MORE THAN A PAY GAP

THE WIDER PROBLEM OF GENDER INEQUALITY AT WORK

The gender pay gap exposes age-old structural deficiencies that organizations must now address.
THE STORY BEHIND THE HEADLINES

What does the gender pay gap really mean for forward-thinking organizations?

Whether it’s Hollywood stars speaking out against flagrant inequality or new legislation requiring UK companies to report the difference between what they pay their female and male employees, the gender pay gap is at long last getting the attention it deserves—from the media, politicians, organizations and ordinary people all over the globe.

While, in public debate, gender pay tends to be treated as a single topic, there are in reality two separate issues at play here. One is pay equity: that is, the extent to which women are paid less than men for doing the same job. The other is the gender pay gap: that is, the difference between the average pay for women and men across an organization.

The first issue is the most obvious and, arguably, the easiest fix. The second presents organizations with a more systemic challenge because, while differences in average pay may be due in part to pay inequality, they are more typically a product of female under-representation in the higher paid industries and functions, and in leadership roles.

Viewed in this way, the gender gap is a symptom of deeper structural problems and not just an issue that needs addressing in and of itself. If your organization has a lack of gender balance in the workforce, either because it is failing to advance women to the top or because it has a disproportionate number of women at the bottom, then women are not the only group of people it is likely to be failing.

In the future, the most successful companies will be those that manage to attract, retain, and harness the potential of everyone who has the talent they are looking for, and not just those who fit the traditional template of what an ideal employee should be.
In this report, we answer three questions

- What exactly is the gender pay gap?
- How does lack of gender diversity adversely affect an organization’s success?
- What steps can organizations, line managers and individuals take to improve female representation at senior levels?
Minding the gap

Countries have been collecting data on the gender pay gap for almost 50 years. Throughout that period, women around the world have earned significantly less than men—and the further back you go, the more pronounced the disparity becomes. So why is it only now in 2018 that the issue has become headline news?

One reason is legislation. Until recently, legislative bodies have favored a light-touch approach; but the failure of this approach to bring about significant changes, in the face of increased societal pressures on the issue, has meant that Governments have decided to take stronger action. Companies in a growing number of countries are now required by law to carry out analyses of gender wage gaps, and are requested or required to share this information with employees, government auditors, or the public. This has helped increase the attention given to pay equality, not only by pushing the issue further up the political agenda but also by bringing much-needed transparency to organizational practice. This has helped increase the attention given to pay equality, not only by pushing the issue further up the political agenda but also by bringing much-needed transparency to organizational practice.

In the UK, for example, where, as of April 2018, companies with over 250 employees have had to report their gender pay gap data, the issue of gender pay has risen to the top of the news agenda, with media outlets running story after story about pay inequality—in leading companies, universities, hospitals, government departments, and even, within the media itself.

Countries that have introduced similar types of measures include Australia, Japan, Germany, Lithuania, Sweden, and Switzerland. Other countries, meanwhile, have sought to reduce pay inequality by strengthening the law on recruitment interviewing practices. In the US, for example, it is now illegal for organizations to ask candidates about their current pay.

If we're all equal now, why is there still inequality?

The existence of the UK’s gender pay gap, as outlined above, provides an interesting case in point. This is a country where paying women and men differently for the same job has been illegal since the 1970 Equal Pay Act. So why is it that, almost 50 years later, there remain such widespread differences between what women and men are paid?

At Korn Ferry, we have a unique way of looking at this issue. Our pay database holds reward data for more than 20 million employees in more than 110 countries and across 25,000 organizations. This makes it the largest—and the most comprehensive—in the world. Even better, we are able to isolate our data in line with the main factors that influence pay: job level, company, and function.

What we see, when we compare male and female earnings globally, is that the difference narrows dramatically the more specific the comparison becomes. While the average woman earns 16.1% less than the average man, the gap between a man and woman working at the same level, for the same company, in the same function is typically only 0.5%.
The conclusion here is that the real reason the average woman is paid less than the average man is not necessarily because she is being paid unfairly (although this may still be the case in some organizations) but rather because she is less likely to be working in one of the higher paid industries or functions, and significantly less likely to be working in a leadership role.

