/2000 the average commuting time for women in Britain was five minutes shorter than for men (22 minutes compared to 27 minutes). The NIESR report found that for women travel time was inversely correlated with hours worked and with size of family unit. But, although nearly half of all workplaces with more than 10 employees now have part-time workers<sup>44</sup>, and there is an increasing acceptance that a wide range of jobs can be organised to accommodate part-time working, only limited numbers of employers actively recruit on a part-time basis and the jobs offered tend to be concentrated at the low skill/low pay end of the spectrum. Only 14 per cent of managers work part-time compared to 43 per cent of people working in non-manual jobs.<sup>45</sup> One consequence is that many women find themselves taking jobs that ill utilise the education and skills they possess. My consultations with employers provided me with anecdotal evidence of this mismatch between the education and skills that many women possess and the demands of their jobs. I was, for example, told of women with PhD's working as part-time supermarket shelf stackers. This is not simply a waste of valuable education and skills but a misallocation of scarce human capital resources that has potentially serious implications for Britain's economic performance.

**6.15** It appears impossible, with the data available, finally to disentangle the causes of the gap in hourly rates between women who work part-time and men who work full-time, or to say whether unexplained differences reflect more fundamental failures in the relevant labour markets. This will require the collection of long-run data that follows the development of the careers of women in sufficient detail and numbers to support reliable analysis. Existing data sources such as the New Earnings Survey, the Labour Force Survey, the British Household Panel Survey, the Family Resources Survey, the 1998 Workplace Employee Relations Survey all have weaknesses that limit their ability to throw light on the extent to which the gendered pattern of employment is due to genuine differences in preferences between men and women, differences in preferences due to constraints and pressures, employer imposed constraints on opportunities and on the factors that lay behind the relative valuation of full-time and part-time work. Disentangling the causes may also require more micro-level research into the practices of individual organisations that are major employers of part-time workers and the labour markets in which they operate. I do not underestimate the difficulty of this task, but I am clear that given the importance of understanding the causes of the gender pay gap, and of part-time working in the scale and persistence of the gap in Britain, further investigation would be justified. This should extend beyond identifying the problems to highlighting potential solutions.

44 DTI Green Paper, *Work & Parents: Competitiveness and Choice*, 2000.

45 The Labour Force Survey 2000.

***I recommend that as a first step the Government convenes a group of relevant experts to see how such an investigation might best be organised with a view to establishing a programme of research under the auspices of the proposed new research and consultancy body (see paragraphs 5.51 to 5.60).***

**6.16** This work is needed to inform development of better strategies to address the underlying causes of women's low pay and the persistent pay gap between women who work part-time and men who work full-time. These strategies will need to break down divisions between 'part-time' jobs and workers and those who work full-time. As a first step it is important that public policy in other areas should not provide incentives to hold down hours and wages and thereby reinforce such divisions.

**6.17** Up until recently, the structure of national insurance contributions (NICs) provided an incentive to pay workers less than the then lower earnings limit of £64 per week, since any rise above that triggered a need to pay national insurance contributions by both employer and employee including an 'entry fee' resulting in a marginal rate of income tax and NICs combined of more than 100 per cent. In practice that meant an incentive to create part-time jobs with limited hours and pay.

**6.18** The entry fee was abolished in 1999, and the NIC threshold subsequently increased in stages to align it with the income tax personal allowance. National Insurance contributions now start at £87 per week, without any spike in marginal rates of income tax and national insurance combined. This moved the threshold and reduced the incentive not to cross it. However I suspect that some employers will still be tempted to keep employees out of tax and national insurance where possible in order to avoid both direct costs to themselves and the administrative burden.

**6.19** The requirement from October 2001 for all employers with five or more relevant employees to offer a stakeholder pension scheme unless they already operate an occupational pension scheme or pay contributions of at least three per cent of pay into personal pensions for their staff may provide a further incentive to some employers to keep employees out of tax and national insurance. This is because part-time workers will not be 'relevant employees' if they earn less than the lower limit.

**6.20** ***Accordingly, I recommend that the Government monitor the impact of both these changes, and further review the structure of tax and NICs and the rules governing provision of stakeholder pensions in terms of their implications for gender pay differences if it becomes clear that they are leading to the creation of part-time jobs paying just below the new lower earnings threshold or to a gender gap in the take-up of stakeholder pensions.***

## 7. Consultations held and views of those consulted.

**7.1** The remit of this review emphasised the need for practical and effective solutions. I was determined that my recommendations should work with the grain of the market, not against it, and I have therefore drawn my inspiration from the people who have day to day experience of making decisions which affect the careers of the women who work for them. During the course of the review I have spoken to approaching 100 companies, partnerships, public sector organisations, academics and individuals, in order to generate ideas and solutions, and get an insider's perspective on the situation of women in the labour market. I have in general only met with senior or board level representatives of organisations, as this is where commitment will be most effective in delivering change. I am also keen that the dialogue which has been established through this process should not cease. To this end the CIPD have offered to host a conference in early November to bring together a number of participants in the review and establish a forum for discussion. A list of the people and organisations I have met is appended at annex 2, and the statements of evidence which were submitted to the review follow this section.

**7.2** Alongside this policy of face to face contact, I have also consulted widely by letter to canvass opinion on many of my proposed recommendations. A consultation letter was sent to a wide range of people and was published on the website. Although I hope that the views and input of those who have devoted time to this review are reflected throughout the report in the arguments and recommendations I have made, I will attempt in this section to draw together the main themes and issues which have arisen from the consultation process as a whole.

### Employment and Pay Reviews

**7.3** There has been a widespread acknowledgement among employers and organisations of all kinds that increased measurement and data analysis provide the crucial foundation for tackling issues surrounding women's employment and pay. There is almost universal agreement that the information that organisations have at their disposal is insufficient as yet to answer the key questions which need to be addressed in this area. The recommendation that employment and pay reviews should be carried out to combat this information shortage similarly met with widespread support. Indeed, a considerable number of the organisations with whom I have consulted have either already carried out an employment and pay review or have made a firm commitment to do so. These organisations are listed at annex 3. In addition the Employment Group of the Chemical Industries Association have decided to encourage their members to undertake employment and pay reviews.

**7.4** However, the consultation process also revealed a number of other strongly held convictions in this area which I have sought to incorporate into my recommendations. The first of these, voiced by employers across the whole of the private sector, was that while unlawful pay discrimination still exists and should be eliminated as a matter of urgency, they did not feel that pure wage inequality was the primary driver of the gender pay gap. There was a concern that a review process designed simply to isolate occurrences of pure wage inequality would in fact fail to tackle the heart of the problem. I have therefore extended the remit of the proposed reviews to consider the whole range of measures surrounding the pay and progression of women in the labour market through indicators such as recruitment and retention rates, promotion, access to training and development as well as pay.

**7.5** Closely linked with this development was the concern expressed by private sector employers that reviews should be flexible, voluntary and tied very clearly to the business imperatives of the organisation in question. I concur strongly with the view that this process must not be prescriptive. Different issues will have a different significance for individual organisations and approaches to pay reviews will have to be tailor made. Moreover, businesses will not actively seek to redress the anomalies that they find unless they have established in their own minds the business imperative for doing so. A flexible approach will also allow businesses to base the compilation of information on their existing IT or data systems. This will increase the likelihood of small and medium sized enterprises, for whom expense may be a more pressing consideration, being able to conduct the reviews in the most cost effective manner. To give these reviews the greatest chance of success I have also recommended that for the present time they should remain voluntary for the private sector, although I believe Government should not close its mind on this subject.

## **Corporate Governance of Human Capital**

**7.6** While some employers felt that a recommendation to report on human capital management practices would increase the burdens on business, this view does not seem to be representative of the business community in general. A number of organisations indicated that they felt that the disclosure of such information to shareholders was “entirely appropriate” and made a commitment to making such changes in subsequent editions in their own annual reports and accounts. In general I felt that businesses valued the process of disclosure and would not be afraid to engage in a dialogue on this issue.

**7.7** However, there were very natural concerns that the final shape of such a reporting requirement would radically affect its success or failure. Many respondents pointed to the fact that the reporting process has changed dramatically in recent years with increasing demands being made of it. The success of different initiatives



has been variable, with some leading to a real increase in the transfer of useful information with others falling prey to the dangers of boiler-plating. Again, the key themes to occur were those of flexibility and giving employers the scope to report in a way which best reflects their business objectives. However, there was also the recognition that in a comparatively underdeveloped area of reporting work would be needed to develop guidelines and best practice. I believe that in its final form, the recommendation deals with a number of these anxieties. By linking the process to the Company Law Review a foundation of flexibility, through the Operating and Financial Review, is ensured, as is consolidation and coherency with other reporting requirements. Furthermore, the establishment of a high level enquiry, in which a number of employers as well as professional and representative bodies have indicated their willingness to participate, will provide an arena to address the scope and technical difficulties of reporting in this area, and promote best practice, before any such recommendation would come into force.

## Centre of Excellence for Gender Research and Consultancy

**7.8** My thinking in relation to this recommendation has been very influenced by the consultation process. I originally consulted on the idea of establishing a Catalyst-style organisation in the UK. While I was encouraged by the fact that those who had worked with Catalyst expressed genuine praise of the organisation, I have amended my recommendation in a variety of important aspects. A number of those consulted pointed out that Catalyst in the US focuses on the careers of executive women, to the exclusion of the rest of the women in the labour force. I am convinced that in the UK action will only be successful if it is concentrated on all women equally, and have made this correspondingly clear in the proposed remit for such a research and consultancy organisation. Furthermore, I have taken on board a material concern expressed by a number of those consulted that existing organisations in the UK overlap with some aspects of Catalyst in the work that they do. I myself have encountered, during the course of the review, a number of organisations which are highly effective, particularly in terms of disseminating best practice, but none of the existing organisations cover the full range of work which I believe is necessary. I strongly believe that there is an unmet need for a high profile body in the UK, allied to existing academic institutions but with its own clearly defined identity, with the dual function of initiating, sponsoring and co-ordinating research on issues affecting the careers and labour market prospects of all women and providing practical market driven solutions to business. I have in paragraphs 5.51 and following sought to delineate more closely how such an organisation would differ from those already in existence and why I believe that the Government should follow through with this recommendation.



## Investors in People

**7.9** There was widespread recognition of the fact that best practice in this area should be recognised and rewarded, and for the sake of simplicity this should be done through an existing vehicle. While I found many who praised the progress made by Investors in People (IiP), particularly at its inception, I nonetheless encountered a significant groundswell of opinion which felt that IiP had lagged behind developments in human capital management, particularly in the areas of gender diversity and flexible working. This came through very clearly in a number of meetings in the initial consultation period. More generally, there was an appreciation that IiP would provide the most natural vehicle to incorporate such standards, but this was linked to a concern that the standard as a whole should be coherent and that including additional elements could jeopardise this. While I am aware of this view, I believe that the logical solution is a more fundamental overhaul of the IiP standard which would allow gender and diversity to be mainstreamed, bring the standard up to date, and maintain internal coherence. I feel that this would be more effective than instituting another parallel or additional standard, and is certainly preferable to the current situation in which an organisation can be acclaimed for their investment in “people” without having demonstrated that such investment is made in women, as well as men.

## Pre-tribunal right of disclosure

**7.10** The support expressed for the principle of pre-tribunal rights of disclosure was strong, although again this was qualified by concerns that this could add a layer of bureaucracy to an already complex procedure, rather than alleviate such bureaucracy as is the intention. Many employers indicated that they would welcome measures to facilitate the conciliation of grievances in the work place and to stem the flow of costly employment tribunals. Many of those who have experience both in negotiation and in representing individuals in the tribunal procedure, for example a number of the Trade Unions, were also supportive of the principle. However, a number of the respondents were quick, and indeed right, to point out that the detail of such a recommendation will be of great importance. Specifically it must provide adequate protection for both parties. It must not expose an employer to demands for information on a comparator’s pay born purely of curiosity. Nor should it cut off channels for individuals to pursue litigation in the future. Furthermore the involvement of an independent arbiter should not compromise the independence of an ACAS expert in any subsequent proceedings. I have dealt with a number of these issues specifically in paragraphs 5.81 to 5.86. I have also taken on board the specific recommendation made by a number of respondents that any action in this area should be taken forward in parallel with DTI’s ongoing consultation on dispute resolution.

## Contracting out

**7.11** This recommendation polarised views, particularly among the private sector organisations I consulted. A significant number were of the opinion that a commitment to fair pay is simply the price of doing business with the government and is as such both reasonable, and indeed desirable in terms social equity. Many of the companies expressing this opinion had direct experience of working in the US within the scope of their federal contracting laws and had found the procedures to be manageable. Others were concerned about the possible legislative burden of such a requirement, but this tended to be based more on speculation than specific experience of such systems in the US or elsewhere. However, the evidence from local government, and indeed the public sector in general, was particularly strong on this issue, and I am convinced that there is a case for amending the existing provisions on contracting out.

## Further research on part time work

**7.12** There was an overwhelming consensus that the part-time labour market demonstrates a number of peculiarities and anomalies, and at the same time a deep sense of the complexities involved in this area. The vast majority of those consulted felt that a thorough and rigorous research analysis would be a useful way forward both to establish the parameters of the problem and to generate possible solutions. There was moreover a feeling that any such investigation should go beyond a narrow remit of competition questions and possible monopsony powers and should examine the whole spectrum of issues related to part-time employment and the effect this has on women. Many, indeed, suggested that this would be a sensible remit for any proposed research and consultancy body. At the same time discussions with academics have convinced me of the difficulties in amassing the appropriate data in this area, and I hope that my final recommendation takes into account the broad base of support for further investigation whilst not underestimating the complexity of the issues involved and the potential problems in finding an appropriate way to make progress.

## Statements of Evidence Submitted to the Review

7.13 For reasons of space, I have not been able to reproduce in their entirety all the statements submitted from organisations with which I have discussed matters in connection with the review. I have, however, attempted to ensure that the material reproduced represents views accurately.

### Abbey National – John King, Corporate Development and Resources Director

#### *Employee Mix*

Within Abbey National, we currently employ 28,763 staff of which 19,524 are women. Further analysis of this reveals the following:

Role	Proportion of roles filled by women	Ratio of average pay for women to average pay for men	Distribution of staff in Abbey National
Business Managers	27%	92%	3%
Operations Managers	44%	91%	19%
Team Leaders	65%	98%	15%
Business Support	83%	107%	63%

#### *Commercial Importance of Diversity Policies and Practices*

One of our core values is the fair treatment of our people, summarised in our policy statement as “Valuing People as Individuals”. This applies to all aspects of the employment relationship, including selection, development, pay and performance management.

This core value governs our diversity policies and principles. These focus primarily on the areas of gender, ethnicity, disability, age and, in the case of Northern Ireland, religious affiliation.

To check that our diversity policies are being applied in practice, we regularly look at the composition of our workforce under each of these headings. This enables us to understand the way in which the different diversity categories are represented in the staff population as a whole by level of seniority. We look, too, at the make up of joiners and leavers to see how the mix is changing over time. This analysis is used to determine whether any action is required.

We view these diversity policies and practices as commercially important because we see fairness as the hallmark of our employment brand. In order for us to be an employer of choice and attract and retain the quality of staff required, we believe that we must treat people fairly.

## *Pay Policy*

One of our core pay principles states that pay will be determined by reference to the relevant market. In order to achieve this in practice, regular (normally annual) reviews of all salary ranges are carried out and changes implemented as required. An individual's pay is thus determined by the market and that individual's performance. Typically, an individual's pay is reviewed annually and assessing managers are given clear guidelines on making pay awards. The company is concerned to ensure that pay awards are made on the basis of an individual's performance and salary position in the range only.

An analysis of the performance ratings by diversity category is undertaken to detect any bias or pay anomalies. If any bias or anomalies are found, these are addressed by taking appropriate action and through the provision of an adequate salary budget.

## *Effect of Policies and Practices on the bottom line*

Abbey National believes that, along with other aspects of our employment practices, its diversity policies and practices improve its ability to recruit and retain staff and add value to the corporate employment offering over and above the level of our salaries.

## *Reporting on Human Capital*

In order for Abbey National to ensure that it is living its policy of fairness and valuing people as individuals, it measures the diversity profiles within the business.

In our view, it is reasonable for employers to be asked to provide human capital information. Such information could include the number of women employed and the average salary of women compared to men. The provision of such data would oblige employers to declare the relative status of pay for women within their organisations and to explain how they would plan to resolve any issues. In order for this data to be meaningful, however, it must show pay ratios by different sizes of job.

There already exists the requirement to pay women and men equally. It could be argued that shareholders have a right to know whether or not their company is compliant and, if not, the profit implications of the activity plans necessary to achieve compliance.

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## **Accounting Standards Board – Mary Keegan, Chair**

The Board's responsibility under the authority of the Companies Act is to set accounting standards applicable to financial statements of a reporting entity that are intended to give a true and fair view of its state of affairs at the balance sheet date and of its profit or loss for the financial period ending on that date. Statements by the Board that refer to wider aspects of corporate reporting, such as 'Operating and Financial Review', are intended to have persuasive rather than mandatory force and are designed to formulate and develop best practice.

We all recognise that accounts nowadays are unavoidably complex, even for the expert; the object of the Operating and Financial Review (OFR) is to set out a way in which directors can supplement that information so as to get the underlying messages across in order to assist

users to assess for themselves the future potential of the business. The OFR thus gives management a real opportunity to tell its story in a free flowing format rather than being constrained by the required formats of the statutory accounts. This contrasts with the stereotypical ‘boiler-plate’ responses that the statutory requirements in the directors’ report have so often produced. The Board therefore agrees with you that, at this stage in the evolution of reporting practices, it would be premature and stifle innovation either to prescribe measures in respect of human capital management that ought to be disclosed or to have an explicit mandatory requirement. The OFR provides a much better way of encouraging innovative reporting.

The Board has in hand a project to update its Statement ‘Operating and Financial Review’, which is now some eight years old, so that it may reflect current thinking on the matters it addresses. For many entities, considerations of general policies and practices in relation to human capital management may be of relevance to a user’s understanding of future financial performance. The Board therefore plans to include such a point in the draft of an updated Statement that it hopes to publish next year for consultation.

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## **AstraZeneca – Malcolm Hurrell, Vice President Human Resources UK**

### *Our view on the “Women’s Employment and Pay Review”*

AstraZeneca: one of the world’s leading ethical Pharmaceutical companies. In principle AstraZeneca welcomes the idea of a voluntary pay review. However, at the same time the company recognises the complexity of the issues involved. We are committed to making our organisation an equitable and fair place to work for all employees and therefore welcome Denise Kingsmill’s pragmatic approach to this difficult issue. We think that this is a business issue and are happy to contribute to the ongoing debate. When the timing is right and the impact of integration is fully absorbed we will undertake a pay review to identify areas where further work may be required. However, with the current HR agenda in the UK in AstraZeneca this is unlikely to be before the end of next year.

### *The Strategic Needs of AstraZeneca*

AstraZeneca is aware of the changes required in managing the workforce of the 21st Century; changes brought about by globalisation, shifting demographics and the competitive business environment. We recognise how this has shifted the job market. Where previously the company viewed itself as the customer, enjoying a powerful position and able to choose from a pool of talent, today the reverse applies, there is a scarcity of talent in the recruitment market and AstraZeneca is competing with other companies to engage the right people. In this market place retention becomes a business priority as the top talent are able to be selective about position, company and industry: if conditions are not right people leave.

One of AZ’s key strategic business priorities is therefore to “Build the Talent Base” and be an Employer of Choice both internally and externally. To achieve this we have had to think and act in new ways. We want to draw upon the widest possible pool of talent so the company will widen the range of people it employs and ensure the diversity of their backgrounds, experiences and abilities is fully recognised, and developed.

### *What has been and still is our focus?*

**Dynamic Performance Driven Culture** To meet this challenge, AZ has focused on building an organisation, during integration of the two legacy companies, which supports performance excellence. Specific activities relevant to a family friendly agenda included a major initiative to align UK reward and benefits packages resulted in AZ Advantage – a flexible rewards package offering people a wide choice in how they receive their remuneration has been successfully rolled out across the UK.

**Communication: Promoting Dialogue and Listening** It was vital that we took on board the views of our staff during the difficult process of integration. We actively sought and listened to employee feedback. A global employee survey was conducted in the second half of 2000. 22,500 people across the business took part in the survey.

**Enhancing Diversity** AstraZeneca recognises that the diversity and creative potential of its people is amongst its most valuable assets. The policies and practices on diversity have been reviewed and revised as a result of the merger. We have appointed a full-time Diversity manager to steer and challenge the organisation on issues of diversity. In the UK an initiative is under way to look at flexible working and family friendly leave with the aim of addressing work/life balance issues. Ongoing activities in all functions are breaking down the barriers to developing an inclusive culture.

### *Where does this leave us, still much more to do?*

All this has provided the company with important information on where we are doing well and how we could improve. We also have some indicators that the company is doing the right things well: staff turnover has been low during merger, we have lost few of our key people; we have seen no increase in disciplinary hearings. We know that people are proud to be associated with AstraZeneca, want to stay with the company and feel committed to its continued success.

Given the great uncertainty and insecurity that a merger brings, we are all pleased with our progress. All this information, taken together with other benchmarking information, will be built upon as we measure the effectiveness of our people management strategies in the future as we move towards being an Employer of Choice. We are not complacent and recognise that we are not perfect. We aim to do more over the coming years: easing the difficult transition back to work for mothers we need to think hard about; enhancing the diversity in our senior positions is a priority; breaking down the barriers to progression for all is important; keeping an eye on the work-life balance for all our staff will need careful monitoring.

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## BBC – John Smith, Director of Finance

Issues of diversity and equality are, quite simply, a strategic business imperative for the BBC. If we are to succeed in our aim of making content and programmes of the highest quality, it is essential that our workforce reflects the diverse nature and interests of the various audiences we serve. In our opinion, the promotion of equality and diversity issues and leading human resource practices is not a business condition unique to the BBC and its public service remit, but is an opportunity for any organisation wishing to secure the largest possible market share for the product or service it provides.

I have summarised below a statement of the BBC's practice on women's pay and employment.

### *1. General flexibility in contracts*

The evidence from our own workforce (49.4% female overall, 31.9% female aged between 25 and 40) suggests that many women look for flexibility in their working arrangements at certain points in their careers. We have introduced a number of ways of responding to this need:

- in contracts – part-time, job-share, term-time only working
- in working time – allowing individual to opt out of irregular scheduling
- in working methods – allowing staff to work from home on occasions
- in employment conditions – offering career breaks and a broad range of childcare support arrangements. In addition, we have enhanced the statutory maternity provisions by granting 18 weeks' fully paid leave.

These measures have undoubtedly enhanced our ability to attract and retain key talent within the organisation – and it is clear that such arrangements frequently generate direct business benefits (e.g. through efficiencies of working) without any additional cost being incurred by the business.

### *2. Voluntary pay reviews*

The BBC uses an objective factor-based job evaluation system. An independent equality expert was appointed to work with a joint management/union group to develop the factors used in the system, to ensure that the factors were free from gender bias. All grading decisions are monitored to ensure that the system is being consistently applied.

Individual salaries are then set within the range for the grade, reflecting each individual's skills and experience. Equality reviews take place at the time of the annual pay review in the following ways:

- salary and bonus recommendations from each division are analysed centrally against both gender and ethnic factors to ensure consistency and freedom from bias, and any resulting issues are addressed before final approval is given, and
- following the review, an analysis is run of average pay in job categories by gender and this salary data is shared with the trade unions under the terms of a collective agreement on pay.

### ***3. Gender targets at management levels***

We also set gender targets at each level in the organisation, to check whether sufficient numbers of women are being promoted through the grade structure and reaching senior management positions. These targets are intended to encourage Directors to develop succession plans for individuals so that women may be equipped for promotion.

Achievement of diversity plans and targets is one of the factors taken into account in determining awards under the annual bonus plan for senior executives in the Corporation.

### ***4. Access to training opportunities***

In addition to general management training programmes, we run the Women's Development Initiative which is a scheme originally set up in 1994 and designed specifically to help women realise their career potential. This initiative has contributed to a significant increase in the proportion of female senior managers – and is widely recognised as having been highly successful in equipping women with the skills relevant to senior and influential roles within the BBC. The scheme has won a National Training Award for equality.

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## **Boots plc – Steve Russell, Chief Executive**

Our success depends fundamentally on our ability to attract, retain and develop outstanding people at all levels and to create the conditions in which they can excel.

To us good people management involves:

- Communicating what our business aims are and everyone's role in achieving them, and listening and acting on the views of our people,
- Developing people to help them fulfil their potential and make the best contribution they can to our business,
- Promoting equal opportunities and recognising the value of everyone's contribution
- Having a fair system of pay and benefits, which gives greater reward for good performance.

Boots employs 75,000 people in the UK, 72 per cent of whom are women. Over half our employees work part-time and although part-time working is predominantly among women, 20 per cent of men at Boots work part-time.

We have a number of 'family friendly' policies to enable employees to balance their responsibilities at work and at home. For example, we offer flexible working arrangements, such as job-shares, term-time contracts, and career breaks. Flexibility offers us the benefits of retention and increased motivation.

Over 80 per cent of women who take maternity leave return to work, up from just under half in 1995 and we believe our ability to provide flexibility has contributed to this increase. As we have about 2,000 women on maternity leave in any one year, we now retain 600 more people a year than in 1995, with the consequent savings in recruitment and training costs.



The percentage of women in management has increased markedly in the last six years and our challenge for the future is to build on that improvement. Our graduate intake this year is 59 per cent female.

	1995	2001
Senior Management	5.5%	31%
Middle Management	20.8%	44%
Junior Management	28.4%	50%

If we don't manage our people well the effect on our business can be to:

- Reduce the motivation and commitment of our people so we are not making full use of their talents at work,
- Increase staff turnover leading to higher recruitment and training costs,
- Increase the number of internal grievances and external tribunal claims and the associated costs in money, management time and to our reputation as an employer.

In a business as large and diverse as Boots we recognise the need to check that our pay systems are working fairly and inequalities have not arisen. We will therefore be carrying out an internal pay review to understand whether equal pay issues exist, and which areas of our business are affected. I will report on this, more comprehensively than hitherto, in our next Annual Report.

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## British Airways – Rod Eddington, Chief Executive and Mervyn Walker, Director for People

British Airways employs approximately 56,000 people in its mainline business. The number of women in our UK workforce has increased from 32 per cent in 1991 to 45 per cent in 2001. Over the same period the number of women managers has increased from 19 per cent to 32 per cent.

British Airways is a customer service business and the commitment and capabilities of our people are key sources of competitive advantage. We know from extensive research that there is a direct link between employee motivation, customer satisfaction and business success.

We are committed to a policy of equality of opportunity, as part of our broader commitment to maximise the contribution that people make to our business success. Improving the representation of women is an important part of this approach.

Our focus over the past ten years has been on improving the representation of women in our workforce and management as a whole. The introduction of better opportunities to work flexibly through part-time and job-share schemes has helped us to achieve improvement in these areas.

Our next challenges are to improve the representation of women at the most senior executive level of the Company (representation currently stands at 17 per cent) and in areas of the Company which have significantly less than the average 45 per cent representation.

We already conduct an annual equal pay review in our management community. We believe that this is an important part of ensuring that there is no discrimination in our pay and performance management systems. We are committed to extend our equal pay review to cover our non-management community.

