Gender Pay Gap Inquiry
Women’s Enterprise Scotland

Introduction

Women’s Enterprise Scotland welcomes the opportunity to contribute to the debate on the gender pay gap in Scotland. While little research has been done on the gender pay gap with the self-employed and in business in Scotland, the gender pay gap does exist amongst these groups and our response below highlights some of the key issues.

Women’s Enterprise Scotland works to create an entrepreneurial environment where women-led businesses can flourish and grow. To make the most of this opportunity for economic growth, and to improve the gender gap in Scottish entrepreneurial activity, Women’s Enterprise Scotland works to a new norm for women in business.

It is over 45 years since the Equal Pay Act came into force, but there is still inequality between men’s and women’s pay in Scotland. The current estimate is that there is a 14.9% gap between men’s and women’s combined hourly rates, and a 32.2% gap when you compare women’s part time hourly rate to men’s full time hourly rate. Also women are more likely to be –

- working for lower rates of pay, and on a part-time basis, than men,
- underemployed relative to their skill and qualification level.

The gender pay gap is one indicator of the women’s economic inequality, and illustrates the undervaluing of the work that is done by women. Recent studies have shown the economic importance of women’s entrepreneurship to the UK and Scottish economy –

- Scotland’s women-led businesses contributed £268m to the UK’s economy in 2015 with Glasgow generating £67million
- Female entrepreneurs across Glasgow and Edinburgh set up 3,300 businesses in 2015, with 7100 launched across all of Scotland.¹

Evidence shows that while currently only 21 per cent of SME business are led by women, women-led businesses contribute more than £5 billion towards the Scottish economy, and if rates of women-led businesses equalled that of men, the contribution to Scotland’s GVA would increase to £13 billion. Women entrepreneurs are central to the UK economy, setting up 1.2 million businesses between 2002 and 2015.

¹ https://www.sbnn.co.uk/2017/03/02/scotlands-female-entrepreneurs-boost-uk-economy-268million/
Overview

The latest report from the World Economic Forum forecast that it could take 170 years to eradicate the disparity in pay and employment opportunities for women.²

In terms of the gender pay gap, the situation for women who are self-employed³ or who have their own business is not so different from the mainstream labour market. Studies in the USA have shown that even when women are issuing their own pay, they pay themselves less, with priority going to pay staff and / or reinvesting in the business. ⁴ It is difficult to find data on the gender pay gap for self-employed and business owners. This is largely due to the methods of collecting this data at HMRC. However, the OECD report that self-employed women earn between 10% and 60% less than men across all countries⁵ and in the UK, it is reported that self-employed women earned 40% less than self-employed men in 2012. While the average income for a self-employed man in the UK was £17,000, the equivalent for women was £9,800.⁶

What is the pay gap and how should it be measured?

The gender pay gap is the difference in women’s and men’s average hourly pay, usually expressed as a percentage. Although the pay gap is expressed as a single indicator, it in fact represents a number of interrelated areas in which women’s and girls’ experience of education, training, employment, domestic labour, and care are different from boys’ and men’s.

What are the strengths and limitations of the different definitions of the gender pay gap?

WES preference would be to use the mean average, which better captures the gendered aspects of wages. The mean average is also the international standard, enabling comparisons globally. By definition, the median does not capture the extremes: however, extremes in pay are of integral importance to an analysis of the gender gap as it is almost exclusively men who have the exceptionally high earnings, while those on very low earnings are predominantly female.

Are current Scottish Government and Office for National Statistics (ONS) statistics adequate for policy making and scrutiny in this area?

The current data available through the Scottish Government and the Office for National Statistics are not adequate for properly analysing the pay gap in

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³ In this paper, self-employed women are defined as those who at any given time have a contractual relationship with a company. This is different from women who own a business. They are defined in this paper as women business owners.
⁴ https://www.forbes.com/sites/meghancasserly/2012/10/26/women-entrepreneurship-gender-pay-gap-persists/#7a99c0ab67ca
⁵ Entrepreneurship at a Glance, OECD (2015)
⁶ The Guardian, 8 March 2014
Scotland. It is difficult to find gender disaggregated data on pay for self-employed and / or business owners in Scotland.

Is the Scottish Government’s National Performance Framework indicator based on the most appropriate measurement of gender pay?

WES believes that this NPF indicator is flawed, as it excludes part-time workers. Self-employed women and women who have their own business are also excluded.

Causes and consequences of the pay gap: What reasons are there for the existence of the gender pay gap?

There are multiple and overlapping factors causing the gender pay gap that vary in scope and intensity, but usually reflect a combination of discrimination, underemployment, occupational segregation and unpaid work experienced by women. However, some key drivers behind the pay gap in Scotland include:

**Employment practices** - Women lose out in the workplace through biased and non-transparent recruitment and promotion practices; discrimination embedded in the design of pay and grading systems; and lack of access to training, promotion and development and opportunities for skills acquisition. Research by Close the Gap\(^7\) into employer action on equal pay found that while 94% of those employers surveyed had an equal pay policy in place, less than a third had undertaken an equal pay review, and only 3% had taken any action to address pay gaps.

