

Commons Select Committee
The Business, Energy & Industrial Strategy Committee

Via the evidence portal
10 April 2018

Dear Madam, dear Sir,

Gender Pay Gap

We welcome the opportunity to provide our comments on the Gender Pay Gap. Hermes Investment Management (Hermes) is an asset manager with a difference. With £33.0 billion in assets under management, we focus on holistic returns and consider the impact our decisions have on society, the environment and the wider world – outcomes for our clients that go far beyond the financial. Our stewardship team, Hermes EOS, is one of the world's leading engagement resources, advising on £336.1 billion on behalf of over 40 international institutional investors. The views expressed in this communication are those of Hermes EOS and do not necessarily represent the views of all clients.

Executive summary

We welcome the requirement for companies to publish their gender pay along the lines of The Equality Act (Gender Pay Gap Information) Regulations 2017. The focus on gender pay gap is very positive. The requirement to calculate and publish it is a critical milestone that will lead companies to acknowledge gender imbalance, where it stands within their organisation and in comparison to others, formally analyse it and take action.

Further, we trust that the data published and alongside the statement will provide over time a valuable insights into a company's actual commitment to bridge the gap, but also to attract, retain and engage its workforce. While there are some limits to the indicator, we view it as an important signifier for gauging a company's wider corporate culture, diversity and inclusion. We believe that the gender pay gap will encourage companies to discuss in a more holistic fashion how their businesses manage human capital, which is a vital strategic pillar to generate sustainable value for shareholders, and for wider stakeholders. It will encourage companies, investors and other stakeholders to consider the gap and engage constructively with each other on wider human capital management and share good practice. Thus reporting on the gender pay gap can actually deliver change.

Finally, though the data is still fresh, and yet to be thoroughly assessed, the many anomalies raise the question of the quality of the data. We would support an additional requirement for the largest companies to provide audited or certified data. An effective and simple process would support confidence that the Equality and Human Rights Commission has the appropriate tools in place to enforce the regulation, where need be. As an investor we welcome the publication of additional standardised and material human capital indicators, with a direct link to value creation.

We believe that a healthy level of diversity contributes to ensuring a company is sustainable. In our response we have set out a number of ideas to support long term successful companies that deliver savers with the holistic returns they seek. We look forward to discussing these further with the Committee's representatives over the coming months.

Yours sincerely,

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Whether the annual information related to pay required under the Equality Act 2010 is sufficient? Should any further information be required?

The information required by the Equality Act (Gender Pay Gap Information) Regulations 2017 is providing a relevant and powerful insight on the gender pay gap. As an active member of the 30% Club, and a strong supporter of the Hampton-Alexander review, we would back its proposal for the disclosure of leadership data for FTSE350 companies. Guidance could also further encourage the voluntary provision of information along the lines of the gender pay gap on other aspects of diversity, such as ethnicity, to the extent to which employees have agreed to disclose their own ethnicity.

What is the extent of compliance? Is the information accurate?

The data are still to be fully assessed, nevertheless some reported data present obvious anomalies. A level of confidence on the accuracy of the data provided could be achieved by an auditing or a certification requirement for organisations over a certain size.

How effective are the sanctions for non-compliance with reporting requirements?

It is too early to assess if the Equality and Human Rights Commission has the appropriate tools in place to enforce the regulation. We would encourage a clear, simple and material sanction for unjustified non-compliance.

What requirements, if any, should there be on companies to address gender pay gaps?

The publication of the numbers, in a clear comparable way on a single website constitutes a strong incentive for companies to act. Stakeholders, including investors, can then hold companies to account, press for commitments and monitor progress over time. We are confident that the regulation will provide some rapid results. However, it is likely that some remediation programmes may require more time. Companies need to tackle some of the more systemic problems that they may face, not just at recruitment stage but throughout an employee's time at the company. This may require a variety of measures including better career management and employee performance assessment, gender-balanced flexibility arrangements and benefits and deeper cultural and organisational changes. In due course, we would welcome a formal assessment of the effectiveness of Gender Pay Gap Information, in order to envisage additional requirements, if need be. For instance, there

could be, alongside the gender pay gap data, a requirement for companies to describe how they plan to address the gap.