Dear Mr Lindhurst,

**Gender Pay Gap Inquiry**

Thank you for your letter inviting FSB Scotland to respond to a number of queries arising from the inquiry into the gender pay gap.

As you are aware, FSB regularly contributes to the Committee’s work and we are always keen to share evidence from the small business sector. On this occasion, we did not have a wide enough evidence base to enable us to make a useful submission to the inquiry and, unfortunately, the option of engaging with FSB’s Scottish policy committee was not convenient for EJFW members. Notwithstanding evidence for this particular inquiry, we maintain a dialogue with clerks about how to improve small business input to the Committee’s work and I would be happy to discuss this further.

I understand that you are moving towards finalising the gender pay gap inquiry. Given the time pressures, this correspondence focuses on simply responding to the points raised, rather than providing a more detailed submission. Nevertheless I hope this information is helpful.

- *The Committee has heard evidence highlighting economic benefits of closing the gender pay gap. Do businesses recognise such economic benefits?*

The benefits of a more diverse economy are clear, not least in relation to small businesses. As work by Women’s Enterprise Scotland (WES) demonstrates, if the number of female-owned businesses increased to match that of male-owned businesses, £7.6 billion would be added to Scotland’s GVA.

However, the extent to which benefits at the macro-level impact upon the approach of individual small business is more difficult to ascertain.

While SMEs are a key source of employment, accounting for around 1.2 million jobs in Scotland, it is important to understand the variations within this group. For example, only a very small number of
firms are medium-sized, with 98% of all businesses having fewer than 50 employees. In fact, by far the largest group are micro businesses (fewer than ten employees) – accounting for 93% of all businesses. The importance of employment provided in smaller businesses will also vary across Scotland, with these firms a far more important source of jobs in rural and remote areas.

For many micro businesses, the small number of posts available and financial constraints within which smaller businesses operate will limit the extent to which they can incorporate certain interventions e.g. promotion opportunities and certain employment benefits. Conversely, with skilled staff in such short supply, smaller businesses often excel at adapting roles to accommodate employees’ circumstances. This is why surveys repeatedly suggest that employees working for smaller firms are happier than those working in large firms. It is also worth noting that of the 800 or so organisations currently listed by the Scottish Living Wage accreditation scheme, 76% are micro or small employers.

In summary, the pattern of evidence about how smaller businesses recruit and retain their workforce would suggest each individual is critical to the successful operation of the business; and small businesses will adapt roles and practices in order to hang on to their employees. In this sense, they have a very strong understanding of the economic benefit to their business of retaining highly valued staff. However, these practices tend to be reactive in nature, rather than a more strategic approach to recruitment and retention of the workforce.

- Is the issue of closing the gender pay gap a priority for the FSB and the businesses that you represent? Do companies see gender diversity as a business priority?

FSB’s role is to support our members to achieve their ambitions, by offering them support, advice, and a campaigning voice. As an organisation, we value diversity and inclusion in everything we do and aim to be fully representative of the wider UK smaller business community. Accordingly, we take an interest in gender equality in the economy, with our most recent work focused on the need to reduce the gender gap in business ownership (as highlighted above). We have also been working recently on ensuring the growing number of self-employed individuals are not unfairly disadvantaged in comparison to other parts of the labour market; for example by ensuring certain benefits, such as access to pensions, parental rights and sick leave, do not unfairly disadvantage those who have chosen to set up their own business. We also contribute, on an ongoing basis, to relevant inquiries and working groups; for example, I currently represent FSB on the Scottish Government’s recently-convened Pregnancy and Maternity Discrimination Working Group.

As outlined above, while it is difficult to generalise, most smaller businesses are likely to identify priorities that relate to the day-to-day running of their organisation. Many may see their most important contribution to reducing gender inequality in the labour market as being able to remain competitive and provide flexible local employment. However, as is the case with larger employers in both the public and private sector, some smaller businesses will specifically prioritise gender equality (including pay) as an important principle of the business. Indeed, we are aware of one member
business which was specifically created to facilitate an increase in flexible employment, following the business owner’s frustration at the lack of flexible employment opportunities.