We support the idea of encouraging companies to improve the extent and transparency of their reporting on people-related issues. We already report annually through both our Report and Accounts and Social and Environmental Report and we intend to increase the range of issues on which we report. Our experience has been that reporting data in a simple and transparent manner helps to ensure focus within the Company without imposing excessive bureaucracy.

We can confirm our commitment to carry out an equal pay review. For our management population this will involve continuing the annual reviews we have already started. We are now putting together a proposal for a pay review covering our non-management employees.

We would clearly support the idea that a company's human assets and its ability to maximise the contribution of those assets are very important elements of the company's value. We would also support the idea that fuller and more transparent reporting by companies on people-related issues would be of value to investors and other stakeholders.

Given that the quantification of some aspects of human capital is difficult and that learning in this area is still developing, we feel that a sensible approach in the short term would be to encourage or require improved reporting on a range of issues on which quantification is relatively easy (e.g. some of the equal opportunities-related issues we discussed). While this approach would not produce an overall quantification of human capital in accounting terms, it could nonetheless produce a significant improvement in reporting and through doing so encourage companies to take action.

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## **British Telecom – John Steele, Group Personnel Director**

At BT we have a workforce of over 100,000 people throughout the world. The majority of our people are still employed in the UK, making us one of the largest UK employers. Currently women account for 26.1 per cent of our total workforce, 25.9 per cent of our middle management team and 20.2 per cent of our senior managers. Representation at the most senior management or executive grades is 15.4 per cent. Whilst our overall mix does not yet reflect the overall UK workforce it benchmarks well against the workforces of other leading engineering and technology organisations in the UK.

Men continue to predominate in traditional engineering and some technological roles although we are experiencing a steady increase in the number of women choosing careers in areas such as software engineering. A pro-active focus on attracting female graduates into this function combined with the introduction of flexible working practices has seen women rise to 37 per cent of BT's graduate intake.

The task of recognising and developing talent within a workforce is a key element of maximising the profitability of that workforce and by default the organisation. If organisations are to achieve their potential they need to attract, recruit and retain the best drawing from the widest possible talent pool and to operate in ways which enable everyone to deliver maximum value. In the past organisations were guilty of restricting the potential for value creation for many of their employees, by operating employment models that were most suited to the needs of a traditional white European and male workforce. Many organisations are now recognising that the globalisation of markets and technological advances combined with demographic change and an increasingly segmented market place, mean that this limited approach will no longer provide either competitive advantage or sustainable profitability.

Demographic changes mean that sectors of society that may previously have been overlooked by employers will be key to any future increase in output. The need for organisations to reflect all the diverse segments of today's global market is essential in understanding that market and creating the goods and services it requires. A greater understanding of market segmentation has led to the recognition that women who, for example, own 50 per cent of small businesses and make circa 80 per cent of all consumer decisions are vitally important to business as both suppliers and consumers.

Adopting a data-based approach to reviewing and pro-actively managing the diversity of an organisation delivers three key objectives:

- 1 Transparency – both of progress and results.
- 2 Focus – any underlying preconceptions that “things are OK here” are easily challenged and complacency eliminated.
- 3 Measurement – innovative measurement tools to define and track future progress are developed.

For example most organisations, including BT, would probably assume that equal pay is not an issue for them, even though a circa 20 per cent pay gap has existed in the UK for many years. By taking a data-based approach we were able to confirm and quantify the existence of the problem and get board level buy-in to strategies and the funds to begin to address it. However, the complexity of identifying sound data and its analysis should not be underestimated.

As well as equal pay for equal work there is also a perhaps more significant issue that women are more likely to be employed in lower paid job families. If we accept, as we obviously do, that women are just as talented as men, then we must address the underlying barriers that prevent women from undertaking higher value roles. The majority of BT's graduate and critical skill intake are required for our expanding IT, multi-media and e-commerce units and it remains a major concern that we are not, as a nation, attracting more girls and women to this fiercely competitive and well paid job market. There is now a real opportunity to make a difference in the profile of the ICT industry which is currently predicting a shortfall, across Europe, of over a million people by 2002. These barriers exist throughout the whole employment cycle and indeed in some of societies stereotypes. Therefore whilst we believe it is critical to have specific data-based gender targets and diversity policies and initiative to support their achievement e.g. European ICT consortia Careerspace, Project Portia and BT's Women's Development Programme, it is equally critical that inclusivity is inherent in all our practices including our relationships with employees, suppliers, customers, investors, product development and the incentivisation of our managers.

In BT we have:

- Changed our promotion procedures from a percentage of base salary to a comparison with peers and the market.
- Increased our pay minima to ensure a better starting position and an opportunity to assimilate.
- Focused our pay review expenditure on the lower end of our pay scales (where many women may be due to lack of seniority, etc.)
- Carried out a performance audit to ensure that performance related pay did not unconsciously support discrimination through the performance assessment process.
- Published an equal pay/equal opportunities policy statement – supported by BT's most senior executives.
- Included statements about equal pay and the avoidance of discrimination in our pay guidance. Specifically briefed our senior managers, who have ultimate ownership of the pay budget.
- Carried out a pay audit following each pay review.
- Put aside a specific budget at the 2000 and 2001 pay reviews, for the resolution of equal pay issues.
- Agreed the key measures above with our unions, maintaining a dialogue on all equality matters.
- Recognised work/life balance as a key enabler to eliminating some of the barriers which may be slowing the progress of women in the workforce. *BT's return rate after maternity leave has also risen, now standing at 96 per cent with an associated retention of key skills and reduction in recruitment and training costs. Real and sustainable business based evidence demonstrating that we have embraced gender diversity as a real means of enhancing our business.*
- Actively supported the development of women through the introduction of women's only development courses.
- Actively grown the pool of women aspiring to science based and technological roles through the Oxford Access Scheme, SET and Project Portia.

In the future the value of any business, large or small, will be measured to a greater degree by its human capital because traditional measures such as fixed assets and technological systems will provide increasingly transient value. If we want to derive maximum value from our human resources then we must invest in them and find ways to enable all of them to deliver to their full potential. This means that we must cherish, stimulate and develop them. Too often, employers perceive the whole issue of diversity and the introduction of enablers such as work/life balance as a potential cost failing to seize the opportunity it offers to enhance both business and personal achievement.

For BT, the introduction of work/life balance policies has provided an opportunity to re-invest money, previously spent on overheads such as real estate, into our core business. Just to put some numbers on this, BT's Options 2000 homeworking programme has not only provided over 4,000 people with an opportunity to work from home but also released £220m back into our business.

Finally, the information society will provide investors, customers and all other stakeholders with the data and information which many people will use to inform their consumer and investment decisions. Accountability demonstrated through, for example, social reporting and the creation of FTSE4Good to compliment existing indices such as the Dow Jones sustainability index,

provides this knowledge. Ultimately, people will choose to place their business with companies who can demonstrate that they will generate profit in a socially responsible manner and therefore organisations ignore this issue at their peril.

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## BUPA – Bob Watson, Group Human Resources Director

BUPA employs in excess of 40,000 people, 84 per cent of who are female. The high percentage of females in the workforce can probably be understood by the health care industry traditionally attracting a high percentage of female employees. Over 50 per cent of our middle management are female and 22 per cent of Directors are female. At Manager and Director level this is significantly higher than most British companies.

However if 84 per cent of the total workforce are female, then why shouldn't 84 per cent of the Managers and Executives be female?

We believe that our staffing profile should reflect our customer base thereby ensuring that we understand the diverse needs of our customers and ensure that we are best placed to communicate effectively with them.

The challenge for business is to encourage more females into top positions, not by positive discrimination policies but by providing the support and development that is needed especially at crucial times in females' careers, e.g. family. Many females leave the work place at this time or their career is effectively 'put on hold' thereby denying them the opportunity to achieve their full potential. A significant amount of 'human capital' is lost at times like these. It would be interesting to see British businesses measure this loss and compare it to the potential costs of continuing to support and develop its female population at these times.

Rewarding everyone fairly based on performance and merit regardless of gender should no longer be ground breaking but just good management practice and good sense. Companies that don't take this approach will lose out.

The financial health of a Company is measured and reported in the Annual Report and Accounts. This is a 'snapshot' of the Company at that point in time. Arguably the skills and abilities of its employees is more important to its long-term success and realising its growth opportunities. Isn't it time to remove the reporting on human resource issues in Annual Report and Accounts away from the dry, politically correct statements to **real** measurements of the health of the organisation in people terms. This could be done in a very straightforward way such as employee turnover figures, diversity statistics etc. It could also be done through measuring the collective skills of the work force. Every company experiences turnover and spends a certain amount on training and development. Have these activities increased or decreased the ability of the organisation to perform? Measurements such as these could give shareholders a greater insight into the long-term health of the business and its ability to generate profits.

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## **Cable & Wireless plc – Graham Wallace, Chief Executive**

### ***Delivering Business Success through People***

Cable & Wireless employs 25,000 people in 50 countries world-wide. Effective recruitment, training, development and motivation of all employees is critical to our business success.

Our aim is simple – to create and maintain a high performance environment. We will do this only if we continue to compete for the best employees in the widest and deepest possible pool of talent and then develop and retain them. It is our employees who generate the energy and innovation which drives our future success.

We have endorsed an integrated approach to the identification, development and employment of talent. Our approach is underpinned by the principles of diversity which embrace differences in background, values and work style as well as obvious and recognisable differences such as gender and nationality.

In the past year, we have grown the percentage of women in our senior leadership group from 7 per cent to 16 per cent and we are maintaining this trend of steadily balancing our employee profile at all levels towards a position which is reflective of the national profile in each of the countries in which we do business. It starts with our approach to recruitment, progressing through development programmes which are accessible to all, regardless of gender and culture, and

supported by the continuous development and promotion of flexible employment policies. We will continue to encourage best practice and solutions to those difficulties which may have inhibited the career advancement of particular groups, including women, in the past.

I believe in tracking progress and, along with my Executive Director colleagues review each quarter the progress of our management development and succession programmes as well as demographic changes and trends. Business performance and the performance of our people are inseparable. The risks of failing to steer and monitor either are plain.

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## **Sir Adrian Cadbury**

The issues you raise in your consultation letter concerning the degree to which too many organisations fail to make the best use of the resources of knowledge and experience of the people who make them up is clearly of considerable national importance. The issues are also, as you point out, complex.

Rigidities in patterns of work and employment leading to limitations of career choice and opportunity are likely primarily to disadvantage women. The need is to get some measure of the extent and causes of this failure to find a better match between individual aims and career possibilities, in order to make the most of the country's human capital. As more people look to find a greater degree of choice in the way in which work fits into the rest of their lives, the general need for more flexible work arrangements will grow.

One of the aims of any inquiry would be to determine what key indicators would be most helpful to organisations in monitoring how effectively they are developing the people on whom they depend. What measures of investment in training, development and career guidance and of return from that investment in terms of retention and career progression would be most useful? Companies will increasingly be asked to provide this kind of information under the Company Law Reform proposals and investors and analysts will be requesting it in assessing corporate prospects. It would also provide valuable information for those making career choices, a powerful reason why other than corporate employers will wish to publish their record in this respect.

A committee of enquiry which brought together employers, investors, trade unions and those with expertise and experience in this field could identify the central issues and recommend how they best be addressed.

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## **Cadbury Schweppes – John Sunderland, Chief Executive**

### ***Background***

Cadbury Schweppes formalised its approach to equal employment opportunities in 1994 with a global statement and framework to guide all of our businesses world-wide. This is reinforced as part of our HR Minimum Standards and has been supported by an annual survey of policy and practice together with presentations to the Main Board internal executive committees and global forums. The global statement is currently being extended to reflect the complementary theme of diversity.

These subjects are also included in the Group's Corporate & Social Responsibility agenda and are reported on regularly to the Board's sub committee chaired by Baroness Wilcox (Non-Executive Director).

### **FOCUS ON EQUAL EMPLOYMENT OPPORTUNITIES**

### ***Background***

As an international employer we have taken the broadest view of including this focus in our approach to managing employees and potential employees. For us it is about ensuring that our people management processes do not discriminate on any factor other than merit.

At a global level we have typically surveyed both quantitative and qualitative aspects of the subject area. We have tracked gender data internationally and race data on appropriate geographic bases. We have monitored the evolution of local policies and looked at the more qualitative aspects of the subject such as communication EEO training, HR policies and practices.

Given the differences in legal regulatory and social factors between countries each business reviews its own policy and practice to ensure that discrimination does not take place.

Examples:

- 1 Gender – Women make up 34 per cent of our workforce world-wide and 25 per cent of our management population which is three per cent up from 1999. Eleven out of 153 senior executives world-wide are female (7.3 per cent) and this compares with 4.4 per cent in 1994.
- 2 Equal Pay audits have been conducted in the USA and we are currently examining the data in the UK.
- 3 Diversity Steering committees, e.g. in USA, Asia Pacific are effective in generating local visions strategies and action agendas

## **BUSINESS CASE**

Within the business we address the subject of EEO and Diversity in three ways:

*Creating Value* – attracting and retaining a diverse and talented workforce which is drawn from the widest pool of people. Such diversity adds a richness of perspective which fuel the generation of innovative ideas and provide breadth to decision making.

*Protecting Value* – recognising the importance of protecting and enhancing the company's reputation via our HR practices and our management of people.

*Company Values* – With a heritage of respect for individuals providing an attractive work environment and a place where everyone can reach their potential remains a priority for us.

## **FUTURE PLANS**

Continue to use the annual cycle of survey and reporting to maintain momentum behind ongoing progress and to drive specific initiatives.

Support the Kingsmill Review via specific exploration of the gender related themes in the UK and career development comparisons between graduates in the UK and USA.

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## **Camelot – Dianne Thompson, Chief Executive**

### ***Camelot's current staffing position***

During the last nine months since Camelot was awarded a second licence to operate the UK National Lottery, Camelot has experienced a period of significant growth in staffing levels and have recruited approximately 300 people since the beginning of this year.

Camelot's equal opportunities policy seeks to ensure that there is no discrimination in the recruitment, training or promotion of employees.



From a perspective of women in employment we can demonstrate that 55 per cent of our total workforce of circa 900 are women. The average age of our total staff is 36. Camelot's operation consists of field based sales force, technology, a customer service operation primarily in call centres and head office functions.

Currently, 46 per cent of our female staff are concentrated within support roles primarily within call centres. However, at board level we have 50 per cent female representation and 20 per cent of our executive management team are female. Female representation is less evident at higher-level professional, middle and senior managerial roles. There is, however, a strong female representation within our field-based sales force and our head office functions such as HR, Finance, Administration and Marketing organisations.

Camelot recognises that we need to undertake more proactive measures to ensure that women are able to return to work from maternity leave and feel supported in terms of company benefits to care for their children. We do currently provide an infrastructure that encourages women to return to work such as the provision of childcare vouchers, offering arrangements for flexible working and encouraging part-time working and job-sharing.

### ***Why it is commercially important to focus on positive human capital management***

Having succeeded with the re-bid the company has redefined its vision and seeks to engage all our staff in a positive programme of culture change that will create the environment and attitudes to deliver our stretching targets. The company has therefore committed to, and made a significant investment in, the human capital infrastructure of the business to include:

- Review of Camelot's grading and pay structures
- Behavioural change programme company-wide
- Flexible working: Introduction of a work-life programme
- Improvement of internal communication media
- Introduction of new training and development activities to drive creativity and innovation
- Constant encouragement of open communication and feedback
- Enhancing the physical working environment

The penalties to Camelot of a negative approach to human capital management include:

- Reduced levels and quality of service
- Negative corporate and public image
- Does **not** provide a conducive working environment that facilitates high levels of productivity, creativity or innovation
- Increased exposure to risks such as licence breaches, integrity and trust

### *Why we have decided to conduct a voluntary pay review exercise*

Our business justification to undertake a voluntary pay review exercise has primarily focussed on the following:

- aligning Camelot's performance and reward arrangements with the new business strategy and culture
- providing a clear link between pay and performance
- setting standards for people's capability
- improving role clarity and accountability
- retention of key people

### *What are the barriers to the advancement of women?*

- stigma associated with women that need time off to care for children and therefore lack the flexibility
- lack of childcare support available
- lack of support from the top to provide a wide range of support mechanisms for those with families
- work environments that encourage a long hours culture as a means of progression within the organisation
- historical cultural attitudes
- management willingness and receptiveness to the demands of changing demographics
- lack of champions and role models

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## **Capital Radio – David Mansfield, Group Chief Executive**

At Capital we regard excellence in human capital management as the key to our business success. Our policy is to attract, develop, support and retain the best people for our company and to reward all staff fairly according to their contribution and capability. We face a very competitive situation across the country and need to keep good people. We spend a lot of time and effort on recruiting and retaining the best people and on maintaining a good image as a company to work for. We are an informal company that encourages the best use of skills. Many of our senior managing directors are women; for example, Capital FM & Gold and Capital Radio Advertising, our Sales Group, are both run by women. There is a 50/50 split of men and women in the Executive Management team.

Capital's commitment to an equal pay audit ensures our reality matches our intention. Irregularities will be investigated thoroughly and any appropriate action taken as necessary. While our initial pay audit has not revealed any systematic bias in gender as regards pay, bonus and benefits, it has uncovered interesting structural issues which we want to consider further.

Our emphasis on business and human resource alignment has yielded financial resource success for Capital and ensures we remain at a competitive advantage within our industry.

The wider reporting of the management of human capital in company annual reports is fundamental, as how employers treat their employees – the key essence of any business – should be open to scrutiny and accountability.

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## CBI – John Cridland, Deputy Director General

**The CBI welcomes the opportunity to contribute to the Review.** The persistence of a gender pay gap and job segregation between men and women are serious issues, which have important economic and social consequences for both individuals and society as a whole. The Kingsmill Review is a useful step to taking forward the debate on women's pay and employment issues.

**Without encouraging complacency, there should be recognition that significant progress on gender equality has been made.** The UK has one of the highest female employment rates in Europe and the rising numbers of mothers with young children in the labour market – made possible partly by the growth in part-time work in the service sector – is particularly encouraging. Another promising sign is the growth in female entrepreneurship, with around one in three start-ups in the UK now headed by women. The glass ceiling is being broken down too. A quarter of managers today are women compared to eight per cent ten years ago. This progress is having a knock on effect on earnings. For men and women under 30 working in full-time jobs the average pay gap is less than five per cent. A comparison of department managers' average earnings shows a difference of as little as 1.2 per cent.

**Business believes that the root causes of women's disadvantage in the workplace should be addressed.** Different choices and attitudes among men and women in terms of the skills they develop, the occupations they go into and their working patterns have led to segregation in the labour market and a gap in average earnings of 18 per cent. The CBI believes that the key issues are:

- **Job segregation.** Whilst men dominate occupations where earnings are highest, women are concentrated in occupations where earnings are lowest. Women are also more likely to be working in low skill part-time jobs, which, on average, receive lower hourly wages than full-timers. The smaller proportion of women in management is another cause of pay differentials.
- **Family responsibilities.** It remains the case that women – whether through choice or convention – continue to bear the vast majority of caring responsibilities. This leads to career gaps, shorter hours or downshifting for many women, which puts them at a disadvantage in terms of both pay and career progression.

The CBI believes that unfair discrimination, whilst clearly wrong and unlawful, constitutes only a small part of the gender pay gap. Any rigorous analysis of the academic evidence shows clearly that job segregation and women's broken labour market experience – mainly due to family responsibilities – are the most important drivers of pay differentials. The CBI is concerned about the widespread failure to recognise the real causes of the pay gap and we believe that, as a matter of priority, these misconceptions must be addressed. Only by developing a clear consensus on the causes of the pay gap will it be possible to develop effective policy solutions.

**Tackling women's pay and employment issues is the job of Government, business and individuals.** Breaking down gender stereotypes – in terms of the types of job that women and men believe themselves to be suited to and how caring responsibilities should be divided up – is critical. This could be encouraged through the provision of better quality careers advice and positive action by employers to attract women into jobs traditionally dominated by men. Removing the structural barriers which restrict women's choices in

employment will also be important – in particular, by improving the availability of affordable, quality childcare and promoting the development of flexible working practices amongst higher skilled, higher paid jobs.

**Radical new legislation would be inappropriate.** A wide range of legislation has been introduced over the last few years which is likely to have a long-term positive impact on women's prospects in the labour market and in reducing pay differentials. This includes parental leave rights, paternity and maternity leave rule, the Working Families Tax Credit and the National Minimum Wage. And forthcoming changes to equal pay tribunal procedures – which the CBI has supported – will help achieve speedier redress for victims of unfair pay discrimination. But radical new legislation, such as a requirement for employers to conduct statutory pay audits, would not be appropriate. Given that only a small part of the pay gap is due to unfair discrimination by employers, this would be disproportionate to the scale of the problem, unlikely to have a significant impact on the pay gap and put a heavy bureaucratic burden on employers. Similarly, the CBI is not persuaded by suggestions for contract compliance measures – making pay audits or fair wages resolution a criteria for private companies to win public sector contracts.

**Better guidance will help employers do voluntary equal pay reviews.** Although a regulatory approach would not be welcome, the CBI is keen to promote voluntary equal pay reviews. Take up of pay reviews has, in the past, been very low. This is partly due to the fact that a pay review is an extremely complex, time-consuming process, for which business has received very little support or guidance. The increased business commitment to pay reviews in recent months is encouraging. This must be built upon through the development of a clear and business friendly pay review toolkit. The CBI is involved with the work of the EOC in developing such a tool.

Good people management policies are critical to supporting women in the workplace, but employers are cautious about 'human capital' reporting. The Kingsmill Review has considered promoting 'human capital reviews', with the results published in company Annual Reports, as a way of addressing gender equality issues in the workplace. As part of this process companies would try and assess the impact of human capital management on overall company performance. Business is cautious about this approach. There is no consensus in the business community or academia on which aspects of human capital should be measured and how, and the link between such measures and company performance. This lack of a common starting point means that creating a single reporting framework for the Annual Report and Accounts would be extremely problematic. However, CBI members welcome the Review's recognition that the equal pay debate must look beyond the narrow issue of pay structures and that the best way for companies to address women's pay and employment issues is through effective implementation of sound people management policies. As such, the CBI remains committed to promoting good HR practice and equal opportunities to our members and the wider business community.

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## Centrica – Sir Michael Perry CBE, Chairman

Centrica's policy, in both theory and practice, is fully committed to equal pay and opportunity for all, irrespective of gender, race or other social distinctions. However, in common with other similar companies, we continue to experience a sexual imbalance at higher levels in our organisation. There are many reasons for this, some more self-evident than others, but which categorically exclude discrimination. Centrica is committed to undertaking a voluntary pay review at an appropriate juncture.

Our intake at both graduate and non-graduate levels is evenly balanced, and our investment in training and career development draws no distinction. The subsequent fall-away of the percentage of female employees at higher levels therefore represents a serious loss on our investment in human capital. For this self-interested reason, if for no other, we take the matter of women's pay, employment, progression and overall motivation very seriously indeed.

Beyond this quantitative analysis lies a further qualitative reality. To deprive ourselves of the full breadth of insight and experience available to us across all groups would be seriously to weaken our competitive position, as we strive to earn and retain the preference of our customers nationwide.

Denise Kingsmill also asks for my comment on her proposal to include data on human capital management in company reports and accounts.

I remain firmly of the view that any such requirement runs the risk of being both unhelpfully prescriptive and even misleading. Some investors may well wish to base their decisions, at least in part, on ethical considerations. For most however, it is the financial and competitive performance that counts, together with statements of broad principle and practice and enough detailed analysis to inform judgement. I find it difficult to imagine how quantified data of the kind being contemplated could be anything other than superficial and potentially misleading. If major institutional investors feel otherwise let them tell us.

In short, I continue to suspect that your proposal confuses relevant investor information with social engineering, however desirable and necessary the latter may be.

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## Chartered Institute of Personnel and Development – Geoff Armstrong, Director General

The CIPD supports the work and aims of the Review to ensure that effective use is made of the skills and experience of all potential contributors to the workforce. We also wish to see the pay gap between men and women reduced to any difference resulting from unfair discrimination eliminated.

We welcome the exploration by the Review of promoting better people management through a corporate governance approach to human capital management. Our ongoing research into the links between people management and business performance shows a strong correlation between a range of progressive practices and improved company performance. However it also shows that such progressive practices are not well established in the majority of workplaces, despite the widely held perception that a committed and motivated workforce is crucial for business performance.

The CIPD firmly believes that a central element of effective people management is how organisations respond to the diversity agenda and recognise and manage the potential of the whole of the available workforce. Clearly the labour market is changing fast with rapid growth in service sector and knowledge based occupations and a decline in manufacturing. The proportion of women in employment is now nearly 70 per cent compared to 65 per cent in the late 1980's. With women comprising over half the population and reaching record levels of employment it is critical that employers positively exploit such a deep pool of talent.

However the evidence suggests that, in most of the top-earning manual and non-manual occupations, women make up a minority of the workforce. For example, computer engineers are 78 per cent male and electricians are 99 per cent male. However, the reverse is true when it comes to the ten bottom-earning manual and non-manual occupations – 73 per cent of sales assistants are female as are 100 per cent of nursery nurses. The evidence suggests that the largest part of the gender pay gap is caused by such differences between employers rather than structural

differences within the same employment. Of course many women are in well paid employment (for example the majority of solicitors are now female) but employers and society and government in the broad sense need to be continually striving to change attitudes towards what is regarded as men's and women's work.

Employers have a particular responsibility to monitor their people management and reward processes to ensure that neither direct nor indirect discrimination plays any part in their operations. However, CIPD research has revealed that most employers genuinely do not believe that they have an equal pay problem. A key task therefore is to convince employers that it is in their interests to examine the equal pay situation in their organisations and to act on any equal pay discrepancies. Organisations that will achieve sustainable success will be those which embrace people management practices that recognise and respond to the diverse needs of employees. Indeed many organisations have already responded, spurred on by the war for talent, because they realise that they need to develop flexible working opportunities and gender blind people management practices to recruit, retain and achieve competitive advantage.

A key element in good people management is promoting a healthy psychological contract – so that employees believe they are fairly treated and can rely on the employer to deliver their side of the bargain. From CIPD research we know that levels of employee commitment to organisations are influenced by the policies and practices of the organisation and that:

*“where these are perceived by workers to provide a more friendly and dynamic environment, where high numbers of human resources practices are in place and work autonomy is permitted and where the promises inherent in the human resource practices are kept, reflected in a positive psychological contract, then commitment to the organisation is significantly higher”.* (The psychological contract in the public sector, CIPD research report, 2000)

If women perceive that their organisations do not offer fair treatment and cannot be trusted to deal equitably with all their employees, it follows that their commitment to those organisations will be undermined. In the forthcoming CIPD Equal Pay Guide it states that:

*“the consequences of inequality may show themselves in employee unrest, and in demotivation. The effects are insidious, with women voting with their feet, and looking for an employer who values them equally with their male colleagues. As organisations face an*

*increasingly competitive labour market, with employers all after the same skills and talents, being an 'employer of choice' is much more than a luxury. Good HR practice – not simply having the right formal policies in place – is an essential element of this. Ensuring equal pay is achieved and maintained thus becomes a business necessity.”* (CIPD Equal Pay Guide, to be published Winter 2001)

The CIPD believes that the Review's approach to developing corporate governance approaches on human capital management can help drive effective people management further up the corporate agenda. Such an approach to non-financial reporting around people management issues must adopt a broad agenda that is meaningful to the reporting organisations and to their stakeholders. It should not treat diversity and gender equality as the whole picture but recognise that they are integral to effective people management.

