

## Gender Pay Gap

### Highlands and Islands Enterprise (HIE)

HIE is the Scottish Government's economic and community development agency for the north and west of Scotland. Our purpose is to generate sustainable economic growth across the Highlands and Islands, ensuring that it is a highly successful and competitive region in which increasing numbers of people choose to live, work, study and invest. Through our account management approach we provide bespoke solutions and a wide range of support, including access to national and international services and expertise. Building on this holistic approach we promote and encourage adoption of the Scottish Business Pledge, articulating the benefits to both businesses and to the wider society.

We welcome this opportunity to respond to the Scottish Parliament's Economy, Jobs and Fair Work Committee inquiry. Our response addresses the effect of the gender pay gap on the Scottish economy with a particular focus on business performance, our contribution as a public sector body and employer and Scottish Government action which could help address the issue. We also provide comment on the causes, definition and measurement of the gender pay gap.

#### **The causes of the gender pay gap**

The gender pay gap is symptomatic of inequalities in women's contribution to economic growth which impact negatively on business performance and productivity. While some pay differences may be due to unlawful application of pay and grading structures, two major factors result in penalties which derive from low earnings. These are: occupational segregation and underemployment.

HIE's research (ekosgen, 2017) indicates that, while patterns of **occupational segregation** (the clustering of men and women in different job types and pay grades) are present across Scotland, they are more pronounced in the Highlands and Islands. This is also evidenced by a higher gender pay gap across the region. Key determinants of occupational segregation include gender stereotyping; gendered roles around caring responsibility; lack of flexible, affordable and accessible childcare; lack of routine flexible working or inclusive working practices; and under-representation of women in leadership and Board roles.

Women tend to become disengaged from the labour market in their 30s, or their earnings plateau at this age, decreasing by half by the time their first child reaches the age of 12 (Olsen & Walby, 2004). The same pattern is not evident for fathers, with men earning more than women from their 30s onwards. Olsen and Walby attribute 36% of the gender pay gap to gender differences in lifetime working patterns.

While the Scottish Government's Early Years Strategy aims to meet a child's developmental needs more could be done to meet the needs of working

parents. Current statutory provision for free part-time childcare places, whilst welcome, provides financial support for parents but does not enable full-time working, particularly for those on lower earnings. Lack of flexible, affordable, all year, wraparound care for children up to and including school age acts as a barrier to female full-time workforce participation. Current parental leave provisions also continue to reinforce women as secondary earners. Supporting fathers to share caring responsibility on an equal basis would help normalise part-time working in higher value roles, benefiting both men and women. Childcare provision impacts not only on parental working patterns. The Joseph Rowntree Foundation (2016) found that working parents had hit a living standards ceiling due to high childcare costs. They suggest an overhaul of the UK's childcare system to help parents balance earning and caring, and improve affordability.

**Under-employment** also impacts negatively on inclusive economic growth. Families in many parts of the Highlands and Islands have traditionally adopted a multi-occupational way of life which enables the family unit to remain viable and sustains local services employing part-time, seasonal or casual staff. Under-employment is associated with this working pattern and individuals will often opt for relatively well-paid, full-time employment when it becomes available.

More recently there has been an increase in individuals moving to part-time working, accepting under-employment as an alternative to unemployment. Under-utilisation of skills and availability to work carries significant economic consequences for sustaining inclusive economic growth and has a detrimental impact on business performance and productivity. The recent economic downturn also impacted on those in self-employment, with intermittent demand on services affecting individual earnings.

This has significant consequences not only for businesses but also for young people's prospects. Where job opportunities are limited and poorly paid, young people have tended to leave their home areas, or the Highlands and Islands as a whole. HIE's research (2015) indicates that, while young women are more likely to want to work locally, they are less likely to think they will be able to do so: *"This requires promoting good quality employment opportunities (with good pay, progression), including higher quality opportunities in a wider range of sectors (females are still more aware of sectors which are perceived to be lower paid)."*

### **HIE's contribution through business support**

HIE plays a significant role in addressing factors which can help narrow the gender pay gap. HIE is a steering group member of [Close the Gap](#), the project which aims to close the gender pay gap in Scotland. We support project interventions, such as ["Think Business, Think Equality"](#) which enables SMEs to understand and implement the business and economic benefits of addressing gender equality.