- Is support offered to businesses for reducing their gender pay gap?

FSB offers its members legal and business advice, including offering advice on various employment policies. More generally, a range of helpful information and advice is provided by a number of organisations such as the EHRC. Such information is generally available online, ranging from avoiding discrimination, through to best practice. However, as we have frequently commented, the multiplicity of information sources can be confusing for smaller businesses.

- What are the FSB’s views on the forthcoming pay gap reporting legislation?
  
  - Do you believe this will help to reduce the gap?
  - Scotland is largely an SME economy and the question arises as to how much of an impact the legislation will have in Scotland with reporting guidelines that only apply to those companies with 250 employees or more? Should it apply to smaller companies?

Since the pay gap reporting legislation was only proposed to apply to large firms, FSB has not taken a view on this particular measure. It is also worth noting that the proportion of firms which are SMEs is largely the same in Scotland as across rUK.

The Committee will be well aware of Scotland’s poor economic growth rate in recent years. Our own quarterly Small Business Index echoes this, with confidence in negative territory for the last two years and consistently lower than rUK.

We recognise that pay reporting may appear to be a small step. However, smaller businesses are consistent in their pleas to government that it is the cumulative impact of many small steps, which takes time away from focusing on growing the business and sustaining employment.

Considering weak small business confidence, the huge economic challenges that lie ahead and the established concerns about the time constraints of regulation upon small businesses, we would not support placing an additional reporting requirement on small businesses in Scotland.

- Can procurement play a role in addressing the gender pay gap and if so, how would this be achieved?

The recently-passed Procurement Reform Act sets out how public procurement should contribute to a number of over-arching aims, for example economic, social and environmental well-being of communities. Within this, the procurement strategies and reports of public bodies should set out how certain objectives, whether paying the living wage, or ensuring small businesses win more contracts, will be met through their purchasing of goods and services. It is important to note that detailed
guidance on how fair work principles should be met through procurement was introduced after the Act and this guidance explicitly refers to fair and equal pay throughout.

However, policy makers need to exercise caution in using procurement as a lever to change behaviour. In our view, the key to gaining best value from our public spending is proportionality (recognising that a small charity and global corporate might have different ways of achieving an outcome and reflecting this in procurement conditions) and this is reflected in the current statutory guidance, including that on fair work practices. Placing additional conditions upon all public contracts is unlikely to change behaviour amongst employers; instead fewer firms bid for work and an increasing share of public spending is placed in the hands of an ever-smaller number of large firms.

- Are there any additional actions that the Scottish Government could take to address the pay gap in Scotland?

We have made a number of comments to the Scottish Government, local government and other agencies about how best to reduce the complicated landscape of advice to businesses. In our response to the ongoing Enterprise and Skills Review, we have highlighted the need to consider how a range of sources of advice (for example on employee wellbeing and resource efficiency) need to be incorporated into improvements to the business support landscape, rather than focusing solely on the traditional enterprise support provision.

More generally, helpful advice to businesses on a range of topics relating to health at work and supporting employees is often fractured across a very wide range of organisations and campaigns. This makes it hard to ensure consistent messaging and good signposting by those interacting with businesses. We are, of course, always keen to provide advice on the best way to engage with small businesses in Scotland. The following are just some of the issues we have been approached about in the last year or so: wellbeing at work, mental health, support for carers, working families, health & safety advice, pregnancy and maternity information, supporting older workers, supporting workers with disabilities. We highlight this only to draw the Committee’s attention to the importance of providing information to employers on gender pay, as part of the wider provision of advice aimed at smaller businesses.

I hope this information is helpful and I would, of course, be happy to discuss any points in more detail.

Yours sincerely,

Susan Love
Policy Manager, FSB Scotland