An increasing proportion of the market value of private sector companies is made up of intangibles, such as brands, intellectual property and primarily human capital. In the public sector, the same is true even if market valuation is not the measure. The Institute supports the view that the current lack of information provided by organisations to shareholders on employees on people management practices is unsupportable. If organisations believe that their people are their greatest asset then closing the knowledge gap about the practice and effectiveness of their HR strategy should be a priority. The Institute believes that there is a need for increased disclosure and transparency on human capital management practices and for information to allow investor scrutiny to “aid the efficient and well considered allocation of resources by investors and shareholders”.

However the CIPD strongly believes that the development of corporate governance in this area should be placed within the broad parameters of guidance that encourages organisations to carry out meaningful reporting of their human resource practices. A compliance-driven or tick-box approach will lead them to do the minimum necessary to comply and will not result in credible and reliable information that is of value to investor or employee. Different approaches will be appropriate for different organisations; over-prescriptive or standardised approaches are very unlikely to lead to adequate information being produced and action being taken.

A broad approach on these lines would also be preferable as current knowledge among organisations and the HR profession on human capital reporting is likely to be limited. Much work is still needed to identify an effective basis for human capital reporting. As with other areas of corporate governance, reporting on human capital will need to be continually assessed and appropriate measures developed. While some organisations are relatively sophisticated in their HR measurement and evaluation, most will need the time and assistance to develop high quality reporting formats which can provide useful and insightful information.

The CIPD welcomes the Review's acceptance that equal pay audits should form a voluntary element of human capital reporting. The CIPD has opposed a compulsory approach to pay audits on the grounds that it would not end most unequal pay practices. While compulsory audits might highlight some obvious equal pay discrepancies, many organisations would treat them as exercises in compliance and do the minimum necessary to meet legal obligations. There is a danger that many organisations would treat compulsory audits as a cosmetic exercise rather than a genuine exploration of equal pay problems.

However, the CIPD does believe that voluntary pay reviews undertaken in the right spirit can play a constructive role in assisting organisations to determine whether they have an equal pay problem. Voluntary pay reviews, backed up with good guidance, are likely to be more



effective in leading to meaningful action because employers undertaking them are more likely adopt a more comprehensive approach in identifying job clusters, career and promotion processes and other complex factors that superficial compulsory auditing cannot identify. The CIPD therefore supports the Review in that pay reviews should be voluntary and encouraged as part of good business practice and as a first in a wider analysis.

To help organisations deal with equal pay problems, the CIPD is developing a guide on equal pay that will include advice on how to conduct a gender pay review as well as information on equal pay law, job evaluation and how to identify and deal with equal pay problems.

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## **The Chemical Industries Association – Simon Marsh, Head of Employment Affairs**

The Chemical Industries Association is the leading body representing the UK chemical industry. With annual sales of £34bn, and a trade surplus of £4.6bn, it is manufacturing industries' number one export earner. Our membership, comprising some of the most famous companies in British industry is experienced at maintaining effective employee relations in a wide diversity of models of the employment relationship.

The Association is very supportive of the view that there is a need to increase the level of participation of under-represented groups in the UK labour market. In the chemical industry we are well aware of the impact of structural changes in the labour market. An organisation's ability to attract, develop and motivate talented people is one of the key actions it needs to undertake now and in the future. People are indeed amongst the most important assets in our industry. We rely heavily on innovation, and if innovation comes from any source it comes from people. We have begun on what we fully appreciate will be a long journey to try to attract the widest possible selection of people to the chemical industry. In terms of promoting equality, we intend to undertake research into diversity to ensure that the chemical industry is reflective of the population that it seeks to serve.

I am pleased that the review is looking at women's employment as well as equal pay issues. While we claim with confidence that the rate of remuneration for a particular job is not based on the jobholder's gender, we would like to be in a position where more women hold more jobs in the chemical industry. We are working to try to ensure that. We also want to see that women form a more significant part of the management of organisations than they currently do. I think that you are quite right to point to the need for companies to concentrate on the ways in which men and women are used within organisations, and it is our position that guidance on best practice would be of value. Our companies have worked very hard to promote more effective utilisation of all their human resources; this is especially true given the heavy reliance that process industries have on shift working. It is not only the operational function at sites that requires shift working, but very often there need to be support services available too. This does in our current society present a particular problem for women, but I think there will be greater flexibility not least following the Work and Parents Taskforce, that is currently researching flexible working.

We believe that information on comparative career development paths and indeed retention rates is the starting base for us to be able to analyse what work needs to be done. We agree that it is necessary for companies to measure and monitor their practice and progress in their employment of women. For this reason we will undertake to encourage all



our members to carry out voluntary employment and pay reviews. There is, however, a need to be careful in such areas. If we are seen to be moving too much into the area of managing and recording systems then companies will, I fear, be unreceptive to the whole principle of what is trying to be achieved.

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## **Citigroup – Sir Winfried Bischoff, Chairman**

### ***Introduction***

Citigroup is a major employer in the Financial Services industry in the UK and is the world's largest financial services company employing 250,000 people worldwide. In the UK, Citigroup has 9,200 employees of whom 35 per cent are women. In the UK, the major business sectors in which Citigroup operates are Corporate and Investment Banking, Consumer Banking and Private Banking/Asset Management.

### ***Industry Background***

The industry is characterised by intensive competition for customers, employees, market share and brand leadership. In common with other service businesses, a key determinant for achieving market differentiation is through the quality of the firm's employees. The so-called 'War for Talent' is conducted through recruitment, investment in people by means of training and development, retention, and pay and benefits.

### ***Managing People in Citigroup***

One of Citigroup's key strategic goals is to be an 'Employer of Choice' in the industry to enable us to attract the very best employees in the market.

The goal recognises that sustained corporate performance is not achievable without a clear and compelling strategy for managing the firm's human capital. It provides an essential driver of the organisation culture, Human Resources initiatives and management practice.

Effective management of Citigroup's human capital is recognised as one of the key business imperatives. This is reflected in the positioning of the HR function. The function is strongly business-integrated and the overall Head of Human Resources is a member of the Corporate and Investment Bank Operating Committee. In the constituent businesses (geographic and product-based) the HR managers are members of the respective Management Committees.

### ***Employer of Choice***

The economics are compelling in terms of attracting and retaining talent. To this end many of the initiatives we have instigated as well as the benefit programmes we offer are geared towards achieving this aim. To give some examples; we offer domestic partner benefits to all permanent employees regardless of the sex of their partner, this covers life assurance/pension benefits/company travel. Our maternity, paternity and adoption policies again offer both men and women the opportunity to take time out from work to spend time with their families without suffering financially; to this end the percentage of women returning after maternity leave is 82 per cent.

However, we know we still have work to do and as such we are constantly benchmarking our activities and benefit proposition to ensure that we are both in line with market, aligning alongside “best in class” and striving towards our goal to be an “Employer of Choice”. Some of the areas where we are revisiting our current policies are back up childcare, sabbaticals, home working, eldercare, and further education assistance.

### ***Diversity in Resourcing the Business***

With the projected demographic changes in the workforce, it is critical that Citigroup is able to appeal to a broader population of potential employees than previously. It is likely that any employer that neglects any pool of talent and skill will be seriously constrained in its ability to retain competitiveness and to meet its commercial targets.

Overall responsibility for achieving greater diversity rests with the European management committee. A position of Head of Diversity has been created to co-ordinate efforts in this area. Recently five cross-functional teams were set up to address specific issues relating women in the work place:

Each team had a senior management sponsor and included senior men and women from across the organisation. The teams worked intensively for 100 days to produce recommendations for action. This has now been achieved, management responsibility has been assigned and implementation is underway.

### ***Managing Improved Performance***

All employees participate in a performance management process designed to meet the specific needs of the business function in which they work. The underlying principles of performance management are consistent across the organisation, and include:

- All employees will receive feedback from their manager at least once per year.
- The review process will include a self-evaluation, peer/360-degree reviews, manager's assessment, and an individual performance development plan to facilitate the achievement of next year's performance targets.
- The assessment will provide a basis for determining performance-related pay for the current business year.

### ***Reward and Recognition***

Within the Financial Services industry, employee pay has two distinct elements: market related and performance-related.

Citigroup's compensation philosophy recognises that these are the only valid determinants, and differentiators, of individual remuneration and is fully committed to equal pay between men and women. The company participates in extensive market surveys to establish the levels of market pay by job function, by business and by geography. It also utilises the rigorous performance assessment process as described above to determine individual contribution.

In the UK, pay is reviewed annually, towards the end of the business year. An integral part of the pay review is an audit, conducted by HR and line managers, to ensure equality and fairness of pay decisions. Performance ratings are correlated to pay decisions.

Another important recognition of performance and contribution is by internal promotion. Again this is linked to the appraisal process, and enables the company to reward employees by enhancing their professional status. By its nature this is a selective process, and it is imperative that the process is fair and objective. The process also provides an opportunity to continue to promote women to senior roles and to further balance the numbers of men and women at senior levels.

Citigroup is committed to ensuring that pay and promotions are fair and we will be taking further steps to validate this equity in respect of men and women. This is crucial in maintaining the integrity of the compensation process and confidence in the fairness of the outcomes.

### ***Resourcing the Business – Recruitment and Deployment***

In future, we will be hiring from the major European schools as well as UK Universities. This is a highly competitive process and it is therefore the intention to increase the potential candidate pool by targeting women and ethnic minority groups. For example, we know that in the UK, some 50 per cent of undergraduates are women – and yet only 30 per cent of our applicants are women. The intake that we eventually employ has only 21 per cent women.

There is strong commitment also to improving opportunities for current employees to build and develop their careers within the company. We are also committed to the creation of an internal labour market to encourage cross-functional development, improve retention, capitalise on knowledge of the company and its systems, and the ability to navigate through a large, complex, multi-national.

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### **Consignia – John Roberts CBE, Chief Executive**

Our new name, Consignia, and plc status have been introduced as our organisation is going through a period of enormous change. We face the challenge of operating in an ever more competitive market, and are undertaking major structural and operational changes. Our development as a global player and effective provider of customer requirements will be delivered through the contribution of our employees; this will be facilitated by our equal opportunities strategy, which is about removing barriers to ensure no one is excluded from making a positive contribution. With these developments in train, it is very timely for us to review our positioning with women's employment opportunities.

Overall, we employ some 230,000 people, of whom around 20 per cent are women. Women are now employed right across the organisation, in mails, parcels and counters operations etc. and gone are the days when some areas were regarded as 'men's work'. As career opportunities have widened, we have also seen an increase in the number of women in senior management positions – currently one member of the executive board, two managing directors, and 24 per cent of our senior management population are women. Our streams of 'high flyer' managers being developed for senior positions comprise around 50 per cent women.

Whilst it might appear to be a source of some satisfaction that employment and career opportunities for women have improved, the scale of that improvement is put into sharp perspective when it is recognised that women make up 51 per cent of the potential labour force. It is clear we have a long way to go, and there is a powerful, practical incentive for doing so. The business case for ensuring that the most capable person, irrespective of

gender or ethnic origin, should be appointed to the job is, to my mind, incontrovertible, and the figures show we are not accessing the full range of ability that is available in the potential workforce. The level of business performance required in a competitive environment requires that individuals should be enabled to achieve their potential, so it is clear that any glass-ceiling effect is also operating against the performance of the organisation, just as much as it is denying opportunities to people who merit them.

To make progress we have to understand the reasons why employment and career opportunities for women in Consignia are not what they could and should be. There is a case to answer, and we want to find the answers. There are some potential reasons that our current thinking on these matters allows us to eliminate. Pay is one of these. We have an equal pay policy, and for management grades the positioning and remuneration of jobs is underpinned by a job evaluation system which, in evaluating jobs by content, eliminates any bias that could be introduced were pay related to the job holder; bonus formulas apply equally to men and women. We therefore favour taking the approach further through an employment review, rather than a pay audit.

We also have a comprehensive range of policies which should be expected to serve to promote the employment and career opportunities of women. Our equal opportunities policy, which has been well publicised within the organisation, identifies our 'respect for every individual and recognition of their aspirations'. Our recruitment and promotion procedures are designed to be non-discriminatory. Again, our approach to training and development focus on work requirements. We have, as well, a range of policies in place which contribute to family-friendly arrangements – parental leave, maternity leave, adoptive leave, special leave, part-time working, job-sharing and career breaks. Our current thinking is that, with an effective range of policies in place, implementation, rather than the policies themselves, looks to be the area which requires particular scrutiny.

Given the clear opportunity for improvement, and our concern to address any issues which may restrict women joining Consignia and being able to look forward to a rewarding career with us, we need to find an effective way of moving forward. An employment review is the approach that would take our current evaluation further and suit our circumstances. It will enable us to gain a systematic understanding of our current situation, alert us to the areas where our current approach is failing, and identify clearly where improvements are required. It is particularly important to establish the impact of policies, and we will be looking to see how employment statistics might be interpreted to identify the factors which affect our performance and how we might monitor action addressed to them. I believe as well that the outcome of such a review, and particularly the action we resolve to undertake, should be communicated. We will publish the outcome to our employees, to ensure that everyone is aware of our commitment on this issue. I believe as well that we should make the outcome more widely available, and support the recommendation that the results of employment reviews should be presented to stakeholders by including them in the Annual Report and Accounts (though clearly differentiated from the audited section).

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## The Economist – Helen Alexander, Chief Executive

Our business, more than many, depends on the talent of our people.

We are an international business, and at 30 September 2001, 51 per cent of our people are women. The Chief Executive is a woman, and she succeeded another woman, so the top executive in the company has been female since 1993.

Our women are, on average, 1.3 years younger than our men, and have, on average, 0.1 years less service.

As a result of the Women's Employment and Pay Review, we have looked at average salaries, and the results at face value demand further investigation.

In the UK, our average women's salary was 68 per cent of men's. In the US, it is 70 per cent. In the UK, the proportion of those earning over £60,000 who are women is 27 per cent, and the proportion of men earning under £30,000 is 36 per cent.

We will take action to delve deeper into what is behind these headlines, and improve these measures. That action will be as a direct result of having been asked the questions by the Pay Review. It's only when asked the direct question that many businesses will seek the data.

Why didn't we do it before? Because we thought our treatment of men and women was overall pretty fair. But, thinking or believing is not enough. The data shows a different picture. It will only be the data that will show whether there is any improvement over time.

We clearly are not developing our women, despite their equal age and length of service, in a way that maximises our return on investment in them.

We have reasonably flexible maternity, paternity and other family-related policies, and we have been able to retain some senior women by a flexible approach to their work patterns. This has been a competitive advantage in retaining talent, both in the short-term for specific needs and in the long-term, as individuals make decisions about which company they would like to work for – that is, when they are being recruited.

It would force companies to measure the performance of their human capital management if they had to report it in the accounts. The definitions though, must be clear and simple, in order to avoid the drawbacks of any bureaucratic process and get the advantage of focusing attention.

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## Ford of Europe GmbH – John Walker, Vice President (Human Resources)

Women's employment and career development is crucial to us in achieving commercial success in our business. It is a very important factor in our diversity policy formulation, in its implementation and in our culture change programme. As we outlined, we are clear on the business value of being inclusive. We wish to be best in class and a model of best practice.

In Ford there is recognition that women are integral to our Diversity strategy. A major priority for the foreseeable future is to deliver culture change and deliver commercial success by increasing the number of women at all levels in our company. This is underpinned by our leadership and is metrics driven. We will continue to monitor trends of women's employment and development and take the steps necessary in terms of policy formulation, implementation and achieving culture change in addressing any real or perceived barriers. We have already commenced this process. We have conducted a baseline review of our diversity policies/practices; conducted employees focus groups and established diversity Action Plans at all our sites in Britain. We have established Diversity Councils in each of our sites in Britain – these are a partnership of management, trade unions and employees. While we consider diversity to be wider than race alone we have been working very closely with the Commission for Racial Equality in this major programme of action.

You raised the issue of the business imperatives of focusing on good human capital management. I see it this way: being a leader in this field is aligned to our goal of providing superior shareholder returns over time. Quantifiable examples include: enhanced reputation and brand image, improved recruitment, motivation and retention of our people, enhanced employee satisfaction and ultimately increased customer loyalty – women are a key influence in the car purchasing decision.

We have a major programme of work currently underway. When the Equal Pay Task Force report was published we conducted a quick "equal pay study" (from 1990 to 2001) to see whether there were any issues that we believed needed to be addressed. We found no difference in the pay and conditions of women and men over that period of time. In light of the above, at present we do not have any plans to conduct a further study. We shall, of course, keep this under review.

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## **Granada – Charles Allen, Chairman**

Granada plc, following its de-merger from Granada Compass last year, is a focused and independent media company creating content for television and multi-media and delivering programmes to consumers through a variety of channels.

Regionally, nationally and internationally, Granada produces and broadcasts over 9,000 hours of original programming every year. Through 6 regional ITV licences Granada broadcasts to 35 million viewers and to over 60 per cent of UK homes.

Granada employs approximately 6,000 people across the UK from Southampton to Carlisle. The vast majority of Granada employees are directly involved in producing television programmes, making the company one of the strongest creative power-houses in commercial television. From producers to presenters, runners to reporters, lighting crews to script writers, Granada's creative talent base in front of and behind the camera is one of the company's most valuable assets.

Granada makes Coronation Street, Emmerdale, Stars in their Eyes, Cold Feet, The Royle Family, Tonight with Trevor Macdonald, University Challenge and many many more. It is vital to Granada that the diversity of the people who make our programmes matches the diversity of the people who watch them.

Women are key audiences for Granada and a key source of talent. Women have made significant contributions to Granada's success at all levels from the most junior to the most senior and it is crucial to us that we continue to maximise the potential of women in our organization going forward. Granada can't afford to waste anybody's talents.

As a Broadcaster, Granada has another responsibility. Television can also have a significant impact on public beliefs and attitudes and this is a responsibility we take very seriously.

As a result, Granada operates employment policies that embody the principles of equal opportunity, and are tailored to meet the needs of its businesses and the local areas in which they operate. Granada has successfully promoted women into some of the most senior roles in the organisation and we measure internal promotion by gender. We offer childcare support, and ensure that we promote the stories of women who are successful in our business. Granada also operates a strict Television Portrayal policy which ensures sound casting and positive role models in our programmes. Probably the best known of these is Helen Mirren in Prime Suspect, but more recently we have seen strong female leads in The Royle Family, Cold Feet and Coronation Street, to name but a few.

Our business leaders support these policies through their regular involvement in a number of Equality Action Groups across the business. This ensures that they monitor our workforce profile and on-screen portrayal, and are involved in following-up action plans for improvement.

Flexible working is still an area in which we are keen to learn from other companies who have achieved real success, and we have now begun working with staff and with external consultants on the best way to take flexible working forward in our business.

As a newly de-merged business we have carried out the first annual review of pay by gender and job levels. The first survey indicates limited cause for concern at most job levels. Where we can see gaps, we are beginning work on better understanding those gaps and we have recently appointed a Head of Compensation and Benefits, who will act as Equal Pay Champion within the business and look for further improvements in the factors influencing pay equality.

Granada, like many companies, reports in its annual report to shareholders on its employment policies and practice, including equal pay.

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## **Hermes – Alastair Ross Goobey CBE, Chief Executive**

Hermes places great emphasis on exercising the stewardship of all the companies in which it invests on behalf of clients. The aim is to ensure that companies are run by managers and directors in the best long term interests of shareholders. Hermes' approach to stewardship is based on a fundamental belief that companies with concerned and involved shareholders are more likely to achieve superior long-term returns than those without – good stewardship creates value.

It is in this context that Hermes welcomes the Denise Kingsmill's Women's Employment and Pay Review. In Hermes' view a company run in the long-term interests of its shareholders will need to manage effectively relationships with its employees, suppliers and customers, to behave ethically and to have regard for the environment and society as a whole. The public is increasingly taking a greater interest in how companies operate. Reputation matters not



just in relation to customers and consumers but also to current and prospective employees. It is clearly in the best interest of shareholders that companies recruit and retain the highest calibre and most talented workforce possible. As so many companies acknowledge in their annual reports, their people are their greatest asset. It follows therefore that good human capital management leads to better company performance in terms of productivity and competitiveness, which in turns leads to increased shareholder value.

Yet there is ample anecdotal evidence to suggest that some companies have been slow to adapt their employment practices to accommodate the reasonable personal needs of employees. A company that persistently loses its best talent, or is unable to recruit people with the necessary skills and drive, faces a considerable competitive disadvantage. Further, more and more employees are keen to ensure a balance between their professional and personal ambitions.

In its Statement on UK Corporate Governance and Voting Policy 2001, Hermes sets out guidelines on reporting on social, environmental and ethical (SEE) matters. The guidelines are based on the assumption that the effective management of risks associated with SEE responsibilities can lead to long-term financial benefits for the companies in which our clients invest. Hermes recommends that companies disclose their approach to these responsibilities, in terms of broad policies and the procedures in place to realise them. The adage that things that aren't measured aren't valued still holds true. In Hermes' view, achieving the highest standards of human capital management requires awareness at board level of actual employment practices and attitudes within the company. For this reason, Hermes suggests that companies collect, and consider disclosing, statistics on staff turnover, absenteeism, training and development, and pay levels by gender to ascertain whether there are any obvious and adverse trends that would be addressed by a change in policy or practice. In large part, it is the responsibility of the board to establish an ethos of flexibility and equal opportunity. Good human capital management is a means to an end that boards and shareholders have in common – the achievement of superior long-term shareholder returns.

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## **Professor Dame Julia Higgins – Chair of Athena Committee and Professor of Polymer Science at Imperial College**

There has been concern in many quarters about the employment conditions and pay of women in HE Institutions, and these have been particularly acute in Science Engineering and Technology. Here the focus has been not so much on direct discrimination (which is reasonably rare) but on clustering of women in the Research Fellowship grades, many with short-term contracts, together with the small numbers recruited into the career grades of lecturer and above, and the near absence of women in the most senior grades. The Athena Project was set up and funded by HEFCE and UUK to address these concerns. In the last two years Athena has funded a small number of development projects in HEIs. The reports of the first year's batch can be found on the web pages at [www.athena.ic.ac.uk](http://www.athena.ic.ac.uk).

I have also been involved with an enquiry run by the Royal Society of Chemistry into the particular problems of recruiting women as lecturers in Chemistry Departments. While around 40 per cent of undergraduate chemists are female these numbers drop to 13 per cent for lecturers and only three per cent of Professors. Departments report very few applicants for Lecturer positions and a number have no female academic staff at all. The reasons pinpointed in the report of this study (available on the web at [www.rsc.org/pdf/policy/factors.pdf](http://www.rsc.org/pdf/policy/factors.pdf))



appear to be a complex mix of perceptions, but a clear view that such a career would be incompatible with family life! The idea held by many lay people that a university academic's day is a relaxed flexible mix of a little teaching, a little research and a long time in the library is far from the actuality for all but a few academics. Nonetheless it does seem a pity that HEIs have only recently begun to take the view that the career development of their academic staff is not solely a personal issue but of vital concern to the success of the institutions.

With respect to this lack of female applicants for lecturer positions there is considerable hand wringing but relatively little action. My own view is that this is not enough. I was encouraged during the discussion at the RSC of the report mentioned above by remarks from Professor Brian Johnson, who was previously Head of Chemistry in Edinburgh. He pointed out that during his tenure he had recruited numbers of excellent women lecturers – “by going out and finding them”! Universities have become used to “wooing” high flyers with money for research and for salaries. They have not yet woken up to the fact that quality of life, flexibility of employment and support in managing the home/work balance may also be measures to attract and retain the best brains – especially perhaps among women.

A number of Universities have begun to audit their own procedures with respect to pay and promotion. I strongly support these moves – and the suggestion in the Kingsmill Review that they should be required of all organisations. In my experience the way forward involves continuous probing and questioning of established practice, and to give my colleagues their due, they are often surprised but usually grateful when actions which discourage or disadvantage female colleagues are drawn to their attention. Remedial action can then follow.

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## **Higher Education Funding Council for England – Steve Egan, Director of Finance and Corporate Resource**

### *Equal Opportunities in Higher Education*

Higher education has a profound effect on society. By 2010 it is planned that over 50 per cent of those under 30 will have been to a university or higher education college. Throughout the world, a dynamic higher education sector is seen as a key driver in economic development, with countries increasingly dependent on the knowledge economy. But the impact of higher education goes much deeper. It supports our democratic values and concepts of citizenship (for instance, graduates are more likely to vote and to take part in voluntary activity than non-graduates).

With such a profound impact it is right that we should be concerned with the performance of the higher education sector itself. In many respects that performance is impressive. By international standards our higher education system delivers high quality teaching and research and low student drop-out rates, and has achieved large reductions in unit costs.

However, performance should also be measured in terms of equal opportunity and diversity since failures in these areas could seriously undermine the other successes of the sector. A representative student population enables all parts of society to contribute effectively, and diverse staff demonstrate that the values of equality and fairness are practised as well as preached.

So how do universities and colleges fare on equality? Not surprisingly, the picture is mixed. Student diversity is much better than in the past. There are now slightly more women than men. Most ethnic minorities (but not all) are proportionally represented within the student population. On staffing the position is not as positive. The pattern of other parts of the economy is replicated in higher education: women and ethnic groups are under-represented at senior levels, and there are few universities or colleges with equality proofed reward systems.

However, the sector is committed to improvement. After all, a commitment to fairness, justice and truth is at the heart of what defines a university or college. The number of women vice-chancellors is increasing (admittedly from a low base), and the proportion of female academics is steadily rising.

The challenge is how to support these improvements and overcome barriers such as the so called "glass ceiling". Many universities and colleges are taking their own action to improve diversity. Indeed as autonomous self-governing bodies it is their responsibility to do so. The Funding Council supports this by conducting research, improving data, supporting a sector-wide initiative called the Equality Challenge Unit, and funding human resource strategies.

The last two items deserve further explanation. The Equality Challenge Unit is a partnership venture including universities and colleges, human resource professionals, trade unions and funding bodies. The unit is supported at the highest levels and builds on a considerable amount of previous work in developing good practice guides specifically for higher education. Attention is now firmly focused on securing real improvements. An advisory service is working to help institutions address their own particular issues. Women are able to register on a database to improve their visibility for promotion, and a separate group is addressing the issues of women's representation in science.

Our second initiative – funding human resource strategies – aims to use £330 million over three years to improve the way the sector rewards and develops staff. Equal opportunities is one of the six areas explicitly addressed by this initiative, but all the other areas, such as training and development, have clear equal opportunities dimensions.

We expect the combination of institutional commitment, sector-specific knowledge and expertise, and targeted funding to lead to continuous and sustained improvement. This will take time, as improvements in the diversity of the student population feed through to the academic staff and then to senior managers within institutions. There is, however, a national issue, which the universities cannot tackle alone: because fewer women and people from ethnic minorities take certain subjects at school, there is an imbalance at later stages in the pool from which university staff are recruited and promoted. As a result there are major areas of activity in which women and ethnic minority staff are seriously under-represented, with inevitable effects on the profile of senior grades and salaries. (This has been most fully researched in respect of the under-representation of women in science, engineering and technology.)

At the Funding Council itself, we give great weight to being an equal opportunity employer. We regularly review our human resource systems for any form of bias, and make improvements where necessary. We will shortly conduct a review of diversity, which will enable us to understand better where further work is required. Women make up 65 per cent of the Council's workforce (that means men are under-represented), but like the sector in general we have too few female senior managers (although the situation has significantly improved in recent years).