To address the issue effectively, we must therefore look at male and female distribution across the workforce and ask ourselves why women are less likely to be found in higher paying industries, functions and roles.
When we compare male and female earnings globally, we find that the difference narrows dramatically the more specific the comparison becomes.
UNITED KINGDOM

Headline -23.8%
Like for Like -1.3%

Same Company -2.6%
Same Level -8.3%

USA

Headline -17.6%
Like for Like -0.9%

Same Company -2.6%
Same Level -7.0%
Stuck-in-the-middle syndrome

Women hold 15 percent of board seats worldwide


In most OECD countries, women are not just more likely to complete a tertiary or university degree than men (OECD Better Life Index) but will also out-earn them in the early stages of their careers. The higher up in organizations you go, however, the more men dominate, and the more the pay gap widens as a result.

In our 2018 analysis of 14,284 companies in 52 countries around the world, only 19% of executive roles were filled by women—and even in the most female-friendly countries such as Ukraine, USA and New Zealand, that figure does not exceed 33%. If those numbers sound low, how about Argentina and Mexico (both 13%), Germany (12%) or India (6%)?

HOW LEADING INDUSTRIALIZED COUNTRIES COMPARE

<table>
<thead>
<tr>
<th>Country</th>
<th>% of female employees at executive level</th>
</tr>
</thead>
<tbody>
<tr>
<td>USA</td>
<td>32%</td>
</tr>
<tr>
<td>China</td>
<td>30%</td>
</tr>
<tr>
<td>Russia</td>
<td>27%</td>
</tr>
<tr>
<td>Australia</td>
<td>25%</td>
</tr>
<tr>
<td>UK</td>
<td>25%</td>
</tr>
<tr>
<td>France</td>
<td>20%</td>
</tr>
<tr>
<td>Brazil</td>
<td>19%</td>
</tr>
<tr>
<td>Turkey</td>
<td>17%</td>
</tr>
<tr>
<td>Italy</td>
<td>16%</td>
</tr>
<tr>
<td>South Africa</td>
<td>15%</td>
</tr>
<tr>
<td>South Korea</td>
<td>15%</td>
</tr>
<tr>
<td>Argentina</td>
<td>13%</td>
</tr>
<tr>
<td>Mexico</td>
<td>13%</td>
</tr>
<tr>
<td>Germany</td>
<td>12%</td>
</tr>
<tr>
<td>Indonesia</td>
<td>9%</td>
</tr>
<tr>
<td>India</td>
<td>6%</td>
</tr>
<tr>
<td>Saudi Arabia</td>
<td>1%</td>
</tr>
</tbody>
</table>
This isn’t just an issue of seniority. Men also dominate in highly paid functions and sectors, making up 90% to 95% of the global workforce in mining (Global Mining Standards 2014), and 85% of technical jobs in 11 of the world’s largest tech companies (Cheng 2015).

Meanwhile, women cluster in lower-paid functions and sectors: 80% of the world’s garment workers (Nanda et al. 2013) and 70% of its hospitality and tourism workers (Baum and Chung 2015) are female. And even in these industries, men hold the vast majority of management and board roles.

What is it that prevents women securing the highest paid positions?

The root causes vary from sector to sector and from organization to organization, but through our experience of working with clients across a wide range of industries and geographies, we have been able to identify seven “headwinds” that commonly hold women back.
THE SEVEN HEADWINDS

Traditions
Organizations get used to whoever is in power and start to favor those who look and act like them. So if those in charge are men with unbroken career paths, who work online at midnight, and who can relocate to Dubai at the drop of a hat, the top jobs will go to others like them. And those who don’t, which could be anyone who wants work-life balance, may decide to opt out of the game.

Reference groups
Those who fit the organizational norm will see others like themselves wherever they look—and can ride in their tailwind. But if there aren’t many, or any, people like them, they won’t have access to networks or sponsors who could help them progress. They’ll also lack role models.

Cultural norms
With men still holding most senior roles, it’s unsurprising that organizations prefer masculine leadership styles and behaviors. But when women use these, they’re seen as demanding, not assertive. So they get caught in a double bind.

Pushback
Many organizations roll out diversity programs without also changing culture and management to bring about results. Unsurprisingly, this can lead to pushback, as it can seem as if under-represented groups are getting special treatment. This undermines the credibility of the very people whom the programs are trying to help.