HIE promotes adoption of the Scottish Business Pledge to all clients, articulating the business benefits which they can achieve in terms of

profitability and productivity through commitment to fair and progressive business practices. Many of these will help narrow the gender pay gap. Case studies of two of HIE's account managed businesses that have adopted all nine elements of the business pledge can be found on [HIE's website](#). Douglas McKenzie, managing director of Xanthella believes that "*Lots of things in the pledge are the minimum that a company should be doing: innovation, attract and retain good people, and valuing your staff.*" For LifeScan Scotland, becoming a Living Wage Foundation accredited employer was the biggest change for the company in meeting all nine components of the pledge, affecting over 40 employees.

We believe that adoption of the Scottish National Living Wage is a key component in addressing the gender pay gap. This is more likely to benefit female workers who are more highly represented in low paid roles or industry sectors (Training and Employment Research Unit, 2015). As well as promoting this to our account managed businesses HIE encourages adoption of fair work practices, including the Living Wage, in our procurement activity where relevant and proportionate to the contract. Applying the Scottish National Living Wage is also likely to help address the current increase in rates of in-work poverty, whereby many of those experiencing poverty are in households with at least one earner (Joseph Rowntree Foundation, 2016). Poverty is increasingly becoming a problem of low pay rather than of a lack of employment.

In 2016, HIE, Scottish Enterprise and the Rural and Islands Housing Association Forum commissioned an update of figures in the 2013 Minimum Income Standard for Remote Rural Scotland (Centre for Research in Social Policy, 2016). This showed that, in 2016, a minimum acceptable standard of living in remote rural Scotland typically required between a tenth and a third more household spending than in urban parts of the UK. The research considered living costs in remote rural Scotland in the context of the fragility and sustainability of local communities, and the desirability of pensioners, working-age adults and families with children, on a range of incomes, to be able to live satisfactory lives there.

Addressing the pipeline of women for senior leadership and board roles is another of HIE's priority activities. HIE's business support includes the provision of leadership and entrepreneurship programmes to increase business capability to develop innovative workplaces. On 1st February 2017, HIE and Scottish Enterprise, in collaboration with the Scottish Government, delivered a conference for private sector companies to raise awareness of the business benefits of diverse boards and to support companies to consider action they can take to improve the gender balance and wider diversity of their boards. Our work with [Scottish Government and Changing the Chemistry](#) also increased women's representation on HIE's Board.

### **HIE's contribution as an employer**

HIE also makes a significant contribution as an employer. HIE is a Scottish Living Wage accredited employer, providing well-paid employment and acting as an exemplar employer in the region. Since 2003, HIE's equal pay reviews

have fed into pay policy and the review and application of HIE's pay and grading structure. Our gender pay gap has narrowed year-on-year (Figure 1) and we publish both mean and median data for full-time and part-time employees, to enable appropriate benchmarking (Figure 2).

**Error! Objects cannot be created from editing field codes.** Figure 1: HIE gender pay gap 2007-14

	Mean	Median
2014		

Full-time	14.72%	14.62%
Part-time	23.73%	23.33%
All staff	15.94%	23.33%

Figure 2: HIE gender pay gap 2014 - mean and median

To develop a pipeline of senior women, HIE ensures that both men and women are represented on HIE's leadership development programme. Representation of female employees increased from 66% in 2015 (representative of the gender balance of HIE's workforce) to 80% in 2016.

Part-time working is often viewed as a means of women combining caring responsibilities with career aspiration, but is not always available at senior levels. HIE explored how working full-time compressed hours can achieve this aim. Analysis of part-time and compressed hours working within HIE indicates that 34% of female part-time workers are in grades E or above, while 84% of those working full-time compressed hours are in higher grades. This indicates that flexibility of full-time hours supports women in full-time employment. A senior HIE manager, Rachel, has been an advocate for flexible, family-friendly working, ensuring support is available for staff with a range of challenging caring demands: *"I have found HIE's positive culture in promoting gender equality, delivered through a range of progressive workplace policies, extremely empowering, enabling and motivating. HIE has enabled me to develop a very fulfilling career and break through that proverbial "glass ceiling" that exists for many women in Scotland. I am pleased that this has also demonstrated to others, both inside and outside the organisation, that working part-time or flexibly from a remote location has not been a barrier to promotion."*

### Gender pay and the Scottish public and private sector

The Public Sector Equality Duty (PSED) is an effective driver of pay transparency. Listed public bodies must publish their gender pay gap and patterns of occupational segregation every two years. The public sector is also more likely than the private sector to pay the Scottish Living Wage. As women are more likely than men to be in low paid roles, this is an effective way to address the gender pay gap at the lower end of the earnings profile. Larger private sector bodies are now also required to publish their gender pay gap, which may lead to greater transparency of pay.