To address these and other issues we have developed a work/life balance policy, which seeks to recognise and value the whole individual.

Our approach delivers results. We have low sickness rates (1.5 per cent), and high retention rates for those taking maternity leave. We are also able to recruit and retain highly gifted staff without being able to pay top salaries. It remains to be seen whether work/life balance will break our glass ceiling. We hope that it will. But this is where fine words need to be acted upon. As a Director I need to set an example so that others, particularly women, can see my job as compatible with lifestyles containing many non-work demands. I try my best, but could probably do better.

## Inland Revenue – Nick Montagu KCB, Chairman Board of Inland Revenue

The Inland Revenue employs about 73,000 people around 62 per cent of whom are women. At each grade women perform the same tasks as men. But we are anxious to increase the proportion of women taking senior roles in the Department. Presently, the position is:

	%
Senior Civil Service	19
Senior Principal and Principal	23
Senior Executive Officer	28
Higher Executive Officer	40

As leader of the Diversity Sub-Group for the Civil Service, I actively seek to embed diversity best practice into all areas of the Department's activities. It is essential that we consistently demonstrate to staff by words and deed that they are valued for the skills they bring to their job. And that career opportunities are indeed open to all. In this way we get the best out of our people to their own and the Department's lasting benefit.

We are firmly committed to Equal Pay. We know that our basic pay structure which we revised last year provides us with a good starting point. The pay of our people depends substantially on their performance, not their length of service. Subject to satisfactory performance, all will progress in six or seven years to a pay target. This period accommodates the shorter careers of some women and counters the bias that existed under the former incremental pay scales.

But we still need to make sure that our pay structure matches up fully to Equal Pay principles. So this year we are undertaking a formal review. This will include a detailed analysis of our pay rates from the viewpoint of sex, race, disability and working hours. And it will encompass a long hard look at how pay is calculated in the Revenue. We will be doing this in partnership with our trade unions following the commitment in our new pay agreements.

We want our people to be confident that the pay structure and the way it operates do not produce unfair results or discriminate against people on any basis, whether sex, race, or disability. That is an important building block in creating a department that is an employer of choice. If the review shows us areas where we need to do more to meet our Equal Pay commitment, we will respond positively to such challenges.

## Institute of Chartered Accountants in England and Wales – Michael Groom, President

The ICAEW is the largest professional accountancy body in Europe, and now has a membership of over 119,000 members worldwide. The Institute is taking the issues surrounding the development and progression of women's careers within the accountancy industry seriously. In 1997 the ICAEW established the "Women in Accountancy Initiative" and has since commissioned a three-year research study on flexible working arrangements and work-life integration, led by Professor Cary Cooper of Manchester School of Management and Professor Susan Lewis of Manchester Metropolitan University.

The research addresses issues concerning part-time, other non-standard forms of working, and cultural barriers such as the long hours culture which undermine the dual agenda of gender equity and optimum use of human resources. Such research reinforces the view that although considerable progress has been made in integrating women into the profession there is a need to find practical ways of ensuring that the career development and paths of women accountants are comparable to those of men in order to make optimum use of women's talents and aspirations.

The research to date has revealed examples of good practices (as well as barriers to change) and guidelines are being developed to promote such good practices more widely. This supports the previously anecdotal evidence that the major firms of accountants are creating various protocols for flexible working, which have the potential to be beneficial both to the employer and the employee, providing they are well implemented and managed. At the end of the study we aim to help firms to make a clear "business case" for the introduction and support of flexible working opportunities.

Many women in the accountancy profession are working part-time or reduced hours in relatively senior and well-paid positions, and some accountancy practices recognise the value of part-time work as a retention and productivity measure. Nevertheless our research indicates that part-time work tends to be undervalued, in accountancy as in the wider population. In particular, opportunities for promotion and pay increase are greatly reduced in this profession where the long hours culture is still seen to dominate. Anecdotally, we see many highly qualified female Chartered Accountants return to work part-time after having children but then leave the workforce when the rewards for working are not enhanced. Women Chartered Accountants are among the brightest and best graduates that the country produces with 80 per cent having a 1st or upper 2nd degree. Loss of such talent to the country's workforce must surely be detrimental.

The arguments in relation to investor signals and reporting information on human capital are of fundamental interest to the ICAEW. We have been heavily involved in the recent Company Law Review, Cadbury, Greenbury and Hempel reviews of corporate governance. We would very much welcome the opportunity of assisting in the development of guidance on the requirements and production of information on human capital for corporate reporting. We believe that providing appropriate information to investors on human capital is a vital part of investor information but that the information provided should be relevant, reliable and comparable.

In terms of employment and pay reviews, the major accountancy recruitment firms do collate salary information but although this is often stratified by region, size and type of employer we have not seen the information stratified by gender. We understand that the Law Society

do carry out an annual survey of members' remuneration and have in the past indicated that female solicitors are receiving less pay than their male counterparts. Anecdotal evidence suggests that there may be a similar situation present in the accountancy profession.

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## **John Lewis Partnership – Dudley Cloake, Director of Personnel**

Unusually the Partnership has a written Constitution which says that its ultimate purpose is the happiness of all its members (employees) through their worthwhile and satisfying employment in a successful business. In this context “happiness” isn't just about having fun, working in a pleasant environment or even being properly rewarded, although we try to achieve all three. It is about doing satisfying and worthwhile jobs in a commercially successful business. Our strong belief is that job satisfaction will create that success since committed employees are the best way of ensuring that we have satisfied customers, an efficiently run business and a sound reputation in the community.

### ***Our personnel policies talk about equal pay in the following way:***

*The Equal Pay Act gives employees the right to equal terms and conditions of employment where they perform the same sort of work as fellow employees of the opposite sex. The Partnership was committed to treating men and women alike long before this became a legal requirement. The Staff Manager should keep these points in mind when setting or agreeing pay. A simple but effective test is to ask the question “if a man (or woman) was doing this job, would I be paying the same rate of pay?”.*

Those responsible are reminded of this each year at the time of the pay review. Auditing of the pay sheet is carried out at regular intervals usually at the time of the main and secondary pay reviews by local staff managers and by a senior Partner independent of local management known as the Registrar. The heads of our branches are required to report annually on pay and staffing to a locally elected body known as the Branch Council including the relationship between male/female and full/part-time pay and councillors may question any aspect of the report. In addition a committee of Partners elected from members of a Partnership-wide body known as the Central Council routinely monitors the operation of all aspects of our pay policies and recommends changes. The Committee regularly looks at the relationship between male/female and part-time/full-time pay rates across the business, identifies trends and requires management to comment on/explain the figures for their branch.

If good human resource management is, as we firmly believe, a vital ingredient in commercial success then it clearly makes sense for shareholders and other stakeholders in a business to be aware of a company's performance in that important area as a predictor of future performance. This was one of the recommendations of the RSA report 'Tomorrow's company', and our Chairman was a member of the Report's Steering Group. It is also implicit in the proposals for an Operating and Financial Review contained in the recently published Review of Company Law, where, again, our Chairman was a member of the Steering Group. The Partnership therefore endorses the proposal that companies should be required to report on the management of human capital in their annual reports. The content of these reports might conceivably include such things as staff turnover and retention rates, training and development policy/achievement, a commitment to equality of treatment/reward and how the management communicates with employees and involves them in the running of the business.

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## Law Society – Janet Paraskeva, Chief Executive

A review into women's employment and pay is much needed, indeed urgent, if we are not to lose the experience and commitment of women and the human capital they represent in a developing workforce.

Denise Kingsmill's review is much welcomed. It should encourage all of us to look at the workforce we manage and ensure that we have in our salary structure, our training and development programme and in our appraisal procedures put right any imbalance from previous and historic unequal regimes that have disadvantaged women. The review should help us to investigate the variety of work patterns that might better support women in the workplace and provide retraining for those working alongside as well as for those women involved.

But commitment must come from the top. Proper resourcing is essential not only to put right the inequalities but also to offer the necessary training and support from senior management. Consultants can help but in the end it will be the commitment and energy of those driving the organisation that will ensure these policies are put into practice. The Law Society has established a working group of its main Board to lead on these issues. It is also appointing a Diversity Manager and a new Training Manager and they will be charged with developing an in-house programme for change. The Society is also working with external consultants to try to make sure that its programmes and policies are benchmarked with the best and the Society is committed to carrying out a voluntary equal pay review.

In the Law Society we will be looking particularly at the employment record of women and of black staff especially where there have been performance-related issues. We will want to ensure through the effective training of all managers that appraisals are taken seriously and that where there are shortcomings these addressed and support provided as early as possible. The Society has much to learn from recent experience in this area and is building that learning into its training programmes.

A review is underway at the Law Society to map patterns of reward for staff and to compare those for men and for women to see if there are any indicators of different reward strategies having been applied. All negotiations on contract and financial package are now secured before employment begins for all staff and the Society's HR department in developing a revitalised induction programme.

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## Littlewoods – James Ross, Chairman

Littlewoods plc has a long established focus on being the employer of choice. It has pursued progressive employment policies that recognise the balance between home and work and seek to optimise the contribution of women and minority groups who may be conventionally or institutionally disadvantaged in the labour market.

In this context Littlewoods is supportive of the thrust of the Kingsmill Review. We believe that it is important that businesses both equip themselves with the knowledge that allows the optimisation of human capital and then act on that information. We believe that it is good business sense for companies to understand how they can get the best out of the talents of their employees. In today's competitive labour market, with complex business environments, providing opportunities that reflect the balance between home and work, can be a crucial differentiating factor between excellent employers and the rest.

In Littlewoods we place such a significant priority on the issue of Equal Opportunity that we have an Equal Opportunities Committee chaired by the Chief Executive and on which all the Executive Directors sit. This committee oversees the policy direction of the business on equal opportunity matters and timetables and reviews initiatives and programs in different parts of the Company. Littlewoods already have in place a wide range of employee friendly policies ranging from Family Leave to Career Breaks. These, we believe, significantly aid our recruitment and retention and add a dimension of quality and sensitivity to our image as an employer.

Littlewoods employs over 23,000 people in the UK in a variety of roles ranging from Call Centres, through Logistics to High Street Stores and HO functions such as Buying, Marketing, Systems and Finance.

Some 66 per cent of our employees are female with a strong orientation towards Call Centres and the High Street (79 per cent female), under-representation in Logistics (35 per cent female) with a balance in HO functions.

Littlewoods seeks to increase the representation of women into areas of work where they are particularly under-represented. This includes increasing the proportion of female senior managers. We also believe it is important that women feature in line management roles (as well as more traditional areas such as HR). In the last five years our female proportion of Senior Managers has grown by five per cent – but at 34 per cent we still believe there is a long way to go before we can claim we are getting the best out of the talent available within the business or from the external labour market.

Ensuring equity of reward is an important dimension in being credible as an employer of choice but also in recruiting and retaining the best and most competent employees. Littlewoods have already undertaken sample surveys of its reward balance and intend to extend that approach. We regard equipping ourselves with knowledge as being an essential pre-cursor to planning and setting objectives. Knowledge precedes planned action. Credibility comes from an active rather than passive agenda. Recruitment and retention success are significantly aided when talented employees see the company taking the issues of development and career progression for conventionally under-represented groups seriously.

We also believe in the importance of reporting. Littlewoods shareholders take a strong interest in the Company's Social, Ethical and Equality policies and these are regularly reported on. We believe that Shareholder interest in these matters alongside more traditional financial measures demonstrates a balanced understanding of key business determinants. We would encourage this form of balanced scorecard analysis by shareholders.

We believe in the strength and durable impact of companies finding the right approach to these issues for themselves. Statutory approaches tend to generate a compliance orientated response which lacks the energy and dynamic that can flow from companies taking the issues of human capital management to heart.

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## Lloyds TSB – Peter Ellwood, Chief Executive

Lloyds TSB is one of the largest companies in the UK – with over 78,000 staff. In a competitive employment market we need to differentiate ourselves as an employer of choice to ensure we attract and retain the best cross section of talent. We also need staff who can get as close as possible to our customers, to understand their needs better and provide them with the right products and services. This requires a broad mix of skills and we are keen to draw on people from the communities in which we operate. Diversity brings innovation and creativity into the way we operate – generating new ideas and broader thinking.

Our commitment to equality and diversity is founded, therefore, on the realisation that it makes sound business sense. And the inherent risks in ignoring this challenge are as compelling as the business case for action.

If we fail to recognise that the way we employ and deploy our staff will have a direct effect on our bottom line performance, we are making a big mistake and missing a huge opportunity. The penalties for companies failing to take this on board are all too clear, including unfilled vacancies; damaging staff turnover levels; reduced productivity; low morale and high absenteeism. It costs us money if we are unable to retain staff. We know it costs us around £10,000 to recruit and retain a junior clerical member of staff. This figure rises to approximately £40,000 for a senior manager.

We have seen for ourselves the business benefits of valuing our staff. We have saved ourselves approximately £2 million per year over the last five years as a result of enhanced staff retention after maternity leave.

So at Lloyds TSB our people are at the heart of our corporate success – and women make up 65 per cent of our workforce. Women's development is a key focus of our equality and diversity strategy and is now well established. At the core of the strategy are positive action measures.

Whilst we are beginning to see the results of these and other associated activities in terms of the numbers of women moving into management and senior management (28 per cent and 15 per cent respectively, up from 25 per cent and 10.5 per cent three years ago), we still have some way to go. The majority of women are still in support grades – a situation I am determined to continue to challenge, as we develop plans for the next phase of our strategy.

I therefore welcome the Kingsmill Review and in particular the focus on reviewing the relative position of men and women's remuneration levels. We will not have achieved equality if we do not reward all our staff fairly and equitably. I wholeheartedly support the concept of voluntary pay reviews.

We already have a pay management methodology which is designed to reward the development of skills, knowledge and competencies that staff demonstrate in their performance. Comprehensive training and communications are undertaken each year to reinforce the key principles of our pay management policy, including a checking process with HR input to ensure pay decisions are fair and consistent.

So, strong remuneration policies are essential to securing continued success and we will continue to ensure that our policies remain robust and equitable.

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## Local Government Association – Brian Briscoe, Chief Executive and Charles Nolda – Executive Director, Employers’ Organisation for Local Government

Local government employs over two million people, nearly 10 per cent of the national workforce. Our staff deliver vital local public services – education, social services, housing; protect the community – fire service, environmental health, trading standards; provide public amenities – leisure centres, libraries, parks; and undertake certain regulatory functions – town planning, building safety.

The range of occupations within local government is extremely broad. Nearly two-thirds of the Government’s occupational classifications are to be found in local government.

Compared to the whole economy, our workforce is more female (70 per cent as against just under 50 per cent); older; more part-time (45 per cent as against a quarter); and better qualified (over 40 per cent as against a quarter qualified at or above NVQ level 4). There is also more flexible working, particularly temporary and term-time working, in local government than in the whole economy.

Recent employment trends in local government (within an overall decline in numbers over the last 20 years) include a major shift to part-time working and more women reaching the most senior positions. The latest figures show 12.1 per cent of our chief executives are women (as against 1.3 per cent ten years ago); 15.5 per cent of our directors are women (as against 4.9 per cent ten years ago); and 20.2 per cent of the next tier down (as against 6.8 per cent ten years ago).

Similarly, the gender pay gap is narrowing. Government figures for 2000 show an earnings gap of 18 per cent for our full-time non-teaching staff, and of 11 per cent for our teachers, compared to the whole economy figure of 18 per cent. Four years previously, the same Government survey showed earnings gaps for our non-teaching staff of 21 per cent and of 11 per cent for teachers.

It is most unlikely that there are cases in local government where men and women of equivalent service doing the same job for the same employer under the same working conditions are paid differently.

However, there are almost certainly cases, as elsewhere in the economy, of unequal pay for different jobs of equal value. This reflects and is influenced by the overall position in the whole economy job market, which is part of the explanation of the continuing gender pay gap in local government. We also observe that another explanation is also valid, namely that many predominantly “female” jobs are relatively low paid.

To address these issues, which are very important to us, we have done a number of things at national level:

- Our main national collective agreement explicitly encourages local authorities to conduct local grading reviews in order to achieve fair and non-discriminatory grading structures.
- To help in this, we have developed a job evaluation scheme jointly with the unions, which local authorities can use if they wish.
- We have established management development programmes specifically for women.

- We have agreed guidelines with the unions on work/life balance, aimed at encouraging the wider development of family-friendly working arrangements. Such policies can help equalise men and women's relative position within both work and the home.

A recent survey shows that about 20 per cent of responding authorities have completed local grading reviews. This is slower progress than we would like. Obstacles to faster progress include **cost** (typically a grading review results in immediate costs of two to five per cent of paybill, with savings accruing later); **turbulence**, with many staff losing out in relative pay terms; and **conflict with the Government's Best Value requirements** driving authorities towards market comparisons which often indicate that competitors can undercut our costs, particularly in those areas where grading reviews often lead to pay increases – e.g. social care.

In short, we are in something of a cleft stick. We know that the quality of the services we provide depends on the commitment of staff and we know that in a predominantly female workforce, nearly half of which is part-time, the equal pay issue is critical. It is critical for morale, but it is also critical for competitiveness and costs. We can demonstrate substantial progress in recent years both in narrowing the earnings gap and in bringing more women into the most senior positions. But we are still some way off where we should be. If we are to speed up progress on narrowing the earnings gap – and thereby reduce the risk of potentially costly litigation – there needs to be at least real recognition, and possibly financial help too, from Government of the dilemma we face.

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## Nationwide – Phillip F Williamson, Retail Operations Director

The advantages of employing a diverse workforce are considerable and Nationwide has recognised this fact for some time. Apart from the social and ethical considerations, the business itself benefits from having a wide range of employees that reflects the diversity of our membership, thereby helping us to better understand and meet the needs of our members. There is also clear evidence that nationally the diversity of Britain's workforce is increasing. Nationwide needs to continue to be in a position to adapt to these changes in order to recruit from the widest pool of prospective employees, thereby ensuring a flexible and diverse workforce into the future.

Because of our commitment to equal opportunities and diversity, a senior group of representatives from across the business regularly meet in order to promote and monitor progress made in each area. This 'Promoting Equality of Opportunity Group' is chaired by the Personnel and Development Director and has a union representative as part of its membership. Nationwide embraces all aspects of diversity, and has well formulated policies on equal opportunities, harassment and bullying and flexible working. In fact, 30 per cent of our employees work part-time and many more have a variable working pattern, such as annualised hours, 'compressed' working week, term-time working and homeworking.

Employee feedback is vitally important to us and our annual employee opinion survey, 'Viewpoint', enables us to gauge the feeling within the organisation on the effectiveness of our policies on diversity. We also regularly monitor our workforce 'profile' and set ourselves goals in the areas of ethnicity, age and women in management.

We work hard as an organisation to ensure that all employees are treated fairly, particularly in the areas of job grading and pay. We operate within a job family structure and compare salaries to the external marketplace. We support the Government's commitment to equal pay and we continually monitor our own pay policies to ensure complete fairness of treatment for all employees.

## **Nestlé – Roger Cordier, Group HR Director**

As a business Nestle UK employs some 9,600 people in the UK and we are very clear that the future success of our business will depend upon our ability to develop and retain the skills of our employees to meet the future needs of the business. Some 40 per cent of our total employees are women; in our management team this figure is 30 per cent.

As you can see from the above numbers, our women employees form a substantial proportion of our workforce and we have for many years recognised the importance of ensuring our employment practices are flexible enough to ensure that their contribution to the business is maximised.

The practices that you set out as examples that good employers might adopt are a very close match to our existing practices:

- Our recruitment policies and pay structure are in close accord with the suggestions and we have seen real benefits in manager retention from our career break programme linked to job sharing and flexible hours.
- Our arrangements for part-time employees have matched those on full-time on a pro rata basis for a number of years and part-timers are a valued part of our work force.
- In manufacturing we have been able to offer seasonal work which is of attraction to a number of employees with family commitments although unfortunately some recent tribunal rulings on the legal standing of seasonal workers who return to the business on a repetitive basis, make it more difficult for us to offer this type of work.
- Our maternity, paternity and adoption leave policies are well regarded by our employees and we have recently introduced a Work Life Balance project which has been very well received by employees. This project also offers advice on child and elderly care arrangements.

Along with other major companies we have some concerns about the proportion of women within our senior management team. Whilst this is growing and we have some clear examples of success, (our Food Division was until very recently led by Petraea Heynike and Fiona Kendrick has recently been appointed Managing Director of our Beverage Division), it is not clear whether the unrepresentative proportion of women in senior roles is linked to career decisions made 10 or 20 years ago when attitudes and practices were different, or whether there are any underlying issues that still hinder the progress of women through the career structure.

To this end we believe that ongoing study is necessary and would accept the view, set out in the consultation paper, that more in-depth information and study of career patterns, individual progress and remuneration would be helpful. I would intend to establish such studies within the business, using the better human resources data that we now have available to us.

In practice I have to say that Nestlé UK's desire to further develop its understanding of these issues would be motivated by its business needs rather than any award or public recognition. Our business will not succeed to its fullest capability unless we fully utilise all of the potential that exists amongst our employees. We recognise that, despite progressive employment practices, we, along with most other employers, have not been able to fully utilise the abilities of our women employees in the past and this gives us a major opportunity to develop for the future.

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## **NHS – Nigel Crisp, Chief Executive**

Proposals are in place for modernising the NHS pay system, in particular the evolving framework for job evaluation in the NHS. These proposals are the result of detailed work over more than two years with NHS employers, trade unions and professional organisations. Work on the job evaluation framework has also been assisted by independent experts and by advice obtained from the Equal Opportunities Commission and other equality bodies. We have tested the framework on a wide range of NHS jobs, and further testing – including tests for gender and race bias – will begin shortly.

These proposals are based in part on ensuring equal pay for work of equal value. Given the advanced stage of discussions on the proposals, we would have reservations about initiating any parallel review of pay structures. But it is clearly important that we ensure the proposals tackle the issues you would expect to see addressed in terms of pay structures, both in their design and in the way they are implemented on the ground.

There are of course, as you have emphasised, a wider range of employment systems and practices that may potentially contribute to pay differentials. We are particularly alert to these issues in the NHS, given the predominance of women in many NHS staff groups. This is one of the reasons why we are committed to ensuring that valuing of diversity and a commitment to equality of opportunity are mainstreamed into everything the NHS does, and why we have instituted the “Positively Diverse” programme to support practical action to meet these aims.

In our view, a diverse organisation means diverse ideas and the potential for fresh and innovative thinking about the type of services and standards that customers and clients require. There are obvious benefits in recruitment terms: recognising diversity makes an organisation a more attractive proposition for potential recruits, widens the range of recruits, and helps ensure that the organisation attracts the most talented individuals. Recognising the needs of employees and the value of diverse minds working together should also lead to higher productivity. Individuals who feel they are respected and valued by their employer will generally outperform those who do not.

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## **Pearson – David Bell, Director for People**

In 1997, Marjorie Scardino became Pearson's CEO, the first female head of a FTSE100 company. Since then important developments have taken place. The company made acquisitions and disposals that provided important steps to change the company and to streamline the business in a direction which now comprises three major businesses: Pearson Education, The Penguin Group and The Financial Times Group. There is now a focus on creating more consistent policies and practices across these groups.

Pearson has approximately 5,000 people employed in the UK out of a total workforce of some 30,000 worldwide. In the UK 56 per cent of our employees are female, the majority employed in Pearson Education and Penguin group businesses. More than half have management roles. Overall, 16 per cent of our senior management, including our group Chief Executive, are female. Pearson has not carried out an Equal Pay Audit and can make no comment on pay parity at this time; this does not appear to be an issue.

As a business totally dependent on the creativity of its people, human capital management is vital and as Marjorie Scardino states “people are by far our most important asset”. More than 95 per cent of our people own shares in Pearson. In 1997, a board appointment, Director for People, was made and in 1999, a female Management Development Director recruited to be responsible for diversity, people planning and succession, career development and management. Employee communications and the Pearson intranet allows all employees to access job vacancies across the group. Forums for high potential managers take place annually and this brings people together from different Pearson businesses. In 2000 35 per cent of attendees at these events were female and this increased to 55 per cent in 2001.

Pearson needs to encourage more of its female talent to continue in employment as lifestyle changes occur and family commitments need to take priority. In a key talent review of senior management undertaken by the Board in July 2001, 25 per cent of those identified for future progression in Pearson were female.

Pearson is focusing on providing an overall ‘package’ of relevant benefits particularly appropriate to the female population and this has currently been most successful in our Penguin and Pearson Education businesses. Two per cent of our people in the UK currently undertake job sharing and of the 7 per cent of our people who work part-time nearly all are women.

As stated in our Annual Report, our policy on diversity clearly states that we chose our employees for what they can do, not who they are. In 2000, Pearson, among other companies signed the “global compact” which includes principles with regard to labour standards and human rights. Pearson provides equal employment opportunities across all businesses and each company clearly states that employees are selected on merit and suitability and are not discriminated on the grounds of gender, race, origin, background, religion, marital status, sexual orientation, age or political orientation. A benchmarking study on diversity and best practices across Pearson was undertaken this year and an inclusion programme that specifically focuses on the development of women into management commences early in 2002.

Key challenges for the year ahead include:

- Educating senior management in coaching and mentoring skills to encourage the development of all talented individuals
- Encouraging managers to lead by example in supporting work-life balance
- Ensuring that those 25 per cent of senior females identified as key talent are given the opportunity for advancement to extend and develop their careers
- Introducing further flexibility into the work place for everyone, including women
- Delivering an inclusion programme that brings female talent forward and encourages more senior female appointments
- Defining management teams more broadly to include more of those women who are less high on the management scale
- Undertaking an initiative that highlights and discusses explicitly the need for managers to understand work-life issues and that this makes good business sense.

## Prudential – Jonathan Bloomer, Group Chief Executive

- Whatever the economic conditions, the logic of finding, retaining and developing the best talent in order to establish and sustain competitive advantage is compelling.
- The barriers which women face in progressing in employment are complex and involve broad areas of choice. Often work cultures are seen as not conducive to success or to being able to balance work and other priorities and women often vote with their feet. Consequently the creation of an environment where diversity and innovation are evidently appreciated and encouraged is essential in attracting and keeping the best women as well as the best men in all areas of a business. Certainly we acknowledge that we are keen to do more in this area to sustain such a climate within Prudential.
- Whilst none of us believe that managers intend to discriminate on grounds of gender (or on other inappropriate grounds) in making pay decisions, it is clear from recent data that the issue of equal pay is one of the areas organisations should focus on in the immediate future. The background to the current situation is varied and complex and requires addressing across a broad spectrum. To address this a voluntary process of audit and review followed by the generation of robust policies and effective monitoring shaped to the specific organisation will be valuable. It can serve to highlight those areas within an organisation's direct control where it is able to take action to ameliorate this situation.
- Transparent reporting on human capital management which demonstrates the link with company performance and competitiveness would be valuable input for both senior management and investors. However, much work still needs to be done in this area to establish meaningful methods of reporting this information. It is important that this is not a box ticking exercise but is one that allows an organisation to learn and gain advantage from focusing attention and thinking on this issue.
- We see a well developed and up to date research base as key to the ongoing exploration and eventual resolution of this complex issue. In order to ensure that debate and discussion in this whole area remains live we are supportive of the proposal for ongoing work by an independent research organisation. This body will need to be nimble enough to be able to change its focus as the priorities for data based debate change.
- We remain firmly of the view that voluntary business-driven action in this area, combined with research based challenge, will produce sustained progress for any business committed to achieving and sustaining competitive advantage.