**Occupational segregation** - Widely held gender norms and stereotypes based on assumptions about women’s and men’s capabilities, skills and interests results in occupational segregation. Women are therefore more likely to be concentrated in female-dominated, low-paid, lower skilled and undervalued jobs. Occupational segregation is also illustrated in the business sector, with women’s businesses underrepresented in the growth sectors as defined by Scottish Government. Research from the University of Glasgow showed that women account for 49% of the self-employed in the creative industries and 51% in tourism. In all other growth sectors, they are under-represented. There are particularly low levels of women’s self-employment in energy (9%), construction (5%), engineering (15%) and ICT and digital technologies (11%)\(^8\). Women owned businesses are more likely to be concentrated in certain sectors (health; social work and community; personal services) with few in sectors such as construction, transport, communications. Sectors where there are more women owned businesses tend to have lower levels of business growth and smaller turnover, leading to smaller pay.\(^9\) Another consequence of earning less in employment is that women have less

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\(^7\) [https://www.closethegap.org.uk/content/resources/?cat=7](https://www.closethegap.org.uk/content/resources/?cat=7)

\(^8\) ‘Equalities in Scotland’s Growth Economic Sectors’. Training and Employment Research Unit (TERU) University of Glasgow (July 2015)

financial capital with which to start up in business. There is evidence that such undercapitalisation at start-up stages restricts future business growth.\textsuperscript{10}

**Women’s roles as carers:** Many women start up their own business because of the lack of opportunities available to them in the labour market to best balance work and family life. Studies suggest that self-employment and starting a business is attractive to women on the basis that it may help create a better work-life balance\textsuperscript{11} and creating more control over working hours and location.

**What are the wider economic and social benefits of closing the gender pay gap?**

WES believes that gender equality is a driver for economic growth and addressing the gender pay gap will have wider economic benefits.

Many people enter self-employment not by choice but often by necessity, with different levels of male and female self-employment largely attributable to gendered divisions within the labour market. For example, many women set up their own business to escape issues of discrimination in the wider labour market such as the gender pay gap, unequal employment opportunities (‘glass ceiling’) and work-life balance issues.

Analysis by the Resolution Foundation revealed that self-employed weekly earnings are 20 per cent lower than they were in 2006-07, while employee earnings have fallen by just 6 per cent. The drop has been seen across genders and industries but is particularly notable among people of prime earning age (35 to 50 years old) whose earnings are 26 per cent lower. The report suggests that part of the pay drop for the self-employed is down to a reduction in the hours worked and another part is likely to be due to a shift in the composition of the self-employed such as a rise in the proportion of the self-employed who are women.\textsuperscript{12} Self-employed adults and those who have their own businesses are more likely to fall into poverty in later life as less than half are likely to have any form of pension. This will hit women harder as due to smaller earnings capacity, they are less likely to have a pension than men.\textsuperscript{13} The European Commission has pointed to the far-reaching effects of the gender pay gap regarding pensions with the disparity in women’s earnings compared to men’s earnings over a lifetime result in lower pensions. As a result, elderly women are more likely to face poverty: 22% of women aged 65 and over are at risk of poverty compared to 16% of men. This is a significant issue for women led businesses and the self-employed as they are directly


\textsuperscript{11} Organisation for Economic Cooperation and Development ‘Closing the Gender Gap: Act Now’. OECD (2012)

\textsuperscript{12} Just the job – or a working compromise? The changing nature of self-employment in the UK. Conor D’Arcy and Laura Gardiner. Resolution Foundation (2014)

\textsuperscript{13} ‘Who are the self-employed?’ (2015) [www.citizensadvice.org.uk](http://www.citizensadvice.org.uk)
responsible for establishing and funding pension provision from business cashflow.\textsuperscript{14}

A gender pay gap also exists in the social enterprise sector. Women starting their own not-for-profit enterprise pay themselves less than their male peers. A UK based study showed an adjusted pay gap between the sexes of about 23 per cent.\textsuperscript{15}

There is evidence to suggest that women tend to have businesses that are part-time and often in price sensitive markets which can mean that women will earn less from business ownership. Women’s businesses are often reported to be of lower value which can usually be attributed to undercapitalisation at the start of the business – often because of a lack of opportunities for finance.\textsuperscript{16}

**Scottish responses to the pay gap – WES recommends**

Although the pay gap is frequently raised in the Scottish Parliament as an area of concern, and is regularly mentioned in discussions of gender equality produced by Scottish Government, there has been limited efforts to tackle its causes. WES recommends that there should be –

- A greater integration of gender analysis across Scottish Government policy areas – in particular, economic growth analysis and economic development policy;
- A more strategic and joined-up approach to tackling the multiple causes of the pay gap. This would include efforts across current initiatives such as the Fair Work agenda; Scottish Business Pledge; recommendations from the Enterprise and Skills Review; refresh of the indicators across the National Performance Framework;
- Improvements in the gathering and analysis of gender-disaggregated data across all areas of the enterprise agencies and Scottish Government departments. Business advice agencies and the enterprise agencies could make a contribution to the investigation and understanding of the gender pay gap in business ownership.
- Research undertaken into understanding the gender pay gap in self-employment as there is a trend towards this key labour market change. Also, research into the gender pay gap in enterprise is essential to understand the full extent of the issue in Scotland.

**Women’s Enterprise Scotland**

\textsuperscript{14} European Commission (March 4, 2011). "Closing the gender pay gap". Archived from the original on March 6, 2011.
\textsuperscript{15} Do Women Earn Less Even as Social Entrepreneurs? Centre for Economic Performance Discussion Paper No 1313 November 2014 Saul Estrin, Ute Stephan and Sunčica Vujić