



## Pay parity

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Rebekah Nash, Stewardship Analyst

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The unadjusted gender pay gap is defined as the difference between gross hourly earnings of men and women, expressed as a percentage of the average hourly earnings of men.<sup>1</sup> As of 2021, the gender pay gap of the EU economy was 12.7%. In 2023, the UK gender pay gap was 14.3%.<sup>2</sup> The gender pay gap is not to be confused with equal pay for equal work which is considered a fundamental human right and is covered in International Human Rights Law, under convention 100 of the International Labour Organisation.<sup>3</sup>

The unadjusted gender pay gap is instead, looking at the overall difference in pay between men and women within a company or geographical region. According to the UK 2023 report, the gender pay gap among high earners is much larger compared with lower-paid employees, this shows that men are far more populous in senior roles. There also remains a large difference in the gender pay gap between employees aged 40 years and over and those under 40 years of age, with the gap getting larger the older employees become.<sup>4</sup> As this piece highlights, both statistics stem from a combination of factors but are heavily influenced by the ‘Motherhood Pay Penalty’, i.e. the pay gap between working mothers and similar women without dependent children. Taking time out of work to have a family can negatively impact women’s salaries and career progression. The UK mandates that every company with over 250 employees must report their gender pay gap, this includes the mean and median difference in hourly pay as well as the mean and median bonus pay gap. The gender distribution within each of the company’s four percentiles of pay must also be disclosed. Alongside the UK, Austria, Belgium, Canada, Denmark, Finland, Iceland, Israel, Latvia,

Lithuania, New Zealand, Spain, Sweden and the US all require some kind of disclosure – although the reporting requirements vary significantly.<sup>5</sup> Rather than the gender pay gap showing the underpayment of either gender for the job that they are doing, the pay gap shows the systemic opportunities available to women and men within either a corporation, sector or region. These under or overpayments can be seen as sectoral gender segregation and occupational gender segregation. These phrases describe that the pay gap can be due to concentrations of gender in certain occupations or sectors.

Women tend to be concentrated in low-paying economic sectors like health and education, whereas men are more concentrated in finance and technology. According to the EU commission on the Gender Pay Gap in the EU, occupationally, men are more likely to be promoted to supervisory and management position than women due to a combination of factors such as discrimination or self-restraint.<sup>6</sup> The concept of the “glass ceiling” originates from this lack of promotion for women.

A positive gender pay gap figure shows that women have less access to the higher remuneration in a company or region than men. A negative figure shows the opposite of this. It must be noted however, that the percentage of men and women working impacts the data. If there are significantly more men than women working in that company, the pay gap will be significantly higher; for example, if 80% of the workforce are male, there are four times the number of men being paid than women. This shows that the data needs to be interpreted with nuance and not always be taken at face value, unless the company has a 50:50 gender split in the workforce.<sup>7</sup>





The gender pay gap highlights the proportion of women in the high-paying roles within a company, sector or geography. For example, GSK has a female CEO and the pay gap sits at -1.10% for the mean hourly pay gap. However, this is not just being skewed by the presence of a female CEO as they have strong female presence across workforce in all 4 quartiles of the company. Including having 46.5% of the workforce being female in the upper of the company. They are one of only 3 companies within the Evenlode portfolio where women hold over 45% of the positions in the upper quartile of the company but the gender pay gap is below 5%. This shows that in these companies women are being promoted and retained in the workforce and have equal access to remuneration as their male counterparts. On the other hand, there are multiple companies within the portfolio that have over 45% of women in the upper quartile of the company and over 50% of the overall workforce being female but the gender pay gap is over 10% or even up to 25-30% in multiple cases. This shows a significant disparity between the overall presence of women in the workforce and their remuneration.

The gender pay gap is a useful indicator of the gender diversity in decision-making roles within the company. The lack of women in these positions can be the result of long-standing discrimination against women within society or even within a company as well as dictation of gendered roles.<sup>8</sup>

The trends we see from the gender pay gap include:

1) The lack of women in senior positions which consequently suggests the lack of access to the higher pay policies.

2) The impact maternity leave has on promotion and retention and thus access to pay.

3) The impact of gender stereotypes within certain sectors, like science, technology, engineering and mathematics (STEM).