## Queen Mary's University Hospital – Helen Walley, Chief Executive

I have personally had very positive experiences of employment at all levels within the NHS and have been lucky enough to be given some very good opportunities for personal development.

I believe that Community Trusts have offered more positive opportunities for women as a whole. Senior posts reflect the high number of female employees within the NHS. It would seem that this is not always the case in other NHS organisations where there are low numbers of female senior managers in relation to the number of female employees.

I was an Executive Director of Nursing and Primary Care from December 1994 until August 2000 when I was appointed to the CEO post as a joint appointment with the Director of Human Resources & Queen Mary's Hospital. We applied for the job jointly as the organisation was going through significant change and had a life expectancy of only 18 months. We felt that it would offer continuity and would also be a very positive role model for flexible working patterns. We both worked half-time in a reduced executive director function and half-time as the CEO. This is an unusual combination at this level and would not have been possible without the support of my Trust Board, other members of the Local Health Economy and the Regional Office. The job-share worked extremely well and was very effective; however, my job-share partner has since taken up a post as CEO of the local Workforce Development Confederation and I became the full-time CEO.

There are still relatively few examples of this type at the most senior level of the NHS and until such times as we can demonstrate flexibility and commitment to deviation from the norm of full-time working, we will not encourage the diversity and flexibility throughout the workforce.

One of my directors who has responsibility for a major PFI development works part-time and whilst it is not always easy arranging events around her time, it is something we have to learn to do.

The move to rotational shift patterns, whilst based on the desire to improve standards of care and allow better access to training etc. has in fact disadvantaged many who cannot work in the day time.

The NHS offers a 24 hour service seven days a week; however, child care arrangements are often daytime Monday to Friday – we need after school support, weekend and holiday provision aimed at older children and those who need to make ad hoc arrangements due to breakdowns in regular arrangements.

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## **Royal Bank of Scotland – Fred Goodwin, Group Chief Executive**

The Royal Bank of Scotland Group is committed to enabling all of its staff to achieve their maximum potential. Because it's the right thing to do and because it delivers the best results for the business, our shareholders, customers and people and the communities in which we operate. We implement this commitment through a range of effective and transparent employment practices and robust management. We monitor our resultant employment trends. For example, over half of the branch managers in our retail branch network are female. We don't set arbitrary targets for gender representation at each level because that would conflict with progression based on merit. It might also conflict with the desires of individual members of staff who decide whether or not to seek promotion based on a range of factors, many unconnected with work.

We will continue to improve the way in which we help all of our staff to get the best from their careers and put their best into the performance of our business. One way in which we think all companies can be helped to do so in future is for company directors to disclose in their annual reports how they are getting the best out of their staff and for the company's auditors to review, or even audit, those disclosures.

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## Sainsbury's – Sir Peter Davis, Group Chief Executive

For some years now, we have had a high profile approach to equality and diversity. This started in 1997 when we launched our “it takes allsorts” programme, which began the training and education of our management team, some 13,000 colleagues. This training was updated last year and remains compulsory for all management. The programme also included our diversity policy and was widely communicated to all colleagues.

For each of the main streams of diversity, gender, race & disability we currently have a separate business plan and working committee. With regards to gender issues, we currently have a workforce that is some 65 per cent female and 70 per cent part-time. We offer a wide range of schedules within our stores, including flexible hours, variable hours, term-time, temporary vacation, dual store and an alternative working policy that helps colleagues look at different ways of working.

We also have leading edge policies in the areas of maternity leave, paternity leave, fertility treatment, adoption and fostering leave along with career bridge and special leave schemes. Whilst some of these are not gender specific, we are proud that they do offer colleagues a great deal of flexibility and options when it comes to managing both their home and work lives.

With regard to women progressing their careers with Sainsbury's we are very proud of our achievements in this area. These are outlined in the table below and whilst there is no room for complacency or believing that ‘the job is done’, they do indicate progress:

	IoM survey May 2001 % women	Sainsbury's 2001 % women
Director	9.6	17.1
Senior mgt/function head (SM)	15	20
Middle mgr/ dept mgr (C6/6S)	19	20
Junior mgt/ section leader (C5/5S)	26.5	45
All management	22.1	43

## Shell – Malcolm Brinded, UK Country Chairman

Shell companies in the UK employ 8,600 of the more than 90,000 core staff that the Shell Group has around the world. Contractors for outsourced activities such as retail, distribution and various services employ many more people. Our activities in the UK encompass global and regional ‘head office’ activities, oil and gas exploration and production, gas sales, oil and chemical products manufacturing and marketing, renewable energy, technology research and development, plus a variety of services.

A large proportion of our UK core staff are technical or commercial professionals and managers. In the UK around 25 per cent of our staff are female, with just under 8 per cent of top management being female. To some extent this level of female representation is due to the technical focus of our businesses and the historical under-representation of females in technical education – in the case of senior roles especially in undergraduate courses in engineering and science.



Even this year – when the majority of our high potential commercial new graduate intake is female – the equivalent technical intake is one-third female. As a contribution to addressing this issue Shell sponsors and participates in activities organised by the ‘GETSET – Girls Entering Tomorrow’s Science, Engineering and Technology’ programme. As discussed, we also recognise the importance of having the right female role models involved in the recruitment process, and we widen the acceptable graduate entry disciplines wherever this can sensibly be done (e.g. taking mathematics graduates into petroleum engineering).

For many years the Shell Group has been convinced of the importance of good people management. Having a continuing supply of talented, committed people at all levels is critical to the success of our businesses. Talent attraction, development, reward and benefits, plus organisational culture and communications have always been important areas for leadership focus for Shell.

In recent years this focus has developed to include the promotion of gender and national diversity and inclusiveness in our workforce. The business case for this is clear. Firstly, talent is in short supply and we need to be effectively recruiting on as wide a basis as possible. Secondly, we need more closely to reflect the societies in which we operate and which form our customer base. Finally, as we discussed, we have learned the hard way the importance of diversity in ensuring sound internal challenge processes, and we are convinced that having a diverse workforce contributes to the diversity of thought necessary for creative and effective decision making.

To promote diversity and inclusiveness in recent years we have:

- Published a global policy and commitment statement owned by our Group leadership. This clearly states the business case for, and values underpinning, diversity and inclusiveness.
- Set up a supporting infrastructure of a global diversity council, diversity consultancy practice and change agents’ networks to promote action in our businesses.
- Set a target for increasing female participation in our global top management cadre to 20 per cent by 2008.
- Focused on the development of women in our annual talent reviews, which include the analysis and reporting of gender and national diversity in our businesses.
- Included diversity and inclusiveness questions in our bi-annual global employee attitude survey. Results are analysed by grade and gender at business, country and business sub-unit level, compared with industry and national norms, published internally and discussed with staff. This survey is a major source of data on the success (or otherwise) of our people management strategies.
- Put our top 1,000 managers worldwide through diversity learning events – typically one-day experiential workshops.
- Included reporting on gender and national diversity in the Shell Group’s Annual ‘Shell Report – People, Planet and Profits’. This report focuses on the Group’s economic, social and environmental performance and is additional to the Annual report and accounts produced by both parent companies: Shell Transport & Trading p.l.c. and The Royal Dutch Petroleum Company.
- Undertaken (and shared with the EOC Equal Pay Taskforce) a UK gender-based pay study. This study confirmed grade for grade that we did not have an equal pay issue and that the overall pay difference between genders was due to female under-representation in the higher grades (as above accounted for by historical recruitment opportunities in our core technical disciplines).

- Commenced an in-depth review of our UK specific equal opportunity and work-life balance related policies and practices – this follows some years of active discussion and engagement around the work-life balance challenge (which we do not see as a specific gender issue).
- Continued our membership of employer forums and participated in learning and benchmarking activities related to diversity and work-life balance.
- Maintained our long-standing and 'best practice' policies regarding maternity, career breaks, on site nursery provision etc.

From the above it can be seen that we are seeking to use, in an integrated way, a wide range of tools to change organisational culture and make progress on diversity and inclusiveness. These include: values and vision statements, data collection and analysis, target setting and progress reviews, networking and staff communications, and training. Steady and sustained progress is being made but changing culture is a gradual process with no 'magic bullets'.

Finally, on the question of requiring companies to report on their management of 'human capital' in annual reports, our view is in line with that expressed by the CBI: given the absence of universally accepted measures of human (as opposed to financial) capital it is difficult to see how such a requirement might be realistically specified as a legal obligation. The promotion of a voluntary, 'best practice' focused approach to reporting 'human capital' progress would seem more likely to achieve meaningful change. For our part we continue to develop our reporting on 'human capital' in our global 'Shell Report' and in our UK 'Report to Society' publications.

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## **Simmons & Simmons – Janet Gaymer, Senior Partner**

As an international City law firm, operating in a highly competitive and global market place, Simmons & Simmons is concerned to ensure that it recruits and retains highly skilled staff, both men and women. Work-life balance is obviously a retention issue, particularly for women but also for men. Research recently published, entitled "Quality of Life in the City", which Simmons & Simmons sponsored, together with PricewaterhouseCoopers and Goldman Sachs and was undertaken by Parents at Work, identified some of the challenges for those who work in the city.

The Law Society Gazette\* has also published research based on the recently published Law Society's Directory of Solicitors and Barristers which indicates that 17 per cent of partners in the 100 biggest law firms in England and Wales are women which is the same figure as last year. In the case of the top 50 law firms, the figure was 16 per cent (an increase of one per cent compared with the previous 12 months). Accordingly, women are not yet represented at management level in the legal profession in the same ratios as they enter the profession.

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## **Slaughter and May – Laura Carstensen and Tim Clarke**

Slaughter and May is one of the leading international law firms in the world. It has its principal office in London. The firm currently employs about 530 legal staff (excluding partners) and 660 supporting staff. Approximately 40 per cent of the legal staff and 70 per cent of the supporting staff are women. The firm is known for the excellence of its legal services and the quality of its staff.

There are 114 partners in Slaughter and May currently; 16 of them are women. Yet for some years year on year at least half of the trainee solicitors we recruit are women.

Given that every trainee solicitor or young lawyer we recruit has been identified as having the ability to be a first class lawyer and a potential partner, these numbers – which are not atypical for a ‘magic circle’ law firm – are deeply concerning.

This phenomenon is not, for Slaughter and May, a straightforward issue of pay – since, for example, we do not pay bonuses, our pay scales for lawyers are fixed for a number of years after qualification and we do not differentiate in pay between practice areas; however, it is in a sense an equal pay issue viewed over the career of an individual female lawyer in the firm since, statistically, for reasons we do not properly understand yet, a female lawyer is substantially less likely than a male counterpart to stay to become a senior lawyer or progress to become an equity partner in the firm.

We are determined to understand better the factors at play and take steps to equalise the position. The business reasons for doing so are compelling. The guiding philosophy of Slaughter and May is concerned with producing excellence and rewarding excellence. Talented individuals are the lifeblood of the firm. There is a limited pool of these talented individuals and the odds are that women now comprise at least half the pool. Whilst we seem to do well at attracting that pool of women and men into the firm, we are not doing so well at retaining the women and bringing them through into partnership. There are the difficulties in replacing in the short-term talented lawyers who have been trained to meet the standards of excellence required by Slaughter and May. In addition, there are, of course, (very substantial) sunk costs of training and (again, pretty substantial) search costs of replacement to be borne when a talented lawyer leaves; but these are the least of the concerns about this attrition. The lost opportunity cost to the firm of losing these talented people may be immense – and the lost personal opportunity to the individual is also to be regretted.

A partnership like Slaughter and May is not just a business; it is a partnership between a number of individuals who wish to pursue a successful business together but also to conduct that business in a way they can enjoy and be personally proud of. Understanding why career opportunities for women lawyers at this firm (as other comparable city firms) appear to be less good than for men, as a first step towards looking at ways to address the underlying issues, is therefore both a business imperative and something which the firm feels it’s right to do.

It is for these reasons we have agreed to undertake a firm-wide review of women’s pay and employment and we expect to gain much useful information from the exercise to assist us in designing future policy and practices for the benefit of the firm and all of the people who work here – men and women.

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## Telewest – Rod Taylor, Human Resources Director

### *Telewest and our people*

Telewest has a fundamental belief that the route to excellent customer service and strong financial performance goes through highly engaged employees. We invest in the development and training of our people in order to bring out the best in them. We also aim to ensure that our managers are equipped to lead their people effectively.

Engaged employees understand what Telewest as a business is aiming to deliver and are motivated to take part. As a result, we will deliver quality customer service and sustainable financial results.

### *A fair approach*

Telewest recognises through its own experience and that of other companies that building a fair and equitable system for all is the best way to avoid the many pitfalls that result from poor employee relations.

High turnover of people is as costly as high turnover of customers, in that constant recruitment and training of new employees diverts scarce resources away from delivering continuous improvement. As a company judged by its quality of customer service, continuity in the workforce is essential.

We are also aware of the risks related to poor and unfair management of people, through costly diversions such as employment tribunals and through the impact on us as a credible employer.

### *Staffing position*

In order to understand how Telewest can move closer to our stated aims around employee engagement and fair employment policies, a further look at the current employment situation at Telewest is useful. In particular, we wish to have a close look at the male/female split in employment at Telewest, as well as any potential pay difference based on gender.

### *Gender differences*

Levels of representation within Telewest follow gender stereotypical career paths. The types of roles with high levels of female representation within Grades 4 and 5 are in Customer Service and Customer Accounts. In contrast, the technical and engineering roles are almost exclusively male populated.

It is also evident that across management and – in particular – senior management roles, the population is largely male.

### *Job evaluation/pay differences*

Mindful of the market we operate in and the historical gender stereotyping that exists, we want to understand more about what differentials exist and why. We recognise that we have outgrown our current method of job evaluation. The process of revisiting this area, and in doing so providing greater transparency of salary and benefits, presents an opportunity to ensure a higher return of the investment in our people.

It is also Telewest's intention as part of this review to carry out a voluntary pay review, with particular focus on gender-related pay issues.

## ***Reporting on Employee Engagement and Relations***

It is Telewest's intention to communicate externally the approach we take to management of our people. To date, this has been done implicitly through our recruitment campaigns and the 'word of mouth' that our employees provide regarding working at Telewest.

In the future, it is our intention to make more explicit statements backed up with actions. This will take the form of a special section in the Annual Report addressing our approach to employee relations; as well as a general outline on the Telewest Internet home page relating to this.

In these statements we will be addressing the composition of the workforce, what is being done to keep Telewest a fair and open place to work, and any specific actions taken to enhance employee relations in general.

## **Tesco – Lucy Neville-Rolfe, Corporate Affairs Director**

### ***Tesco people***

Tesco employs over 240,000 people across 10 different countries. In the UK, Tesco is the largest private sector employer with over 190,000 people. Wherever Tesco operates it aims to reflect the demands and preferences of the local community. In many ways Tesco employees reflect the diversity of Tesco customers in age, ethnic background and gender. The challenge for Tesco is to ensure that diversity is present throughout our management team. We have made five recent female appointments to our top Director Group and added a female non-executive director.

### ***The value of investing in people.***

We are clear that if you look after your people then they will look after your customers. Employees who have an appreciation of the company's goals will be motivated constantly to improve its operations and make them better for customers, simpler for staff and cheaper for shareholders. These improvements then free up resources that can be invested back into the innovations which ensure that we continue to meet customers' changing needs. It is a virtuous circle in which we recognise that it is the staff who deliver the company goals and objectives.

### ***The changing workforce***

Tesco recognises that the demographics and the expectations of those in the labour market are shifting quite profoundly. There is an increase in "working greys" (aged 45+) and a longer-term shift is anticipated towards more part-time working. More single parent families and participation of women in the workforce is creating a new set of expectations around work-life balance. Additionally we are seeing a higher proportion of 16-year-olds staying in education. To ensure our business continues to be able to attract and retain staff to support the growth plans, Tesco will constantly need to provide even more choices for staff. It must become easier to work and progress regardless of the number of hours worked.

## *People management*

Tesco is talking to staff, working with academics and external research teams to identify and address structural and behavioural barriers that might be restricting progression for women. Research plays a key role in understanding what present and future staff want and in identifying the root causes to barriers to employment and progression. We have created a Work Life Balance project team to look into this area specifically. Within the food retailing sector, Tesco has the highest percentage of females who return to work after maternity leave (69 per cent).

Not only do we insist on listening to our customers in order to drive our business but increasingly we consult our people. Regular nationwide staff forums enable a two way communication process and give an invaluable insight into staff priorities. Tesco has established a People Insight Unit to lead the research that will help the company compete for talent.

As part of the ongoing analysis, Tesco will be conducting a voluntary pay review to identify where future work could focus. We are reasonably confident that our male and female employees receive equal pay but we are committed to addressing any issues that may be revealed in the review.

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## **TUC – John Monks, General Secretary and Kay Carberry, Head of TUC Equal Rights Department**

The TUC is the voice of Britain at work. We have 76 member unions representing 6.6 million working people from all walks of life. We currently employ 266 people. Women make up well over half of the total, predominating in secretarial and support staff. Men and women are roughly equally represented in policy grades, and women head up three of our eight departments.

The TUC is a small organisation covering an extensive range of issues of concern to working people. People are our most valuable resource and we rely absolutely on the quality of the staff we employ. Communicating with, developing and managing staff well are key elements of the Investors in People standard, which the TUC achieved four years ago. We use the standard to continuously improve our processes, striving for the highest standards. This includes regular staff surveys and newsletters, and a continuous staff training and development programme.

For many years our recruitment, employment and personnel policies and practices have been guided by equal opportunity principles. The TUC and our affiliated unions want to see working people valued, treated well and fairly rewarded – and we point to the advantages for employers in terms of staff loyalty, productivity, effectiveness and competitive advantage. The same principles apply to our own organisations.

One feature of the TUC's employment policies is the determined effort we have made, since the mid 1970s, to attract and retain women, with, for example, generous childcare subsidies and paid maternity leave far in excess of the statutory minimum. Work/life balance is important to the TUC: we provide carers' leave, paternity leave and parental leave, all paid staff with caring responsibilities are able to vary their working hours, and all staff have access to flexitime.

The payoff for the TUC of all this attention to our “human capital” has been the quality of our workforce measured in skills, qualifications and experience, high staff morale and low turnover.

We are not complacent. We have recently conducted an equal opportunities audit to ensure that our equal opportunities policies are being properly implemented, and as I write we are nearing the end of an organisation-wide job grading and pay review. This has included an independent equality audit by a leading consultant to ensure that our new pay and grading system is not discriminatory.

The TUC maintains that all employers should be doing equal pay reviews. We are disappointed that the Government has not agreed with TUC and Equal Opportunities Commission arguments that such review should be a legal obligation. In the absence of legal change, employers should now be looking at voluntary action. We recognise that the causes of the persistent pay gap between men and women are complex. Among the key contributing factors are the clustering of women in lower paid and lower status roles or grades within organisations; the undervaluing of work in occupations typically dominated by women; and the negative effect on income of time spent out of the labour market to care for children or elderly dependent relatives.

However, discrimination remains a factor – generally hidden in pay systems rather than blatant. EOC research shows that the more employers examine their pay structures the less confident they become about saying that they are free of sex bias. Rooting out pay discrimination needs to be done systematically – so that it can be identified and removed. This is better for everyone than tackling inequalities through long drawn out and expensive equal pay litigation. The aim is for all workplaces in Britain to have pay systems that are open and transparent.

Equal pay reviews are best done in partnership between employers and employees. Trade unions can contribute to the process. With help from the Government’s Union Learning Fund the TUC is training a network of trade union “equal pay representatives” from workplaces across industry. These representatives will have the confidence and skills to discuss equal pay with employers and to participate in the review process. This will enable employees and employers jointly to identify where there are problems and to find solutions together.

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## Unilever – Richard Greenhalgh, Chief Executive

Unilever is committed to increasing opportunities for women at all levels within our organisation and see this as being essential to our future competitiveness and productivity. The development of greater opportunities for women forms part of a wider strategy to increase diversity within the company.

Some of the reasons for our drive for greater numbers of women are:

- Women account for the majority of our consumers around the world. In order to grow as a business, it is therefore essential that we employ people who best understand the needs of those consumers.
- We recognise that women bring a different mix of skills and competencies to the workplace and the most effective teams are often those with a balanced mix of men and women.
- In a highly competitive environment where skills are scarce, it is imperative for Unilever to attract and retain the most talented employees, whether male or female.



Over the last 10 years, much progress has been made in increasing the number of women employees at management levels. In the UK, 40 per cent of the workforce are currently female and 33 per cent of managers. However, progress has been disappointing in the development of women to the most senior positions in the company. It is now recognised that it is not merely a matter of time before there are more women in very senior positions – a more concrete action plan is required.

To that end, various programmes are in place, within the context of our diversity strategy to recruit, retain and develop women employees. These include:

- an equal pay audit
- open job advertising at all levels
- annual performance development planning for all employees
- enhanced maternity leave policies and career break schemes
- advice and encouragement to women returners
- a multitude of flexible working policies and practices
- culture change workshops to address issues around work-life balance

It is believed that all these activities will help build a culture where men and women are valued equally for the skills they bring to the workplace and given opportunities to develop to their full potential.

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## **Watson Wyatt – Richard Cockman, Partner and Josephine Nicoll, Associate**

Watson Wyatt is one of the world's largest actuarial, employee benefit and human resource consulting firms with over 5,000 employees in almost 40 countries. We have nine UK offices and a total of 90 offices world-wide. We specialise in all human capital issues, ranging from total reward and compensation, the provision of market data, organisational attraction and retention, the management of employees in merger and acquisition situations, eHR, change management and executive compensation.

### ***Watson Wyatt internal view***

As an organisation, Watson Wyatt has endeavoured to establish a set of employee practices and processes that treat each employee as an individual, irrespective of gender. However, it remains vital to recognise that women as a group may require additional support in key areas.

Watson Wyatt is not an organisation that considers minimum statutory requirements sufficient for its employees. As an employer of choice we are keen to promote best practice above legislation and illustrate to our employees that they are valued members of our team. However, Watson Wyatt is also a company that faces challenges concerning the nature of its workforce – as an organisation that has grown from a purely actuarial basis, it has traditionally been highly male-dominated, and this is currently reflected in the ownership structure amongst the partners.

Watson Wyatt has committed to reviewing its own employment policies and practices to evaluate their possible gender-based impact, and to assist the Kingsmill Review in establishing a set of 'best practice' principles that can assist organisations in promoting women within

the workplace. To this end, Watson Wyatt will carry out an internal equal pay audit, across functions, departments and practices, to determine the equality of current pay levels. This audit will focus on areas of concern, including promotion and recruitment of women throughout the organisation, and identify areas of best practice that may benefit other organisations.

### *WW client view*

Our experience with clients illustrates that they are also concerned with equal pay. Typical areas of interest focus on ensuring equal pay systems apply for like work. Their concerns illustrate that equal pay is not merely a cultural issue, but is grounded in valid business reasons. Ensuring equal pay means that they are able to encourage flexible working within the workplace, and also assures that they are getting the most effective person for the job.

Our clients also understand the material worth of ensuring that employees feel valued in the workplace, and are increasingly asking Watson Wyatt how they can ensure that gender bias is not an issue in terms of HR practices and processes. As a result, we are currently working to build a service offering that will outline equal pay and compensation best practice, and provide information relating to compensation audits.

### *Human capital*

Viewed largely as a cultural issue, our clients have illustrated to us that there are also clear business reasons for equal pay. Its implications can be seen as having a huge impact on an organisation’s workplace relations.

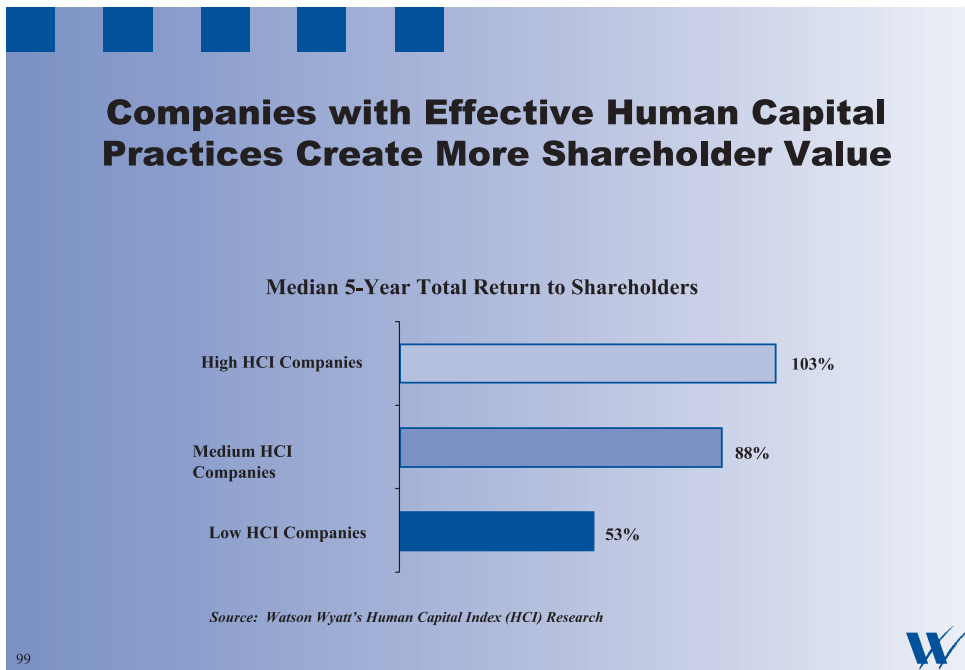
The implications of good workplace relations, and a contented organisational culture become even more significant when you consider research into the value placed on intangible elements of compensation packages. Studies show that, contrary to popular belief, it is not the tangible, material elements that attract individuals to specific organisations. Rather, it is the more unquantifiable elements that motivate employees.



The slide above shows that intangible rewards such as good workplace relations are vital in motivating top performers. The evidence that investment in human capital has tangible results is so overwhelming that best practice employers are increasingly putting compensation and benefits into context, and recognising that culture and environment are essential elements of the total remuneration package.

Intangible rewards are undeniably receiving increasing attention as a vital aspect of the total remuneration package, and in a similar vein, organisations today are being inundated with information relating to 'Human Capital', and its importance. Research increasingly shows that a value needs to be placed on people, to accurately reflect their worth, and that investing in this asset will actually increase the value of the organisation.

Investment in people takes many different forms, from the provision of appropriate training and benefits to the establishment of a flexible, collegial workplace – and many elements contribute to ensuring the employee feels valued and motivated to perform at their optimum capacity. As equal pay can be found to foster workplace relations, evidence can therefore be found to support the theory that equal pay is a vital component in improving business results. The Watson Wyatt Human Capital Index provides evidence to support this assumption, as it positively establishes links between human resource practices and shareholder value.



A high HCI equates with higher shareholder returns, which in turn promote employee commitment. Thus investment in people can be seen as a self-sustaining cycle that will inevitably benefit the organisation.

## WHSmith – Beverley Hodson, Managing Director

As a woman and a senior manager, I believe that everyone in an organisation should be given the chance to develop their full potential in ways which are most appropriate to them as individuals. A healthy working environment involves not only recognising differences in people but valuing them as well. Not every woman wants a full-time career; some may want the flexibility that a part-time job may bring to their families; others may want to try something new. We are all different. Yet we are all equal in deserving to be treated fairly and equitably at work.