[Tackling the Technology Gender Gap Together](#) (Skills Development Scotland, 2017) is indicative of a range of collaborative initiatives between the public and private sectors which aim to address occupational segregation, one of the main causes of the gender pay gap. HIE is a member of the gender workstream, reviewing projects which will increase the pipeline of women in

the technology sector, from early years' activity through education and into employment.

The public sector influences private sector pay practices through its procurement function. Legislation prevents making award of contracts conditional on payment of the Living Wage. Legal clarification would be welcome to facilitate positive action in promoting progressive working practices more effectively.

### **Definition and measurement of the gender pay gap**

Analysing a range of gender pay gap calculations provides a comprehensive overview of gender differences in pay in Scotland to inform policy development to promote and support gender equality. This helps drive business productivity. However, capturing average earnings is not sufficient on its own.

The pay gap must be considered in conjunction with the factors discussed above – differences in the working patterns of men and women and the impact of occupational segregation. As women tend to be concentrated in low-paid sectors and roles and are more likely than men to work part-time, this impacts disproportionately on both women's average and lifetime earnings. Women are not only more likely than men to be disadvantaged financially, but also in terms of career progression and skills utilisation, which impacts negatively on Scotland's economic performance.

Current Scottish Government and Office for National Statistics (ONS) gender pay gap calculations exclude many workers such as those who are self-employed, omitting an increasing number of both male and female workers from analysis. This is particularly important as many women seek self-employment as a means of balancing career with family responsibilities. Gender pay gap figures also exclude the increasing number of people working on zero-hours contracts, which impact disproportionately on women and young people, who are more likely to work in sectors applying these contracts (Training and Employment Research Unit, 2015).

Excluding payments such as overtime from both the Scottish Government and ONS calculations also results in an incomplete picture as men are traditionally more likely than women to be paid overtime.

The Scottish Government's National Performance Framework indicator is measured in median hourly earnings excluding overtime for those working full-time. As such this is not based on the most appropriate measurement of gender pay. Excluding earnings for part-time workers and those earning overtime payments overlooks the earnings of a significant proportion of the workforce. For example in the Highlands and Islands (ekosgen, 2017):

- women represent 50% of the working age population (age 16-65)
- 54% of the female workforce works full-time (87% of men) and 46% work part-time (13% of men)

Consequently almost half of the female workforce of the Highlands and Islands is excluded from the performance indicator. Excluding the gender pay

gap for part-time workers significantly under-estimates the impact of gender pay differences on the economy. Narrowing of the part-time gender pay gap is a measure of progress in addressing occupational segregation, a key factor in policy development to address the gender pay gap. Clarity is therefore essential on the composition and use of the differing methods used to calculate the gender pay gap in order to provide meaningful data to benchmark gender pay differences in the Scottish economy. Comprehensive use of full-time equivalent hourly earnings for both part-time and full-time workers and analysis of the application of overtime payments are essential components of definition and measurement.

Income data used to inform policy development to tackle income inequalities and deprivation is an important indicator of progress against key priorities within Scotland's Economic Strategy. Improving sources of income data would enhance applicability across more sparsely populated areas of Scotland. HIE utilise the Annual Survey of Hours and Earnings (ASHE) data at the Scotland and regional level. Over reliance on survey responses from large companies (less dominant in the Highlands & Islands) and very small sample sizes mean sub-regional analysis is not robust or meaningful. Earnings are a proxy for productivity – improved data and the potential to utilise HMRC data on pay would be hugely beneficial in providing a clearer indication of the productivity deficiencies and the gender pay gap experienced in the region.

There is no definitive average calculation for the gender pay gap. Headline figures vary depending on the calculation used; the mean or median. The median (the mid-point of all employee hourly rates of pay) is most often used to report income and is often felt to be a better indicator of the amount earned by the 'typical' individual as it is not skewed by very high or very low earners. However, as research shows that high earners tend to be men, while lower earners tend to be women, the median can mask gender differences.

The mean (adding all employees' pay together divided by the total number of employees, including the very high and very low earners) is an important measure of women's experience of labour market disadvantage compared to men's. Consequently both mean and the median calculations are relevant and should be adopted, enabling analysis which highlights a range of policy issues.

## **Highlands and Islands Enterprise (HIE)**

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