*If the gender pay gap is a measure of gender diversity, why is diversity in the workplace material to company success? And how is Evenlode measuring the risks associated with large gender pay gaps within its investee companies?*

As highlighted above, the gender pay gap reflects the lack of diversity in the middle and upper quartiles of a company, indicating fewer women in decision-making roles.

Diversity encompasses a wide range of areas, including gender, ethnicity, culture and lived experiences. Without it, companies are more susceptible to “groupthink” and internal biases. This can lead to poor decision-making. McKinsey’s 2020 diversity report showed a correlation between companies that prioritise diversity and those more likely to exhibit greater innovation, improved decision-making<sup>9</sup> and higher employee satisfaction. They argue diversity is critical for business recovery, resilience and reimagination<sup>10</sup> thus making them potentially better long-term investments. In addition, groupthink, due to the lack of diversity, can lead to poor decisions and errors in leadership, sometimes resulting in unethical behaviour or poor capital allocation.<sup>11</sup> This can lead to underperformance or in worse cases, scandals which can damage the reputation of the business.<sup>12</sup>

We originally started looking at gender pay gaps as a measure for diversity in 2023, however, following some internal debate, we have changed the parameters. Initially, we





were just measuring if the gender pay gap was more than 1%. After analysing Evenlode's portfolio companies, which have an average pay gap of 12%, and considering the broader context, we realised that this threshold is currently unrealistic. Therefore, moving into 2024, we have decided that a company having a gender pay gap below 10% will be considered as a positive indicator. If the gap is not below 10%, we will then evaluate the policies in place aimed at reducing the pay gap.

### Rebekah Nash, Stewardship Analyst 2023

*Please note, these views represent the opinions of the Evenlode Team as of 2023 and do not constitute investment advice. Where opinions are expressed, they are based on current market conditions, they may differ from those of other investment professionals and are subject to change without notice. This document is not intended as a recommendation to invest in any particular asset class, security or strategy. The information provided is for illustrative purposes only and should not be relied upon as a recommendation to buy or sell securities. Every effort is taken to ensure the accuracy of the data in this document, but no warranties are given.*

<sup>1</sup>'Gender Pay Gap Statistics' - [View here.](#)

<sup>2</sup>'Gender Pay Gap in the UK - Office for National Statistics' - [View here.](#)

<sup>3</sup>'Convention C100 - Equal Remuneration Convention, 1951 (No. 100)' - [View here.](#)

<sup>4</sup>'Gender Pay Gap in the UK - Office for National Statistics'.

<sup>5</sup>OECD, *Pay Transparency Tools to Close the Gender Wage Gap, Gender Equality at Work (OECD, 2021).*

<sup>6</sup>European Commission. *Statistical Office of the European Union., Gender Pay Gaps in the European Union: A Statistical Analysis: 2022 Edition. (LU: Publications Office, 2022).*

<sup>7</sup>'What Does Best-Practice Gender Pay Gap Reporting Look Like?', CMI (blog), 23 June 2021 - [View here.](#)

<sup>8</sup>'What Is the Gender Pay Gap and Is It Real?: The Complete Guide to How Women Are Paid Less than Men and Why It Can't Be Explained Away', *Economic Policy Institute* - [View here.](#)

<sup>9</sup>*Improving the quality of decision making. In the face of major dislocations, enhanced problem-solving skills and vision will be needed to reappraise business models, competitive dynamics, and the external environment. Our research has demonstrated that organizations investing in diversity and inclusion are strongly positioned in this regard, in part because diversity brings multiple perspectives to bear on problems, thereby boosting the odds of more creative solutions. Diverse companies are also more likely to have employees who feel they can be themselves at work and are empowered to participate and contribute. In addition, research shows that diverse teams focus more intently on facts and process them more carefully. - From Diversity Still Matters | McKinsey', [View here.](#)*

<sup>10</sup>'Diversity Still Matters | McKinsey' - [View here.](#)

<sup>11</sup>'What Is Groupthink? Definition, Characteristics, and Causes', *Investopedia* - [View here.](#)

<sup>12</sup>Caroline C. Hartmann and Jimmy Carmenate, 'Does Board Diversity Influence Firms' Corporate Social Responsibility Reputation?', *Social Responsibility Journal* 17, no. 8 (1 January 2020): 1299-1319.