This is not only a matter of doing the right thing, it makes business-sense too. Discrimination is a waste of money and human capital. If we are to truly value diversity at work, we must develop effective corporate strategies which tackle all forms of unjustifiable discrimination and not gender alone. Tackling discrimination must not be seen as an add-on to our corporate strategy, it is essential to it. Policy development must be backed up by clear goals and targets and practical delivery.

A happy, diverse and thriving workforce is a productive one, more in touch with changing trends in society and the changing tastes of our customers. The best run businesses positively connect with society.

WHSmith has done much to promote fairness and diversity within the workplace, but I recognise that we can do more. That is why I am personally committed to leading and developing a more comprehensive and co-ordinated approach to promote equality for all our employees. This is an integral part of building a sustainable business within a sustainable social and environmental framework.

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## Xansa – Hilary Cropper CBE, Executive Chairman

Xansa is probably unique as a UK PLC in its almost equal population of women and men at every layer of the organisation. It has a very different profile from the company I joined in 1985 when it comprised almost exclusively women employees and freelance contractors. The difficulty I had in the early days of recruiting men into the organisation illustrated very clearly the problems that occurs when there is any kind of significant imbalance.

I believe that pay inequality still exists in some quarters and needs to be routed out, but the main problem for women in industry is their clustering in low paid jobs. However, I strongly believe that we should not address this issue as purely “the women’s agenda”. It is important, both psychologically and practically, to widen it to a diversity debate because in many organisations the non-white population is similarly clustered in low paid jobs.

I would recommend that a methodology should be developed for assessing current situations and encouraging best practice. Extending existing approaches to good people management rather than developing a completely new standard would, in my view, facilitate improvements more quickly. Investors in People has become the standard for good human resource management. I hope that the Investors in People organisation can be persuaded to include the diversity issue.

Whilst data and information gathering will be necessary to address the issue, I strongly oppose a prescriptive approach because individual businesses have varying business models. It is important that this issue is viewed positively as a way of maximising human assets rather than becoming a bureaucracy. However, I believe that annual reports to shareholders should include a statement from directors to cover achievements and progress in these areas as part of the organisation's social inclusion report.

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## Annex 1

# Terms of reference for Women's Employment and Pay Review

Examine and report on possible non-legislative and cost-effective proposals to deliver improvements to women's employment prospects and participation in the labour market so that:

- effective use is made of the skills and experience of both men and women to their benefit and the benefit of businesses and the economy in terms of productivity and competitiveness;
- the pay gap between men and women is reduced;
- best practice is developed and promoted; and
- understanding and awareness of existing equality legislation is increased amongst employers and individuals.

The review will be independent and free from Government constraints. The report should be made to Ministers by mid-October and presented and published at a conference in December.

## Annex 2

### List of companies/organisations met

<i>Company/Organisation</i>	<i>Representative</i>
Abbey National	John King, Corporate Development and Resources Director and Michael Rein, Director of Personnel and Procurement
Accounting Standards Board	Mary Keegan, Chairman and Andrew Lennard, Assistant Technical Director
Arthur Andersen	Sue Conder and Carl Sjostrom
Association of British Insurers	Peter Montagnon, Head of Investment Affairs
AstraZeneca	David Scanlon, Business Performance Analyst and Senior Manager for Research and Development Malcolm Hurrell, Vice President of Human Resources U.K
Boots	Steve Russell, Chief Executive and Alastair Eperon, Director of Group Corporate Affairs
British Airways	Rod Eddington, Chief Executive, Mervyn Walker, Director of People and Alison Dalton, Diversity Manager
BBC	John Smith, Director of Finance and Paul Farley, Head of Compensation and Benefits
BP	Chris Moorhouse, Group Vice President Human Resources and Patricia Bellinger, Vice President, Global Diversity and Inclusion
British Telecom	John Steele, Group Personnel Director and Caroline Waters, Director of Employment
BUPA	Valerie Gooding, Chief Executive
Business in Sport and Leisure	John Brackenbury CBE, Chairman
Cable and Wireless	Margaret McCarthy, Director of Group Employment and Martin Hayton HR Director
	Sir Adrian Cadbury
Cadbury Schweppes	John Sunderland, Chief Executive
Camelot	Dianne Thompson, Chief Executive
Capital Radio	David Mansfield, Group Chief Executive
Centrica	Sir Michael Perry CBE, Chairman and Richard Bide, Director Human Resources
Change Partnership	Elizabeth Coffey



Chartered Institute of Personnel and Development	Geoff Armstrong, Director General, Dianah Worman, Adviser Equality and Diversity, Vicky Wright and Nick Page
Chemical Industries Association	Simon Marsh, Employment Group Secretary
Citigroup	Sir Winfried Bischoff, Chairman Europe
Compass Group (Catering)	Francis Mackay, Chairman and Clive Grundy, Group Human Resources Director
Confederation of British Industry	John Cridland, Deputy Director General
Consignia	John Roberts CBE, Chief Executive
Creative Media Matrix Ltd	Samantha Gemmell, Managing Director
Deloitte & Touche	Martin Scicluna, Chief Executive
Department of Trade and Industry	Senior Officials
The Economist	Helen Alexander, Chief Executive
Equal Opportunities Commission	Julie Mellor, Chair, Dr. Matthew Sowemimo, Director of Government Affairs and Amanda Arris, Director of Policy
Financial Services Authority	Ken Rushton, Head of Listings
Ford	John Walker, Vice President HR Europe, Maria Antoniou, Director Employee Affairs Britain, and Surinder Sharma, Diversity Director Europe
GlaxoSmithKline	Sue Lynch, Vice President Compensation Europe and Ian Brown, UK Diversity Manager HR
Granada Plc	Charles Allen, Chairman
Hammersmith and Fulham Education Authority	Christine Whatford, Director of Education
HSBC	Len Aspell, Head of Employee Relations
Hermes	Alastair Ross Goobey CBE, Chief Executive
Higher Education Funding	Steve Egan, Director of Finance and Corporate Resources Council
High Tech Women Ltd	Lucy P Marcus, Chief Executive
HM Treasury	Senior Officials
Imperial College	Professor Dame Julia Higgins
Industrial Society	Dr Samantha Hardy, Policy Specialist

Inland Revenue	Nick Montague KCB, Chair Inland Revenue Board
Institute of Education	Professor Heather Joshi, Deputy Director, Centre for Longitudinal Studies
Investors in People UK	Ruth Spellman, Chief Executive
John Lewis Partnership Plc	Dudley Cloake, Director of Personnel
The Law Society of England and Wales	Janet Paraskeva, Chief Executive
Littlewoods	James Ross, Chairman and Jim Donovan, Group Corporate Affairs Director
Lloyds TSB	Peter Ellwood, Group Chief Executive and Fiona Cannon, Head of Equal Opportunities
Local Government Association	Brian Briscoe, Chief Executive and Charles Nolda, Director of the Employers' Organisation
London Business School	Saul Estrin, Dean
London School of Economics	Professor Alan Manning, Centre for Economic Performance
Low Pay Unit	Bharti Patel, Director
Manpower	Ian Herbertson
McKinsey	Ian Davis, Chief Executive
Merrill Lynch	Phyllis Rock, Senior Director Human Resources
Metropolitan Police	Ian Blair, Deputy Commissioner of Police
National Association of Pension Funds	David Cranston CBE, Director General
National Audit Office	Caroline Mawhood, Assistant Auditor General
National Health Service	Nigel Crisp, Chief Executive and Permanent Secretary Department of Health
National Institute of Economic and Social Research	Pam Meadows, Visiting Fellow
Nationwide	Brian Davis, Chief Executive and Denise Walker, Head of Corporate Personnel
Nestlé UK	Roger Cordier, HR Director, Denyse Corfield and David Hudson
Old Square Chambers	Tess Gill QC
Pearson	David Bell, Director for People
Pension & Investment Research Consultants	Alan MacDougall, Managing Director

PriceWaterhouseCoopers	Tony Allen, Board Member for Human Capital and Sarah Churchman, Diversity Leader
Procter and Gamble	Chris de Lapuente, Managing Director
Prudential	Jonathon Bloomer, Chief Executive and Sir Roger Hurn Chairman
Queen Mary's University Hospital	Helen Walley, Chief Executive and Chairman
Reed Elsevier	Crispin Davis, Chief Executive and Jean-Luc Augustin, HR Director
Royal Bank of Scotland	Fred Goodwin, Chief Executive
Sainsbury's	Jan Shawe, Director of Corporate Relations
Schroders	Barbara Wilson, Divisional Personnel Director and Peter Robotham, Compensation Benefits Director
Shell	Malcolm Brinded, UK Country Chairman and Nic Turner, Personnel
Simmons and Simmons	Janet Gaymer, Senior Partner Elect
Slaughter and May	Lauren Carstensen, Partner and Tim Clarke, Senior Partner
SMART Company	Vicki Cooke and Deborah Mattinson
Telewest	Rod Taylor, HR Director
Tesco	Lucy Neville-Rolfe, Corporate Affairs Director and Clare Chapman, Group HR Director
Toni & Guy	Anthony Mascolo
Transport and General Workers Union	Margaret Prosser, Deputy General Secretary
Trades Union Congress	John Monks, General Secretary and Kay Carberry, Head of TUC Equal Rights Department
Unilever	Richard Greenhalgh, Chief Executive
UNISON	Heather Wakefield, Senior National Officer
Vestey Group	Sir John Collins, Chief Executive
Watson Wyatt	Richard Cockman, Partner and Josephine Nicol, Consultant
WH Smith	Beverley Hodson, Managing Director and Jill Chapman HR

Women's National Commission	Sue Himmelweit (Open University), Matilda Quiney (GMB), Katherine Rake (London School of Economics), Many-Ann Stephenson (Director, Fawcett Society), Donna St Hill (Women's Budget Group) and Sylvia Walby (University of Leeds)
Work Life Balance	Mary Pooley, DTI
Xansa	Hilary Cropper, Chief Executive

## Annex 3

# List of organisations who have undertaken or have committed to conducting an employment and pay review

The following organisations that I met have advised me that they have carried out, or are planning to carry out an employment and pay review. It should not be assumed that any organisation not listed below has decided not to carry out a pay review. Many are still considering their position, and a few have decided to conduct a review but do not wish to state so publicly at this stage. Only three organisations have stated that they do not intend to carry out a review.

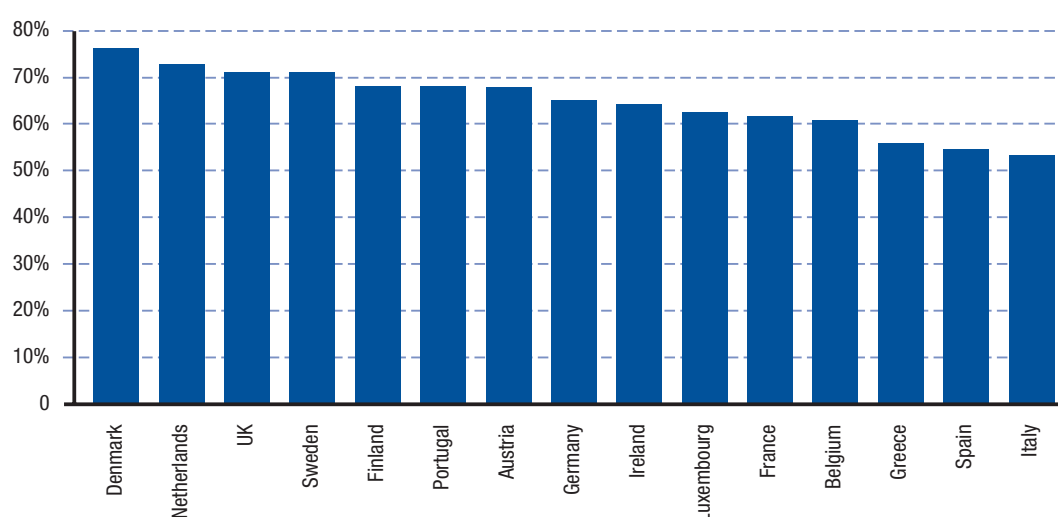
Abbey National	Inland Revenue
AstraZeneca	Institute of Education
Boots	John Lewis Partnership
British Airways	The Law Society
British Telecom	Littlewoods
BUPA	Lloyds TSB
Cable & Wireless	Local Government
Cadbury Schweppes	McKinsey & Company
Camelot	Nationwide
Capital Radio	National Audit Office
Centrica	NHS
Citigroup	PriceWaterhouseCoopers
Compass Group	Sainsbury's
Competition Commission	Simmons & Simmons
Consignia	Shell
The Economist	Slaughter & May
Ford	Telewest
GlaxoSmithKline	Tesco
Granada	TUC
Hammersmith and Fulham EA	Unilever
HM Treasury	Unison
HSBC	Watson Wyatt

## Annex 4

# European labour market differentials

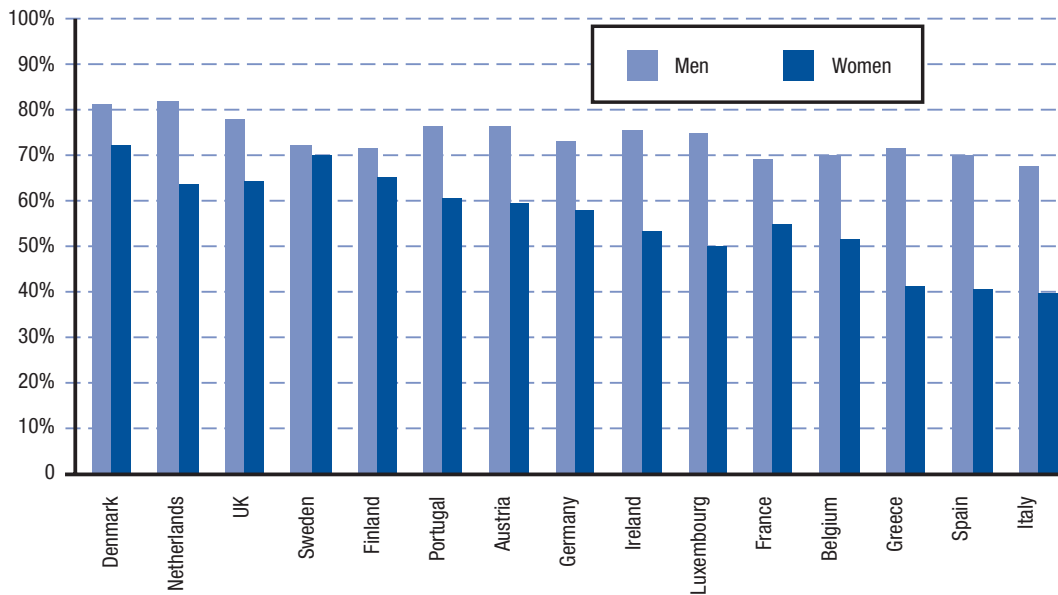
To consider why the UK has one of the worst gender pay gaps in Europe, it is helpful to look at differences between the European labour markets. The UK has high levels of employment in comparison to other EU countries. In 2000, the UK had the third highest employment rate at 71.2 per cent. Most EU countries tend to have similar employment rates for men aged 25-49. However, countries with high overall employment rates such as Denmark, the Netherlands, Sweden and the UK also tend to have a spread of employment across all groups in society, with high employment rates for women, the young and the old as well as men in these age groups. Countries with low overall employment rates such as Spain, Greece, Italy, Belgium and France, have a relatively high proportion of men aged 25-49 in work but low employment rates among other groups. This is reflected in patterns of unemployment, which tend to be lower in northern countries, the Netherlands, Denmark and the UK for instance and highest in the southern countries such as Spain, Italy, France and Greece.

### Employment rates (2000)



The employment rate for men exceeds that for women in every country. In 2000, the average employment rate for men in the fifteen member states was 72.4 per cent compared with a rate of 53.8 per cent for women. Employment rates across member states vary less for men (range 15 per cent) than for women, where the range was more than double at around 33 per cent the high being 72.1 per cent in Denmark and the low 39.3 per cent in Italy. At 64.5 per cent, the employment rate in the UK was the fourth largest across the 15 member states of the EU.

## Employment rates by gender



The UK also has a high proportion of women working part-time in comparison to other EU countries. In 2000, 44 per cent of women employed in the UK worked part-time as compared to only eight per cent of men. The UK has the highest proportion of women working part-time apart from the Netherlands where the figure is 71 per cent. The average across the fifteen member states is 33 per cent with the lowest proportions found in Greece and Portugal. The fact that there is a higher incidence of part-time working in the UK is related to less restrictive employment protection legislation. More heavily regulated labour markets, which are common in the Mediterranean countries such as Portugal, Greece, Italy, Spain and France, favour standard full-time work. More flexibility over the number of hours worked can be seen as an advantage to women. However, in the UK, part-time working has been seen to contribute to the larger pay gap.

In comparison, in Sweden, where there is a similarly high proportion of women in part-time work there is scarcely a difference between the hourly rates of part-time and full-time employees. Considering the SES data (see section 2.8 and 2.9), the gender pay ratio for full-time employees in Sweden was 87 per cent. When the data for part-time employees was included, this reduced only a couple of percentage points to 85 per cent. The average earnings of women in part-time work were 80 per cent of the pay of male full-timers, in comparison to an EU average of 65 per cent.

There are differences between the situation of female part-timers in the two countries. For example, women working part-time in Sweden tend to work longer hours than their counterparts in the UK. There is also a high level of job concentration in Sweden and the majority of women work in the public sector, in particular in education, health and social work. State efforts keep their earnings in line with men's which are generally seen to be low by International standards.

Under parental leave rules, women with young children have the right to opt to work part-time. However, they have no right to subsequently convert to full-time work and around half of those working part-time would like to work longer hours.

Grimshaw and Rubery (2001)<sup>47</sup> found that part-time work in the UK was concentrated in low status jobs, in particular in comparison with the Netherlands and Denmark where there is also a high incidence of part-time work. There was over-representation in all three countries of female employees in sales and service occupations, but in the Netherlands and Denmark, the representation of women working part-time in professional occupations was similar to the proportion of women working part-time in the labour market as a whole. There was under-representation of women working part-time in this sector in the UK. As noted above, the Netherlands has the highest proportion of women working part-time in the EU, but the broader distribution of female part-time employment raises the average earnings of part-timers so that, unlike in the UK, the average pay of women in full-time and part-time employment is similar.

It can also be noted that the 'spread' in the UK is especially wide in terms of the gap between high-paid women and high-paid men (this is also the case in Greece, Italy and the Netherlands). In fact, the UK has high wage inequality overall and a relationship has been shown between this and the gender pay gap. Not only does the UK have a relatively wide dispersion of earnings compared with other countries, but has also, together with the US, witnessed the sharpest widening of wage differentials over the period 1980 to 1995. OECD figures show that the UK and North American countries have much higher shares of low paid workers than most continental European countries and, in particular, than the Nordic countries of Finland and Sweden.<sup>48</sup>

## Public/private sector comparisons

There are deficiencies in the coverage of EU statistics on wages. Information about employees in the private and public sectors can be obtained from the European Community Household Panel (ECHP). According to 1996 data women's net hourly earnings as a percentage of men's were 83 per cent. The figure for the private sector was 76 per cent and for the public sector 86 per cent. In every country except Finland, the gender pay gap was smaller for women in the public than the private sector. As has already been noted, women's concentration in the public sector has helped to narrow the gender pay gap in the UK. However, the wages paid to female-dominated occupations in the public sector in the UK are low by international standards. For example, in 1998, women working full-time as qualified nurses earned six per cent less than the average earnings of male full-time employees. In contrast,

<sup>47</sup> *The Gender Pay Gap, A Research Review*, Grimshaw and Rubery, 2001.

<sup>48</sup> *The Gender Pay Gap, A Research Review*, Grimshaw and Rubery, 2001, p.25.



in Australia, nurses earned 18 per cent more than the average earnings of full-time male employees. This difference appears to be due to a more centralised system of wage determination which includes comparisons across professional occupations in Australia.

## Occupational concentration

Throughout Europe as a whole there is unequal distribution of women in different occupations as well as different sectors. There is also evidence of vertical segregation with a higher proportion of men than women in senior positions.

### Employees by occupation (major group) 1995 and women's wages in per cent of men's 1995

Percentage distribution, numbers in 1000's and sex distribution (%)

Occupation (major group)	Percentage distribution		Sex distribution		Women's wages in % of mens <sup>1</sup>
	Women	Men	Women	Men	
1. Legislators, senior officials and managers	4	7	29	71	70
2. Professionals	14	12	47	53	76
3. Technicians and associate professionals	18	13	52	48	79
4. Clerks	23	9	68	32	81
5. Service workers and shop and sales workers	21	8	68	32	82
6. Skilled agricultural and fishery workers	1	2	25	75	-
7. Craft and related trades workers	4	24	11	89	57
8. Plant and machine operators and assemblers	4	14	18	82	72
9. Elementary occupations	11	8	52	48	83
10. Armed forces	-	1	-	100	-
Total, per cent	100	100	44	56	-
Total, number	57 752	72 263			

<sup>1</sup> Full time – data not available

Source: European Labour Force Survey 1999, and Structure of Earnings Statistics 1995, Eurostat

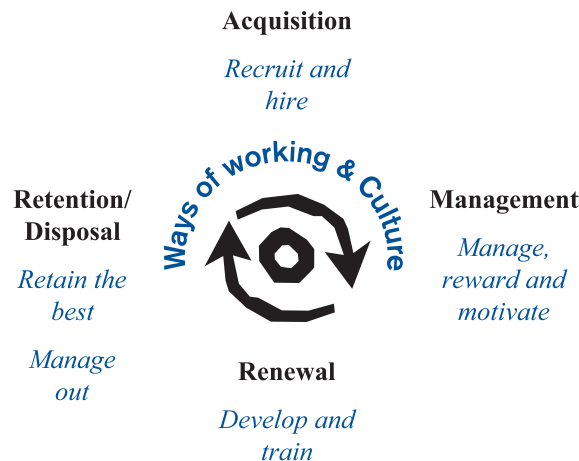
## Annex 5

# Arthur Andersen Human Capital Management Self-Assessment Tool

### Managing human capital as an asset

To truly impact business performance diversity must be fit for purpose. This involves identifying and managing an organisation's human capital profile. Organisations must determine whether they have the optimum human capital profile in terms of knowledge, skills, competencies and potential to enable them to deliver their business strategy. This requires a structured and systematic process to explicitly drill down from the business objectives and core processes. This analysis proves that the current human capital profile will deliver the business strategy whilst also identifying risks to its achievement. This firmly places human capital as a critical business asset. The human capital profile will need to be continually reviewed in the light of different business growth stages and challenges.

The management of people assets, like other assets, is seen to pass through a lifecycle. Considering the management of human capital assets through a lifecycle enables organisations to structure their thinking about how best to manage them.



Throughout each of these stages, there are some specific actions that organisations can take to ensure they are meeting the diverse needs of individuals and the business and are managing diversity to improve business performance<sup>1</sup>. In deciding which actions to take, organisations can start by identifying how effective they are in managing diversity – then identifying what changes in practice they need to make to improve human capital management and thus business performance. Benchmarks such as the human capital management Innocence to Excellence scales shown in the following pages can help organisations to do this. These are based on practices taken from high performing organisations. As organisations

<sup>1</sup> Anderson Global Best Practices Database™

move from innocence towards excellence, they would expect to positively influence business performance. Organisations can consider where they would place themselves on the scale and what practices they may want to target to enable them to progress up the scale.

The following sections look at each of the stages of the human capital management lifecycle, highlighting the factors of human capital management that link managing diversity to improved business performance.



Estimated cost of turnover will easily reach 150% of the employee's annual compensation. Cost is even higher for management and sales positions, 200 – 250% of annual salary. (William Bliss, *The Cost of Saying Goodbye*)

### **Recruit and hire**

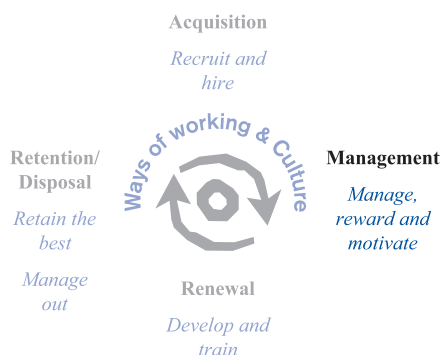
An effective process for recruiting, selecting and hiring employees, is one that attracts and identifies the most appropriate candidates that fit with the organisation's desired human capital profile. The identification and analysis of the desired human capital profile will highlight recruitment priorities for the business. Organisations are realising that for optimum business performance this profile has to be a diverse one.

A major risk for an organisation is employing the same type of people time after time. The employee profile that may have been successful in the past may not be the optimum one today and for the future. To ensure an organisation is prepared and equipped, given the market and customer challenges, it must recruit people with diverse skills and experiences.

Organisations often recruit in their own image, where recruiters favour people who seem most like themselves or most like existing employees, leading, in some cases, to an organisation of 'clones'. To avoid this, businesses should monitor any potential bias in their selection instruments and ensure that there is diversity amongst their recruitment decision makers. Organisations must encourage diverse thinking and ways of working, recognising that competence and motivation comes in different guises, valuing different working styles, as long as they deliver individual and business goals. Furthermore, talented individuals are more likely to consider working for a diverse organisation that values their individual capabilities. There is increasing evidence to show organisations employing diverse workforce are becoming 'employers of choice'.

High performing organisations are more successful in recruiting to deliver high performance because they recruit against objective criteria for the job. They continually refresh and review those criteria to reflect changing business priorities and customer demand. They also measure candidates' performance to inform criteria in the future. They have developed a complete description of the knowledge, skills, competencies and personality traits that the job requires, as well as the appropriate tools to look for evidence of these traits. These organisations have developed robust selection processes and practices that enable them to spot talent in less predictable places, as they are looking for the appropriate skills, knowledge and competencies, rather than for a type of individual from a specific background, gender, age group or race. This also means targeting new sources of potential candidates to generate a selection pool.

RECRUIT & HIRE				
INNOCENCE	AWARENESS	UNDERSTANDING	COMPETENCE	EXCELLENCE
<ul style="list-style-type: none"> <li>• No clear selection criteria in place</li> <li>• Untrained individuals select candidates with no or little reference to selection criteria to be identified</li> <li>• Candidates tend to be identified through word of mouth amongst existing staff, thus recruiting the same 'type'</li> <li>• The same sources for candidates are consistently used</li> </ul>	<ul style="list-style-type: none"> <li>• Selection criteria are based on individuals that are aligned with a traditional employee profile, i.e. those that have succeeded in the past</li> <li>• Managers interview candidates with some form of systematic evaluation against traditional employee profile</li> <li>• Recruiters are aware of a range of candidate sources to create a wider pool</li> <li>• Organisation is aware of changes to people requirements in the future but have not translated the requirements into selection criteria</li> <li>• Selection techniques comply with equal opportunity legislation</li> </ul>	<ul style="list-style-type: none"> <li>• Selection criteria exist with skills, knowledge, experience and qualifications identified, although no review mechanism in place to ensure these are still appropriate</li> <li>• Sourcing techniques allow for a range of individuals with diverse backgrounds and experiences</li> <li>• Managers trained in basic selection techniques, such as interviewing with some reference to job profiles and selection criteria</li> <li>• Specific actions are taken to target and attract a diverse pool of potential candidates</li> <li>• Minority groups are targeted for the selection pool as appropriate</li> </ul>	<ul style="list-style-type: none"> <li>• Employee profiles exist with a complete description of knowledge, skills, competencies required for all jobs at all levels</li> <li>• Attraction and selection techniques allow for a wide range of individuals with varied backgrounds, experiences and skills spanning different age, gender, race and religious groups</li> <li>• Interviewers receive comprehensive training in interviewing and selecting against job criteria</li> <li>• Regular examination of selection techniques to eliminate bias</li> <li>• Regular examination of selection criteria for the purpose of identifying alternatives that link to job performance</li> <li>• Competency/team skills profiles are identified to ensure selection of a diverse range of appropriate skills, knowledge and competencies</li> <li>• New job criteria are introduced to reflect predicted customer and business requirements in the medium and long term</li> <li>• Action plans are in place to target new sources of candidates</li> <li>• Diversity monitoring is in place</li> </ul>	<ul style="list-style-type: none"> <li>• Clear and comprehensive employee profile developed and communicated, demonstrating the specific skills, knowledge, experiences and competencies required to deliver the business strategy and objectives today and for the next five years</li> <li>• Selection techniques that capture different styles, preferences, thinking and ways of working</li> <li>• Selection decision makers are diverse</li> <li>• Selection criteria are validated against performance in the role</li> </ul>



- A recent survey commissioned by the Wall Street Journal Europe in association with Arthur Andersen identified almost half of UK women (49%) feel underpaid because of their gender, compared to the European average of 37% (*Women in Business Study, Lieberman Research Worldwide, December 2000*)

- On average, women in the financial services sector earn £8.98 an hour compared to £11 an hour for men, an 18.4% difference and applicable even if they are doing the same job (*Manufacturing Science Finance Union research, cited in Complinet "Women in finance worse hit by unequal pay." 13 September 2001*)

"71% of female students said that the commitment of the employer to provide equal pay would influence their choice of job" (*Equal Opportunities Commission, Attitudes to Equal Pay, 2000*)

### **Manage, reward and motivate**

Leading organisations make use of their diverse knowledge, skills and ways of working to continually elicit optimum performance from all of their employees. They do so by identifying and reinforcing successful behaviour, while flagging and correcting unproductive performance.

To do this they:

- Know what skills, knowledge and behaviour the business needs to deliver corporate success – but do not have pre-conceived ideas about who is most likely to have those skills and knowledge
- Measure people's performance against agreed criteria (balancing inputs and outputs) and not against each other
- Visibly reward people for delivering against the criteria
- Create flexible reward systems which meet the needs of their people.

To manage performance effectively it is vital that the organisation understands what are the key skills, knowledge and behaviours that result in high performance now and in the future, for all levels of the organisation. The key is that organisations need to secure the services of a diverse collection of people. This will make them more robust and flexible to meet and adapt to the varied challenges that will lie ahead.

Organisations should begin by communicating corporate objectives to their employees, which they then translate into specific, understandable, achievable goals for individuals and teams at all levels. It is vital that individual objectives, targets and measures are cascaded down from those of the business. By linking individual objectives to corporate objectives, successful organisations are able to manage the diverse spread of activities and behaviours to achieve corporate objectives. Explicitly making the link between different skills, abilities and corporate objectives, means that a broader range of roles and capabilities become valued by an organisation.

Furthermore, all individuals should be treated with fairness and equity when it comes to assessing and reviewing individual performance. This assessment should be made against the agreed criteria for the job rather than based on a comparison with other individuals. This avoids the tendency towards "sameness" and encourages valuing different forms of contribution. For example, part-time workers should not be compared to someone doing the same job on a full-time basis, but should be measured against their job and its requirements rather than against others.

With the diversity of talent that exists across organisations it is vital that an organisation's reward strategy reflects these differences and rewards people appropriately. A well-designed reward strategy and system will motivate employees to deliver superior performance consistently, thus increasing performance and boosting the organisation's overall profitability. Most importantly, it will ensure equal pay for equal work so that people are rewarded for their contribution to the business, irrespective of gender, age, race or background.

An effective reward strategy will also encourage those behaviours that drive value for the business and most importantly do not conflict with the broader business objectives and organisational values. Rewards offered need to meet the diverse needs of the workforce so that they have the desired impact on increasing individual performance otherwise there will be a decrease in performance and an inability to attract a more diverse pool of talent. Successful reward programmes build in flexibility to allow for individual preferences and circumstances. In many cases this includes a flexible benefits package to meet the diverse needs and circumstances of the workforce.

Diversity is becoming a new performance measure in itself so that managers are measured on and rewarded for appropriate supporting behaviours, incorporating diversity philosophy into day-to-day business activities and decisions.

MANAGE, REWARD AND MOTIVATE				
INNOCENCE	AWARENESS	UNDERSTANDING	COMPETENCE	EXCELLENCE
<ul style="list-style-type: none"> <li>• Only some informal reviews of performance exist</li> <li>• Managers' performance management style is the same irrespective of individual needs or circumstances</li> <li>• No relationship between individual performance and pay</li> <li>• No rationale for internal differentials in pay</li> <li>• No objective job performance measures in place</li> </ul>	<ul style="list-style-type: none"> <li>• Performance measures are in place for individual jobs</li> <li>• Performance management system is time-based with evaluation based on inputs rather than outputs</li> <li>• Simple, non-analytical grading process operates</li> <li>• Some piece work payment and bonuses for operations, sales staff commissions</li> <li>• Some basic non-pay benefits for senior management</li> <li>• Existing benefit structure is fairly old and has not been reviewed</li> </ul>	<ul style="list-style-type: none"> <li>• SMART personal objectives set for each individual with consideration for the diverse working styles and preferences of different individuals</li> <li>• Individual performance is reviewed and assessed against previously defined criteria, including knowledge, skills and competencies expected in the job, and achievements against objectives</li> <li>• Development needs discussed and plans made</li> <li>• Remuneration initiatives launched to address specific groups across the organisation</li> <li>• Remote working policies are in place where feasible</li> <li>• Flexible benefits are introduced</li> <li>• Equal value audits are completed</li> </ul>	<ul style="list-style-type: none"> <li>• Forward looking reviews in place focusing on role expectations and expeditors in relation to business need</li> <li>• Recognition and reward are correlated with job performance</li> <li>• A variety of management styles appropriate to the business context are rewarded</li> <li>• Personal development plans vary according to the specific preferences, styles and ways of working of individuals</li> <li>• Benefits are well designed to meet the diverse needs and objectives of both the company and employees</li> <li>• All work is valued and rewarded with a clear understanding of its impact on the business</li> <li>• Equal pay for equal value anomalies are identified and resolved</li> </ul>	<ul style="list-style-type: none"> <li>• Complete alignment of individual performance objectives with the overall business objectives</li> <li>• Managers possess and utilise a range of different management styles and techniques to manage individual performance that take account of individual styles, attitudes, ways of working, needs, circumstances and backgrounds</li> <li>• Employee improvement is viewed as an ongoing part of the organisational culture, with consistency of evaluation across the organisation</li> <li>• Employees exercise choice of flexible benefits within organisational cost constraints, i.e. cafeteria benefits approach. Options meet the needs of all employees</li> </ul>





### **Develop and train**

Most organisations recognise that different business challenges require a broad range of different skills, leadership and working styles. As organisations move into the global marketplace, their performance requirements change significantly. They must operate in a more volatile and less predictable marketplace, one in which adaptability and speed of response are essential success factors. There is no way to predict comprehensively what types of competence will be required for every possible future scenario. In order to survive and stay ahead of its competitors, an organisation therefore requires a diverse pool of people. Furthermore, as globalisation continues to add greater diversity to the customer base, success in the marketplace is likely to correspond to greater diversity among an organisation's people and leaders. Developing diverse people and leaders to manage in a complex and unpredictable environment thus becomes ever more critical.

The key factors in achieving this are:

- Continually questioning what the organisation needs and continually refreshing and updating training programmes to reflect this
- Tailoring development programmes to cater for individual differences
- Collecting data on development needs from a range of sources (such as through 360° feedback)
- Developing career paths to meet the diverse aspirations of different individuals and groups

Organisations need to continually review what they expect from their people to deliver business performance. This means continually questioning what good performance looks like to ensure that training truly delivers improved performance. By questioning what is required, a broader perspective on which people can fulfil those requirements is encouraged. The use of 360° feedback processes to support development needs assessment ensures a variety of responses from different people to avoid constructing a narrow view of an individual's development requirements.

A critical factor in gaining maximum return on investment in training is ensuring that development interventions cater for different learning preferences. Not everyone learns in the same way – and the opportunity to improve performance through training is maximised when training is designed to accommodate the different needs of a diverse workforce.

In Europe, just 41% of women surveyed in a recent study believe they have an equal chance in reaching senior management levels to their male counterparts, and only 30% think there are more women in management positions in their company today, compared to five years ago (*Women in Business Study, Lieberman Research Worldwide, December 2000*)

A fundamental part of developing people is managing individuals' careers within the organisation to ensure that they perform to their optimum capacity and that the organisation retains the key talent no matter what career stage they may be at. The shaping of careers is now a collaborative effort, in which organisations and their employees find ways to agree and meet each other's aspirations. Organisations are seeking to attract and realise the potential of a diverse workforce with people bringing different ambitions and aspirations.

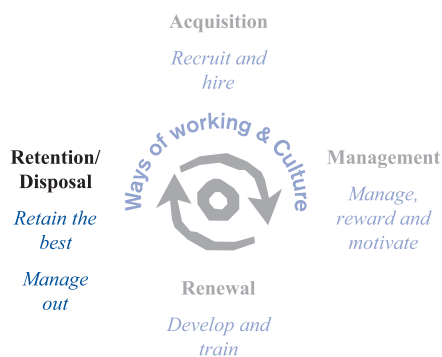
Organisations that are rigidly hierarchical often find that the lack of alternatives to the “up or out” philosophy of career advancement acts as a deterrent to many talented individuals. This philosophy and approach has been seen to have a particular impact on women employees where poor work-life balance and a lack of flexibility has led many women to leave organisations to start their own businesses. Organisations that recognise this huge potential loss to the business have developed alternative career paths that meet the more diverse needs of their employees.

A recent survey of executives at Fortune 500 companies reported that 96% of executives considered mentoring an important professional development tool. 75% said mentoring played a key role in their career success (*Andersen Global Best Practices Database™*)

Mentoring is used as a key tool for providing all individuals with an appropriate support mechanism and guidance for development. Whilst informal mentoring has long been practised, it may serve to perpetuate the status quo. For example, men in senior positions tend to be most comfortable mentoring men like themselves. The scarcity of women and possibly other groups in senior positions, may leave many lower-level employees without mentors or with inappropriate mentors. A formal mentoring programme remedies this situation by assigning mentors to promising talent and matching individuals with mentors who are best able to provide them with support and guidance at different life and career stages.



DEVELOP AND TRAIN				
INNOCENCE	AWARENESS	UNDERSTANDING	COMPETENCE	EXCELLENCE
<ul style="list-style-type: none"> <li>• No policy or formal practices in place for developing diverse leadership skills, knowledge or competencies in the organisation</li> <li>• Career advancement philosophy is based on the “up or out” notion with standard career tracks for all jobs</li> <li>• Training and development is targeted at specific roles without an objective rationale linked to business need</li> </ul>	<ul style="list-style-type: none"> <li>• Basic development methods in place that do not necessarily consider different learning styles or ways of working</li> <li>• Training and development needs are identified for each person</li> <li>• Development activities focus on developing standard skills, knowledge and competencies across different levels of the organisation with little consideration for individual backgrounds, styles or preferences</li> </ul>	<ul style="list-style-type: none"> <li>• Development practices focus on developing a diverse range of styles and working practices to equip individuals with the knowledge and skills to meet different situations</li> <li>• Wide variety of development methods used, catering for different learning styles and ways of working</li> <li>• Some alternative career paths exist for different employee groups</li> <li>• Some informal coaching occurs in different areas of the organisation</li> <li>• Alternative management styles such as direction and facilitation are used</li> </ul>	<ul style="list-style-type: none"> <li>• Development practices are linked to individual and business needs with emphasis on developing different skills, knowledge and ways of working to meet the diverse customer base</li> <li>• Development practices focus on continually developing leaders and leadership potential to perform in new and innovative ways</li> <li>• Career paths are developed to meet the diverse needs of different individuals and employee groups</li> <li>• Formal mentoring programme exists</li> <li>• Assumptions about competence are challenged</li> <li>• 360° feedback processes are in place to obtain a variety of responses from different people</li> <li>• Objective measurement processes are in place to assess performance</li> <li>• High potentials are identified who may be different to the typical role incumbent</li> </ul>	<ul style="list-style-type: none"> <li>• Formal organisation-wide leadership development strategy in place, capitalising on diverse backgrounds and experiences of different employee groups</li> <li>• Culture of the organisation promotes take-up of a variety of career paths recognising the value of individuals with diverse ambitions and aspirations</li> <li>• Individuals formally matched with the most suitable mentors and coaches who are best able to provide them with support and guidance at different stages of their careers, whilst considering gender, diverse backgrounds, preferences and ways of working</li> <li>• New models of competence are formulated to respond to business need</li> <li>• The risks from skills gaps are evaluated with plans in place to address them</li> <li>• Analysis undertaken of the key differences between the current skills and knowledge profile and those required in the future</li> </ul>



### **Retain the best / manage out**

We have said that organisations must consider their desired human capital profile, ensuring that they retain a good mix of diverse skills, knowledge and experiences. This is particularly important during times of economic difficulty where different ways of working and thinking enable the organisation to cope with and adapt to new and often difficult circumstances. The key factors are to:

- ➔ Consider the desired human capital profile now and in the future, ensuring the organisation retains a good mix of diverse skills, knowledge and experience
- ➔ Recognise that people need different things from work at different stages in their lives and account for this in people management practices
- ➔ Ensure that the leadership pool is sufficiently diverse to respond to the challenges ahead.

Retaining key talent is becoming ever more important in the environment of uncertainty and unpredictability in which organisations now operate. This is particularly important during periods of economic downturn and recession, where the key is to make the business as effective as possible, but with considerably lower costs. These periods tend to result in a number of knee-jerk reactions by the business, where reducing human capital seems to be the quickest and easiest cost-cutting mechanism. Whilst downsizing will certainly result in an immediate improvement on the bottom line, this can often have an adverse effect in the long term. In fact, this is the time to focus human capital strategy to ensure that the necessary talent to transform the business is retained and that the business is not carrying people who are not adding value.

There are various retention strategies that organisations are deploying in order to retain diverse talent. One powerful strategy is helping employees balance the demands of their personal and professional lives. This enhances the organisation's reputation as a good place to work, which in turn, enhances their ability to attract and retain the best employees. To improve employees' quality of life, it is critical for organisations to ensure they offer work practices and flexible work programmes that meet the diverse needs of their employee population. Whilst these practices potentially benefit all employees, they are especially attractive to women, who often have the primary child caring responsibility and so perhaps feel the burden of conflicting personal and professional responsibilities most strongly.

To identify best talent, leading organisations look for top performers in many different places. To ensure this next generation of more diverse talent, organisations are increasingly developing a pool of senior management talent that will be able to respond flexibly to the elements of the future. Despite the fact that women and minorities have made significant progress in the workplace over the last thirty years, the corporate executive suite remains dominated by men.

- 93% of 18-24 year olds would stay with a current employer if they were allowed to pursue their life outside work to the full

- 50% of managers would not hesitate to change jobs in exchange for better work-life balance

- 75% of men would be more motivated to stay with their current employer if it had work-life policies

- Despite the findings, 60% of the respondents said that their employers did not offer work-life balance policies. Even where employers do offer policies, they may not be right in terms of matching employees' needs (Complinet, 09 Mar 2001)

- Final year MBA students cited the ability to achieve a balanced lifestyle as the most important factor they would look for in choosing their first employment (Coopers & Lybrand, 1997 International Student Survey Report)

#### **Cost of Employee Turnover**

- Median cost of turnover for key managers and professionals is 2 years' remuneration (CIPD, Labour Turnover Survey Report, 2000)

- A 5% reduction in employee turnover can result in profit increases of between 30% and 85% (Frederick Galbreath, The Loyalty Effect, 1996)

- Lloyds TSB estimated that it costs them between £48,000 and £50,000 to replace a senior female employee (DTI Work-Life Balance The Business Case, 2001)

Individuals who feel stymied in their efforts to advance to senior positions often leave to seek opportunities elsewhere, thus losing valuable assets to the organisation, reducing an organisation's attractiveness as an employer and increasing its turnover costs.

Organisations need to identify critical roles across the organisation. Having done this, they will need to identify the key skills, knowledge and behaviours required to fill these roles as well as potential feeder roles, whilst ensuring a diverse human capital profile to meet the varied challenges that are likely to lie ahead.

A succession planning process should facilitate the increase of diversity, particularly at senior levels of the organisation.

RETAIN THE BEST/MANAGE OUT				
INNOCENCE	AWARENESS	UNDERSTANDING	COMPETENCE	EXCELLENCE
<ul style="list-style-type: none"> <li>Human capital costs are the first to be cut during times of economic difficulty with no strategy for retaining key talent</li> <li>Retention tends to be evaluated on a time basis with longest serving employees more likely to be kept on during headcount costs</li> <li>No planning activities in place for identifying and retaining key talent</li> <li>No procedures in place for managing scarce or critical skills</li> </ul>	<ul style="list-style-type: none"> <li>Some understanding of the skills, knowledge and competencies needed in the short term with retention practices designed to meet this profile</li> <li>Potential successors reactively identified for top jobs after jobs have become vacant</li> </ul>	<ul style="list-style-type: none"> <li>Clearly identified human capital profile for now and the future including a good mix of diverse skills, knowledge and ways of working</li> <li>Some targeted retention techniques developed to retain specific critical or scarce employee groups, e.g. flexible working practices</li> <li>Succession plans consider key posts and top jobs ensuring a good mix of diverse individuals and result in action to develop potential successors</li> </ul>	<ul style="list-style-type: none"> <li>The human capital profile is explicitly designed to reflect anticipated future business needs</li> <li>Succession plans available for all management and key professional staff positions that facilitate the increase of diversity, particularly at senior levels of the organisation</li> <li>High potential individuals have exposure to a range of business functions and growth opportunities</li> <li>Specific retention techniques developed to retain scarce skills and critical employee groups with particular emphasis on diversity in senior management positions</li> <li>Promotion decisions are reviewed against objective criteria linked to job performance</li> </ul>	<ul style="list-style-type: none"> <li>The optimum human capital profile is actively managed to bring competitive advantage</li> <li>Ongoing focus on becoming employer of choice</li> <li>Development of a "talent" risk management model to identify potential talent shortages now and in the future</li> <li>Investment in human capital during times of economic difficulty with specific strategy for retaining individuals from a range of backgrounds with diverse experiences, skills and ways of working needed to transform the business</li> <li>Comprehensive retention strategy in place fully aligned with current and future business requirements</li> <li>The succession planning process is monitored to determine the diversity profile</li> </ul>



### **Ways of working and culture**

Whilst effective human capital management throughout each of the various stages is key, it is often the ways of working and culture of an organisation that can make or break its success. It is vital that the working practices and culture reinforce the organisational values, objectives and direction, promoting and capitalising on a diverse workforce.

Managing and working with different individual needs and circumstances should be part of everyday working practices. It is not something that falls to the responsibility of a dedicated diversity representative or group of individuals, but it is the responsibility of each individual across the organisation.

Ways of working practices are broad and may include areas such as the physical working environment, flexible working, management and leadership behaviour, teamworking – to name but a few. An organisation's ways of working should encourage an environment where diversity can flourish. For example, research has shown that heterogeneous teams tend to outperform homogeneous teams by as much as 15%<sup>2</sup>. For example, diverse teams are typically better at producing innovative solutions to problem solving. This is a result of the varying viewpoints and experiences within the team and the encouragement for team members to see things from these different perspectives.

Opportunity for advancement is one of the most important factors in attracting and retaining a diverse workforce. However, access to that opportunity is often obstructed by the culture of the organisation. In particular, by negative stereotypes of individual groups within the organisation. To promote retention of best talent and to encourage a more effective and productive work environment, organisations must strive to eliminate any negative stereotypes that may exist in the organisation. To do this, organisations need to provide formal and informal learning opportunities that help their employees understand the perspectives of their co-workers, measuring individual performance through their ability and willingness to work with diverse people, and conducting regular employee attitude and organisational climate surveys to determine employee attitudes and organisational culture.

Organisations need to be explicit about why diversity is important in improving business performance. Individuals should be encouraged to step back and think about how new and different ways of working help to deliver business success.

The benefits of a diverse workforce will then become increasingly evident.

<sup>2</sup> Diversity: A business imperative, not an option, April 2001

WAYS OF WORKING AND CULTURE				
INNOCENCE	AWARENESS	UNDERSTANDING	COMPETENCE	EXCELLENCE
<ul style="list-style-type: none"> <li>• No documented managing diversity or equal opportunity policies/procedures in place</li> <li>• Culture in the organisation perpetuates status-quo and does not challenge traditional ways of working and thinking</li> <li>• Organisational structure encourages 'silo' mentality and provides no mechanisms for diverse thinking and approaches</li> <li>• No flexible working in place or any recognition of the importance of work-life balance for employees or the business</li> </ul>	<ul style="list-style-type: none"> <li>• HR publicises the need for diversity as a means to avoid legislative censure</li> <li>• Some new ways of working and thinking are initiated in certain areas when the need arises</li> <li>• Some cross-functional or multi-disciplined teams are set-up when the need arises</li> <li>• Some flexible working done on an informal basis in some areas across the organisation</li> <li>• People recognise that people from different backgrounds bring fresh ideas and perceptions which can improve the way work is done</li> </ul>	<ul style="list-style-type: none"> <li>• Individuals are encouraged to look at new ways of working as a matter of day-to-day practices</li> <li>• Cross-functional teams and communication exists on a day-to-day basis</li> <li>• A range of work-life balance offerings in place with particular emphasis on family friendly policies and offerings e.g. enhanced, maternity leave, on-site crèche, although this may be perceived as a 'negative career move' if taken-up by senior management</li> <li>• Recognition for the importance of work-life balance and the benefits for both the individual and the business</li> <li>• Employees are encouraged to challenge and come up with new ideas</li> <li>• Recognition that international culture issues reinforce the need to manage diversity in order to operate in world markets</li> <li>• HR presents the diversity policy and procedures, HR deals with problems arising on a reactive basis and records diversity statistics</li> </ul>	<ul style="list-style-type: none"> <li>• Individuals are encouraged to constantly step back and think about new ways of working where appropriate and ways for working smarter rather than harder</li> <li>• A wide range of innovative work-life balance offerings are in place that meet the diverse needs of the workforce and fit with business need</li> <li>• Management and leadership are seen to be key role-models for valuing individual contribution and circumstances</li> <li>• Informed processes are in place to consider ongoing changes to improve business performance</li> <li>• The business presents and communicates the diversity policy and procedure to all. Line managers work with HR to deal with problems arising</li> <li>• Diversity champions are established across the business</li> <li>• Diversity management training takes place</li> </ul>	<ul style="list-style-type: none"> <li>• People regularly talk about and challenge work culture and every day practices and make changes to fit with what the business really needs</li> <li>• Culture proactively values diversity and the positive benefits of diverse ways of working and thinking can have on the business, through identifying diversity as a core organisational value</li> <li>• The way the organisation is organised encourages diversity of thinking and ways of working, e.g. through cross-functional/multi-disciplined teams, communication mechanisms that encourage optimum diverse thinking etc.</li> <li>• Clear and well-communicated work-life balance strategy in place with a range of offerings that meet the needs of the diverse workforce and are seen as a positive option for all levels in the organisation</li> <li>• Line managers incorporate diversity principles into all day-to-day business decisions. They possess the necessary skills and knowledge through regular training and require HR support by exception</li> </ul>

### **Lack of diversity – a business risk**

Human capital management which fails to effectively manage and promote a diverse workforce carries significant risks to the business. If knowledge, skills and experience among the organisation's key personnel are too narrow the execution of the business model and achievement of critical business objectives are threatened. There are also legislative consequences of failing to manage and promote a diverse workforce effectively. Organisations need to put in place a risk management framework to ensure that:

- Human resource policies support the organisation's goals and objectives and clarify the approach to attract, motivate, develop and retain diverse talent
- Recruiting and selecting process effectively and efficiently identify the best candidates available for key job openings from a wide pool of individuals with diverse backgrounds, experiences, and gender, age and religious groups
- People are rewarded for the contribution that they make to the business and all people doing a job of equal value are paid equally
- The organisation has identified key skills, knowledge and behaviours that result in high performance now and in the future, for all levels of the organisation, recognising that diverse individuals allow flexibility to meet and adapt to the varied challenges that will lie ahead
- People are measured on outputs and achievements as much as inputs
- The organisation has a pool of diverse leaders for a wider range of leadership options now and in the future
- Retention strategies are in place to retain diverse talent, e.g. flexible working options that are seen as beneficial for the business and individual at all organisational levels
- The organisation's culture and ways of working value, promote and capitalise on a diverse workforce



### DIVERSITY AND BUSINESS PERFORMANCE

- Do you have an explicit business case for linking human capital management and bottom line business benefits?
- Have you evaluated the business risk associated with your current human capital profile?
- Where have you seen effective management of diversity impact positively on your business performance?
- How do you currently ensure diversity is managed for optimum impact on the business in each of your people practices?
- What is the prevailing attitude towards diversity across your organisation?
- What are the opportunities to improve business performance through the effective management of a diverse workforce?
- Where have you seen the lack of attention to or ineffective diversity practices have a negative impact on your business?

Answering the questions below will help business leaders to understand the link between diversity and business performance in their organisations. They can then use the innocence to excellence scales to identify where the organisation is now and thus prioritise areas for action.

INNOCENCE TO EXCELLENCE – MOVING UP THE SCALE					
	INNOCENCE	AWARENESS	UNDERSTANDING	COMPETENCE	EXCELLENCE
<i>Recruit and hire</i>					
<i>Manage, reward and motivate</i>					
<i>Develop and train</i>					
<i>Retain the best/ manage out</i>					
<i>Ways of working and culture</i>					

#### Lead the pack or follow the herd?

Mobilising diversity to leverage increased business performance is less about quotas and positive discrimination than it is about applying good people management practice.

There is no doubt that managing a diverse workforce successfully is far more challenging and difficult to achieve than those that contain homogenous and rigid structures and processes. However, the benefits are clear. Organisations that manage and promote diversity are those that have a wide range of skills, knowledge, ways of thinking and working that enable them to be better positioned to adapt to change, innovate and enter new markets, attract and retain the best people. What is more, this is most likely to be found in a range of individuals with varied backgrounds, experiences, skills, knowledge and capabilities, spanning different age, gender, race and religious groups.

Most importantly this diversity has a direct influence on improving business performance through breadth of thinking, openness to new ideas and possibilities and overall improved human capital performance. If the benefits are not enough, the risks associated with no action or ineffective practices, should persuade any business leader, professional and investor, that managing diversity in the 21st century is a business imperative.

## Annex 6

# The Public Sector

I consulted a range of public sector organisations during my review. Below is a summary of what I learned about the difficulties facing the sector in their people management and the action they were taking to improve the position and provide a consistent and better quality service to the public.

## Local Government

Local government in England and Wales delivers a wide range of services including social services, education, environmental health, housing and public amenities. Although 70 per cent of staff are women, at senior levels women are clearly under-represented: the position is improving, as is the position on the pay gap. The statement from the Chief Executive of the Local Government Association and the Executive Director of the Employers Organisation for Local Government in section 7 gives details.

About 1.3 million employees are covered by the local government national bargaining arrangements. Impetus for change has come from pressure from a range of stakeholders, including customers and Government, to improve delivery of service. Another powerful motivator is the aim to mitigate the risk of litigation. The sector has experienced a number of high profile cases resulting in high costs. There remains a risk of further litigation arising in particular from the fact that men and women tend to be segregated in different occupations. Risks arising from uncertainty about what sorts of work will be judged of equal value can be reduced by processes such as job evaluation.

Progress on job evaluation is being made but is slow due to difficulties in dealing with changes in the order of status of employees, and immediate funding requirements both to implement changes and to secure transitional protection for “losers” in the job evaluation results. About 80 per cent of Authorities have decided to carry out the pay and grading review, most using the tailored job evaluation scheme. From agreeing steering arrangements, through to benchmarking jobs, developing the pay structure and implementing change, the process can take up to about two years. Half of those embarking on job evaluation have completed the evaluation of the main benchmark jobs. Twenty-four Authorities have completed the whole process. If the current rate of progress is maintained, it could be up to six years before all Authorities complete job evaluation.



## National Health Service

Nearly one million people work for the National Health Service (NHS). It is the largest employer in Europe and the largest employer of women in Europe. The Government has announced that it wishes to recruit 20,000 extra nurses and 10,000 more doctors and agree modern contracts for consultants, doctors and nurses to give professionals and patients a better deal. (Prime Minister's Public Service speech on 16 July 2001) But the NHS is currently facing shortages of staff in crucial areas.

In addition to action arising from its report "Making a Difference – *Strengthening the nursing, midwifery and health visiting contribution to health and healthcare*" July 1999, the NHS is looking at its planning systems to ensure: that there is greater integration of planning and development with service and financial planning, and more flexible deployment of staff to maximise skills; greater clarity about responsibilities, proper management and clear systems of performance management; partnership working with training and education providers for the NHS workforce; and more staff and clear and flexible career structures. ("A Health Service of all the talents: Developing the NHS workforce – Consultation Document on the Review of Workforce Planning. Department of Health NHS April 2000.)

The profession has examined the position of women hospital doctors. A working party of the Federation of Royal Colleges of Physicians published in June 2001 their report, "Women in hospital medicine – career choices and opportunities". The impetus for the report was the finding that despite the fact that women have accounted for half of medical school graduates for the past 10 years, *"hospital medicine remains a male-dominated profession."* *"At a time when the NHS is under-resourced and also under increasing pressure to recruit more doctors, changes are needed that will encourage women to stay in medicine by allowing them to work more flexibly and to ensure that they have equal opportunities with their male colleagues for advancement."* Both men and women were demanding greater flexibilities in working practices to improve their work-life balance. The report found that in 1999, women formed 17 per cent of consultants, an increase of six per cent over the previous five years, and that the increasing trend was likely to continue because 30 per cent of specialist registrars were women. But the position was not clear; for example, overseas doctors might alter the gender balance. The spread of women doctors amongst the medical specialties was uneven. Women continued to be under-represented at senior levels in the major acute medical specialties.

Specific recommendations were to increase part-time consultant opportunities, particularly at an earlier stage of an individual's career; the expansion of flexible and part-time training opportunities; mentoring and educational opportunities; better working conditions with appropriate childcare places and a review of pension rights for part-time workers and those who have had career breaks; more flexibility in awarding grants in academic medicine and the creation of specific part-time academic posts; and equality of representation of women on academic boards and grant awarding bodies, equal opportunity for nominations for distinction awards and equal opportunity for applications to senior positions in academia and management. The report acknowledges that there would need to be an increase in the medical workforce to accommodate part-time working but the significant financial investment should be seen in the context of providing the highest possible standards of medical care. *"In the long run, a larger number of male and female doctors who are able to lead a balanced working and private life should lead to better health care for patients"*.

The position of women dentists has recently been examined. Dame Margaret Seward, Chief Dental Officer, was commissioned by the Department of Health to review the contribution of women dentists to the workforce. Her report, "Better Opportunities for Women Dentists", published in September this year, makes recommendations designed to deal with obstacles to full participation in dentistry as a career. *"This can only be for the benefit of patients, the profession and the NHS"*.

The Department of Health has responded by acknowledging clearly the position that *"by 2005, there will be more women than men graduating from dental schools. But women generally earn less than men from practising NHS dentistry and proportionately fewer women are practice owners in the General Dental Service;* (Health Minister, Hazel Blears, Press release 5 September 2001). The department has undertaken to implement many of the recommendations including investing in Keeping in Touch Schemes and Back to Practice Training, providing advice on managing career breaks and looking at better careers planning advice. The position on other recommendations linked to remuneration, funding and "out of hours" services, which might possibly lead to more fundamental improvements, will be considered in the context of wider reviews and modernisation.

The NHS is taking some vital steps to attract and retain the people it needs to provide an efficient service. It is reasonably happy that it is on course to deliver its recruitment and retention targets in the National Plan. As I have acknowledged in section 4, the modernisation of its pay systems is a most important development. At local level a wide spectrum of initiatives have been introduced. It was suggested to me during consultation that some employers are better than others in implementing these and I hope that the NHS will monitor the situation centrally to further encourage the adoption of best practice.

## The Metropolitan Police

The Metropolitan Police has three main groups of staff – police, civil staff and traffic wardens. In mid 2001, almost 16 per cent of the total (full time equivalents) of the 26,000 in the police, 59 per cent of the 10,300 civilian staff and 59 per cent of the 685 traffic wardens were women. There have been marginal increases in the percentage of women police and civilians employed over the last five years (although the numbers appear to have stabilised) while the percentage of women traffic wardens has fallen marginally over the same period.

Women are substantially under-represented in the higher ranks of the police although statistics show that if women do stay on past the rank of constable, where 18 per cent of the rank are women, they do reasonably well in progressing to higher ranks. Ten per cent of sergeants and, at higher ranks, seven per cent of Chief Superintendents and 11 per cent of Commanders and above are women. The problem seems to lie in attracting recruits in the first place and then retaining them. I have been told that the police force tends to lose women after the birth of their second child. Conditions of pay are contained in primary legislation and the rigidity of structures, e.g. the same rate must be paid irrespective of when hours of work are performed, hampers the introduction of pay flexibilities that might attract and retain recruits to shift working patterns that fit in better with family responsibilities. I was told that overtime payments, payable to lower grades only, are the main means of enhancing basic pay. And because of the single entry point, the police find it difficult to attract women starting on a second career who have the skills and experience to offer more than that demanded by the lowest rank, and the expectation that their skills and experience will gain them better rewards than those offered by the lowest rank. Single entry point simply does not easily accommodate better, mature, entrants of either gender and particularly does not lend itself to women's more fractured career patterns.

Women civilian staff form the majority of the lower grades, much like the Civil Service, but the minority of the higher grades. At the largest numerical grade, they account for 65 per cent of staff; at the highest grades they form 29 per cent. The reverse is true for traffic wardens where percentages of women increase through the higher ranks.

The Metropolitan Police are well aware of the need to attract and retain more women if they are to reach and maintain their full police strength. In recent years, they have focused their efforts on a diversity strategy directed towards ethnic minority issues. They are now turning to gender issues. They have recently appointed a high ranking woman to head a diversity directorate. "The Gender Agenda", launched on 21 August, was developed by an executive group representing the major organisations representing woman officers' views. The case for the gender agenda is stated in the document as:

- under-representation of women, when “a modern, responsive police service needs the range of viewpoints and experience that only a balanced workforce can supply” and “to meet future resource requirements the business imperative demands that the Service fully accesses the talent pool of both women and men”;
- making “the Service the employer of choice for both women and men and the best deliverer of services to the public [means] its policies must be gender proofed” because if strategies and policies “are not shaped by men and women, the thinking and decision making processes will not benefit from all the brain power, insights and judgements available and the result will be a lopsided organisation delivering a lopsided service”.
- “untapped potential and loss of expertise is a waste of resources...” so for as long as they are in a minority, women officers need active support to achieve their potential”. “The minimum replacement cost of an officer after 5 year’s investment in developing their skills is £150,000.”
- avoiding unnecessary employment tribunal cases thereby reducing the “monetary costs, human costs and negative impacts on the organisation and individuals.” “The Human Rights Act brings an added dimension...”
- achieving a balance between the organisation and individuals’ needs by agreeing a reasonable work-life balance, managing flexible working properly, valuing part-time workers properly and stressing that “all workers are part of an emergency service and must be able to respond to the unpredictability of the role.”

The long term aims are for the Service to demonstrate consistently that it values women officers, to achieve a gender balance across the ranks and specialisms, to have a woman’s voice in influential policy fora, to develop an understanding of the competing demands of a work-life balance and a successful police career, and to have a working environment and equipment of the right quality to enable women to do their jobs professionally. All forces are required to audit what they are doing across the agenda.

## Higher Education

There are 172 publicly funded higher education (HE) institutions in the UK employing about 300,000 staff, of whom about 45 per cent are academic staff. Just over half the staff are women. One third of all HE staff work part-time and 70 per cent of these are women. Part-time working varies across the sector with two-thirds of all manual staff and 45 per cent of academics in the newer institutions (post 1992) working part-time compared with 13 per cent of all researchers.

Women are concentrated in the lower paid groups. They comprise 25 per cent of senior staff but almost 90 per cent of clerical workers in the older universities, 70 per cent of clerical and technical staff in the newer institutions and 62 per cent of all manual staff. Women tend to be more highly represented in the academic posts in the newer institutions; 45 per cent of academic staff in the newer institutions are women compared with 27 per cent in the pre-1992 universities. While the under-representation of women at senior levels is evident in all groups, it is particularly striking among academics where in the pre-1992 universities 56 per cent of men and 29 per cent of women are graded Senior Lecturer and above, and in the post-1992 institutions 30 per cent of men and 16 per cent of women are graded Principal Lecturer and above. As a result, apart from the pre-1992 clerical grades, within each staff group men have an average higher salary than women. (Figures from “Independent Review of Higher Education Pay and Conditions” chaired by Sir Michael Bett 1999.)

Government policies are aimed at increasing participation in higher education and fostering life-long learning. With almost half the staff in the sector being women, quite clearly the effective use of the investment in women is an important performance issue.

HE institutions are autonomous employers. Pay for the great majority of HE staff is still determined through ten negotiating committees and institutions although this is set to change (see paragraph 4.23). The Bett report recommendations covered substantial reforms to the mechanisms for determining pay and conditions, to pay structures including job evaluation or job analysis and ranking, to pay levels, to conditions of service, and management and staff development, including steps to ensure equality for women and ethnic minorities.

Progress has been made since Bett. For example, the Equality Challenge Unit set up by the Higher Education Funding Council for England (HEFCE) to help HE Institutions deliver improvements in equal opportunities has made progress. The Unit has an Advisory Service to advise Institutions on a range of diversity processes and culture issues. Five Institutions have tested that guidance. The Unit anticipate that another 20-50 Institutions will do so over the next six to nine months with the rest following. The employment reviews carried out by the Institutions examine processes for promotion, the treatment of academics and targets for equal opportunities. The HEFCE does not set targets but it has a fund of £330 million to help Institutions with their human resource strategies. Institutions can receive an allocation from the fund in return for drawing up and implementing strategies. They will set their own targets, which will be published. The HEFCE has not issued guidelines but has directed them to the Unit for advice on targets. One of the conditions for receiving money is that Institutions link their plans to objectives. The HEFCE is carrying out a diversity review in Autumn for its own staff which will include equal pay.

## Central Government

HM Treasury and the Inland Revenue are leading the way in the central government equal pay reviews. The Inland Revenue plans to carry out its review this year while the Treasury has scheduled its review for early 2002 with the aim of feeding the results into the pay negotiations for that year. All departments and agencies are required to undertake pay reviews and prepare action plans by March 2003.

## Annex 7

# Equal Pay Products

## Chartered Institute of Personnel and Development (CIPD) Equal Pay Guide - Executive Summary

The CIPD guide addresses the main issues involved in establishing pay equality between men and women and in ensuring that it is maintained. Every organisation is different and therefore the equal pay issues will also be different. The list of issues that can arise can seem intimidating or bureaucratic, but most organisations will not have to consider all these issues. Many of the checks or action points involved may well be part of management practice already, or can be readily adapted to fit with existing procedures. Above all, a fair approach to pay is about achieving effective management of the workforce and making the most of the people you employ.

### *Outline of the CIPD Equal Pay Guide*

The first chapter sets out the reasons why equal pay is once again a big issue, more than 30 years after legislation was enacted. The guide then outlines the law on equal pay, because this is what defines employers' obligations. Chapter 4 sets out what is involved in equal pay reviews – how such audits should be conducted, what they are likely to reveal, and the problems there can be in interpreting the results. Chapter 5 examines job evaluation and how it can be used, and misused. The remaining chapters review the pitfalls in HR practice that can lead to pay inequality, from the recruitment process through to pay and benefits. These chapters are structured into 'Issues' – the potential problems that may arise – and 'Actions' – i.e. the measures that managers can take to avoid or overcome such problems. The annexes provide a glossary of terms and a brief guide to interpreting the results of equal pay audits, as well as some background statistics on women's pay and employment and sources of further information.

### *Key points*

- Equal pay is an issue now

Equal pay legislation has been around for over three decades, but there is still a persistent 'gender pay gap' of around 18 per cent between men and women. Both government pressure and trade union action are pushing equal pay up the HR agenda.

- Outline of the law

The law on equal pay has a reputation for complexity. However, there are three main routes by which employees can make a claim – ‘like work’ (i.e. the same or similar work), work ‘rated as equivalent’ under a valid job evaluation scheme, or work of ‘equal value’. An employer may defend the claim if it can be shown that the difference in pay was genuinely due to a material difference between the man's and woman's job and that the difference was not related to sex.

- Equal pay reviews

An equal pay review is the process of researching pay practices and policies to determine the existence and extent of equal pay problems within an organisation. It should be an extension of normal HR routine, but it differs in that it will tend to place an obligation on the employer to act on the results. Reviews will not be legally compulsory but may be valuable evidence for employers to show that they have addressed pay inequalities.

- Job evaluation

Job evaluation is central to the equal pay issue, not least because it provides the most effective defence for employers against claims. But it is not a foolproof approach and change needs to be built into the system.

- Pay structures and systems

No pay structure is guaranteed to be immune from equal pay problems. However, the more complex and less transparent a system, the more it can lead to difficulties. Clarity is the best guarantee.

- Recruitment and promotion

Employers run the risk of ‘importing’ bias from elsewhere, especially with market-driven pay. The reasons for pay inequality may be initially justified, but they are likely to become irrelevant over time. Reasons for pay decisions need to be properly documented and recorded.

- Rewards and benefits

Performance pay is a key area of potential pay discrimination, simply because it is largely about human judgement and the assessment of individuals. Proper training of managers and employees in how to operate the system is one way of minimising problems. Benefits policy may also be an issue to watch, especially the question of whether the criteria used to allocate benefits to certain groups are justifiable.

- Legacies and lagging pay systems

The legacies from past pay structures can be difficult to overcome because of the need to protect the salaries of those in post, and also because the market conditions that justified paying someone a higher salary will not necessarily continue forever. Pay systems can also lag behind: especially when technology and business priorities are constantly changing.



## Level Paying Field

### The Industrial Society's Approach to Equal Pay

The Industrial Society believes that there are sound business reasons for employers to address the issue of equal pay. Ensuring that there is a fair and transparent pay system will:

- create commitment from workers to the organisation
- improve morale
- help the organisation to be seen as a good employer
- assist with the retention of trained and skilled staff
- avoid the extra time and resources spent on individual grievance cases
- lessen the chances of costly and time-consuming litigation.

The last point is particularly relevant, as staff are becoming increasingly aware of their rights under anti-discrimination legislation. Workers' rights are also being strengthened by impending European legislation. There is no limit to the compensation that can be awarded under the Sex Discrimination Act, Race Relations Act and Disability Discrimination Act.

The Industrial Society approach challenges the wide range of factors responsible for the continuing pay gap. Factors such as: occupational segregation, the unequal impact of women's family responsibilities, and unfair recruitment and promotion procedures. Our approach prioritises investigation of the pay system as an essential first stage in changing workplace cultures.

#### *The state of pay*

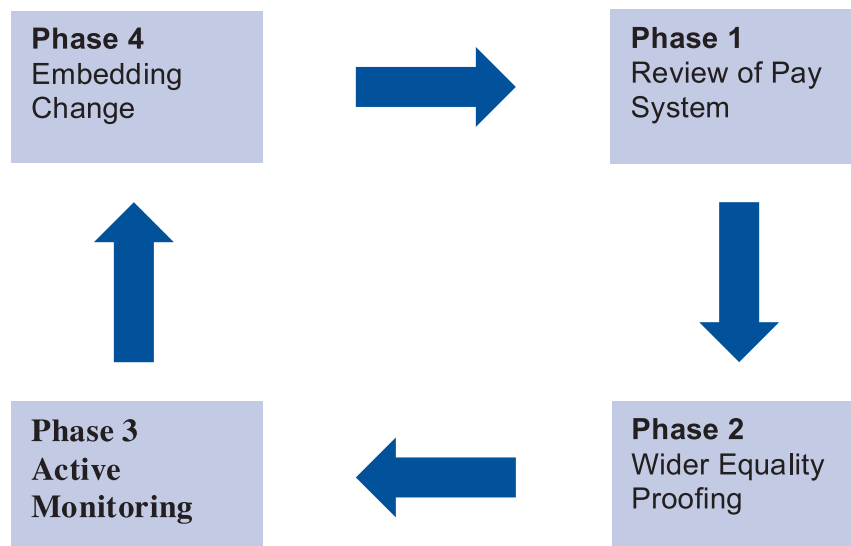
Over the last few years, in all sectors, employees have faced numerous changes in pay structures with the introduction of performance-related pay, competency-based pay, profit-related pay and a multiplicity of other systems. There has been a move towards individual contracts of employment rather than having pay determined by collective bargaining, making it easier for inequalities to creep in. Overall, pay systems have become more complex and opaque. The more discretionary the pay system the greater the scope for bias.

There is also growing evidence of discrimination against black and Asian workers, particularly in relation to discretionary elements of pay. The Industrial Society can widen the investigation to examine the pay system in relation to these groups.

The causes of inequality in pay are often difficult to identify. In fact, nearly all employers believe that their pay systems are free from bias, according to a 'Just Pay' report by the Equal Pay Task Force – February 2001. Yet only a handful have checked their comparative rates of pay for women and men. As a result, if there is a commitment to challenging these inequalities and ensuring compliance with the Equal Pay Act, it is essential that organisations undertake pay reviews.

The Industrial Society recommends a four-stage approach to the issue. Adopting an equal pay policy and reviewing the pay systems are the key priorities. At each phase of the process employers will be able to access The Industrial Society's employment law helpline.

### Phases In The Equal Pay Process



## ***Phase 1 – Introduction of an Equal Pay Policy and Investigations of the Pay Systems.***

We can assist in drafting an Equal Pay Policy/Statement relevant to the specific requirements of your organisation.

There are a number of options for the pay audit. The Industrial Society can provide;

- a toolkit to carry out the initial audit;
- undertake a more detailed investigation if problems are highlighted;
- help you with the full investigation; or
- if a full pay review is not appropriate for your organisation, carry out ‘spot checks’ on particular aspects of the pay system.

Whatever approach is taken it is essential that the appropriate questions are asked. For example:

- Where are men and women (and minority groups) within the organisation, and what are they paid?
- If there is a job evaluation scheme is it free from bias?

Once the data has been gathered there needs to be an analysis to identify whether any inequality exists on the basis of gender, race or disability.

We will spell out clearly the implications of any strategy adopted. Such an approach will need to be communicated to staff to ensure that the whole organisation supports and understands the need for change.

## ***Phase 2 – Wider Equality Proofing***

We define ‘equality proofing’ as the process whereby policies are assessed to ensure that they will take full account of the needs of different equality groups, and the consideration of the possible impact of these policies on those groups. This will include an analysis of the recruitment and promotion systems in place. We will examine whether recruitment is based on fair and objective criteria, and whether promotion opportunities are extensively advertised.

We will check through your policies and procedures to ensure their transparency and that objectivity exists. As a result all employees have the same opportunities for progression and promotion.

### ***Phase 3 – Active Monitoring***

This phase will provide the evidence to establish that all policies and procedures are operating fairly in practice. We will assist the organisation in developing targets and indicators to allow progress to be measured.

Employers will be able to identify trends or patterns that are developing which are leading to inequalities. The Industrial Society will help an organisation to introduce procedures that will enable employers to set up their own monitoring methods.

Effective monitoring is different from data collection. It can provide a clear picture of the composition of the workforce and produce proposals for action. Monitoring builds on the information provided by the initial pay audit. It can identify by gender/age/race/disability issues such as:

- those recruited at each job/grade/band
- results of personal reviews (including appraisal markings)
- take-up of training and development programme
- selection for redundancy (if applicable)
- relocation or premature retirement

On completion of the project reports on the findings, recommendations for new policies and an action/implementation plan with target dates, will be produced.

### ***Phase 4 – Embedding Change***

It is essential that employees understand and take on board any changes made to procedures and practices. It is important that managers understand the issues, and are aware of the attitudes and behaviour they will be expected to model. All staff need to be made aware of the changes and the expected benefits. We will therefore design specific and appropriate interventions to support these initiatives.

## Annex 8

# Proposals to speed up and simplify tribunal processes

## Questionnaire

*A questionnaire, as used in other areas of discrimination, will be introduced for equal pay claims with a time limit of about eight weeks for the employer to respond.* There is currently provision for the Secretary of State to prescribe a form, known as the questionnaire procedure, to assist a prospective claimant to decide whether to instigate proceedings and, if so, to formulate and present the case in the most effective manner. Establishing the necessary evidence in this way can also assist in the settlement of cases. The form includes space for a reply from the respondent and is admissible in evidence in tribunal or court proceedings. Employers do not have to reply but if they deliberately and without reasonable excuse, do not reply within a reasonable period, or reply in an ambiguous way, their position may be adversely affected as it can be considered in evidence by the tribunal who may infer that there has been discrimination. The existing questionnaire procedure was introduced as part of the Sex Discrimination Act, and has been in operation since 1975. However, the existing questionnaire procedure does not apply in relation to equal pay claims, because they are not dealt with under the Sex Discrimination Act.

The proposed new questionnaire procedure will work in substantially the same way as the existing questionnaire procedure. The changes are proposed for the next Employment Bill.

## Simplifying multiple cases

*In multiple tribunal cases, a single application (IT1 form) should be required and one response from the employer (IT3 form) by enabling other applicants to be listed as a schedule to these forms.*

At present, the process is overly bureaucratic where a number of similar cases require separate forms. The Department of Trade and Industry intends to press ahead with this change in the New Year.

## Removal of “no reasonable grounds” defence

*Through regulations, the current power which enables a tribunal to dismiss a woman’s claim on the basis that it has “no reasonable grounds” to presume it would not succeed, will be removed.*

At present, in an equal value case, if a tribunal is satisfied that there are no reasonable grounds for finding the two jobs are of equal value it can end the case by finding against the complainant immediately. This has been criticised as perpetuating stereotyped assumptions about the apparent value of “female work”, especially where two jobs look very dissimilar. From the consultations carried out, there is widespread agreement that this defence should be removed. This is an issue of fairness rather than speeding up and simplifying claims and is relevant to the way the UK implements the Equal Pay Directive 75/117/EEC. Therefore the necessary change can be achieved via regulations under the European Communities Act 1972.

This defence was originally intended to provide a route for the tribunal to deter weak cases, but tribunals have other procedures for dealing with such cases (such as holding pre-hearing reviews and requiring a deposit).

## Appointment of a qualified assessor

*Where the tribunal has decided to determine an equal value case itself, it will be able to appoint an assessor to sit as a formal expert adviser on the tribunal.*

At present, in equal value cases, a tribunal can appoint an independent expert to prepare a detailed job evaluation report on the applicant’s and the comparator’s work or can decide to determine the question itself. In the majority of cases, an independent expert is appointed. Increasing the proportion of equal value cases which the tribunal can determine itself by appointing a qualified assessor to sit on the tribunal at the outset, should reduce delays and simplify cases.

## Limit on hearing expert evidence only from the independent expert

*There should be a limit on hearing expert evidence. Where the tribunal has decided to appoint a single independent expert, it should be limited to hearing expert evidence only from the independent expert.*

The parties often cause delays in tribunal cases by calling their own expert evidence in addition to the independent expert’s report. One way of relying on the independent expert only would be for the tribunal to encourage the parties’ agreement to selection

of the single independent expert, possibly at a directions hearing. Importantly, it would be made clear that the independent expert will be available to be cross examined by both parties. Where such agreement is not possible or is impractical, the parties' right to call evidence challenging the independent expert's report should be limited by removing the right to call their own expert. The limit on the scope of the parties to call expert evidence would apply to both parties.

## Removal of unnecessary detail to rules in Equal Value Cases

*The unnecessarily detailed rules in Schedule 2 (Complementary Rules of Procedures for Equal Value Cases) of the Employment Tribunals Regulations 1993 will be removed. At present, Schedule 2 is long and repetitive and shortening parts of it would make the process more user-friendly.*

The majority of Schedule 2 is a repeat of Schedule 1 and even where a difference between the schedules is minor, the entire rule is given together with the amendment. The main difference between them is Rule 8a of Schedule 2, which sets out detailed rules of procedure relating to an independent expert's report.

## Relaxation of the two year limit on back pay in equal pay cases

*Through regulations, the two year time limit on back pay in equal pay cases would be replaced, with a time limit in line with limitation periods already provided in relation to contractual matters (six years from the date of the commencement of proceedings in England and Wales and five years in Scotland). This is to reflect a European Court ruling that the two year time limit is unfair and can deny a woman the full amount underpaid.*

At present, under section 2(5) of the Equal Pay Act, a woman (or man) may claim arrears of pay for up to two years before the date on which she (or he) made an application to an employment tribunal. This two year time limit on back has been found to be contrary to EC law and should therefore be amended.

## Extension of protection to former employees

*Through regulations, tribunals will be able to consider claims about sex discrimination taking place within six months of the end of employment. Tribunals will also be able to consider claims about discrimination taking place after this period if it is just and equitable. This proposal reflects a European Court ruling banning discrimination and victimisation which happened after the woman left her job.*

Current anti-discrimination employment law protects individuals from discrimination prior to the formal contract (i.e. where employers are recruiting they cannot, except in very limited circumstances, discriminate against women or men in the way that they offer employment). As the law stands, there is also some protection for the ex-employee, as under the Equal Pay Act a woman (or man) may bring a claim within six months of the time when she (or he) was last employed in that job, and under the Sex Discrimination Act, she (or he) may bring a claim within three months of the act complained of. However, this is a limited protection.

## Burden of Proof

Measures to clarify the burden of proof, implemented on 12 October, provide that where an individual has proved facts from which the tribunal could conclude that discrimination has occurred, the tribunal will uphold the complaint unless the employer can prove that s/he did not commit the act. Tribunals have acted in this since 1991 and this is likely to be a technical change.