Assumptions or stereotypes
People tend to assume that men and women want, and don’t want, certain things. A manager might assume that a high-potential woman doesn’t want to relocate because she just got married, for example. Or that a woman is better suited to a support role than a man is.

Internal debate
People have this dispute with themselves when they differ from the norm; they doubt their fit and ability because they don’t see anyone like them as leaders. Women can question if they want to be trailblazers, expending great energy to put themselves out there.

Outright bias
It’s uncommon now for organizations to display overt bias in hiring, developing, and promoting employees. And when it occurs, most companies stamp it out quickly. But subtle bias can be harder to deal with. Robin Ely, a Harvard Business School professor, calls this “second-generation gender bias.” It helps explain why our research finds that some leaders set the bar higher for women when rating executives’ skills and performance.
Time for a balancing act

The unequal representation of men and women at senior levels in organizations is an issue that should seriously concern us all and, after many years of tacit acceptance, it finally seems to be getting the urgent attention it deserves.

But laying aside for one second all questions of morals, ethics or social responsibility—ignoring the simple unfairness of a system that favors men over women—should organizations and the people who own and run them really be concerned if the senior levels of their workforces are dominated by men? Is it having a negative impact on the company’s performance? Would increasing female representation make any difference to the bottom line?

Research shows that the answer to all these questions is: yes.

- Yes, there are business reasons why organizations should be concerned about a lack of female representation among their leaders.
- Yes, the lack of female representation is likely to have a negative impact on the company’s performance.
- Yes, organizations with increased female diversity see a corresponding improvement to their bottom line.
The business case for gender balance

Avoiding the “Talent Crunch”

Korn Ferry research has identified a growing skills gap that poses a potent threat to the future success of organizations around the world. While there are more potential employees to choose from than ever, the pool of people who have the skills organizations are looking for is becoming relatively smaller.

As a result, the world could be lacking 40 million college-educated workers by 2020, putting upward pressure on pay for jobs where there is already a shortage of qualified candidates (in areas such as science, technology and engineering) and making it harder for companies to realize their strategic aims.

Organizations can avoid the worst effects of this “Talent Crunch” by broadening their concept of what makes a suitable employee to include everyone with the right motivations, skills, experience, and potential, regardless of whether they fit the established—if usually unspoken—company mold. Expand your talent pool in this way, and you significantly increase your chances of finding the people who can drive your business forward.

A stronger talent pipeline is only one of the improvements that increased female representation can bring. Four other areas that have been shown to benefit include:

Financial performance
Going from 0% to 30% women in corporate leadership is associated with a 15% increase in profitability. Companies in the top-quartile for gender diversity on executive teams are 21% more likely to outperform on profitability.

Innovation
In today’s fast-moving world, the ability to think differently is a key differentiator. Unsurprisingly, teams that are diverse, well-managed, and able to cultivate and utilize their differences outperform and out-innovate others. And one study shows that innovation performance increases significantly in companies with more than 20% of women in management positions.

Connection to customers
One report has found that teams with two or more members who represented target customers were up to 158% more likely to understand customer needs. Given that women control about $20 trillion—or 70%—of consumer spending globally, it is therefore vital to have gender-diverse boards if you want to stay on top of trends.

Brand image
Consumers increasingly expect the companies they buy from to be fair and transparent. Making a clear and sustained effort to improve gender balance within your workforce is therefore likely to improve the way consumers perceive your brand. It will also improve the way you are perceived by candidates and employees, helping you to become an employer of choice, and enhancing your ability to attract and retain the most talented people in the market.
Companies lacking board diversity tend to suffer more governance-related controversies on average.


£127bn

Annual cost of discriminatory pay practices to the UK economy in lost output, according to a study carried out by the Centre for Economics and Business Research (CEBR) and INvolve.
HOW CAN ORGANIZATIONS MOVE THE DIAL?

Organizations have acknowledged since the 1960s that lack of gender diversity may be a potential problem—and many have tried to address the issue, with varying degrees of success. One common solution is to introduce diversity programs.

But in our experience, diversity programs aimed at increasing female representation make four key mistakes:

1. They use metrics that are too narrow—for example, they focus exclusively on the number of women at board level, ignoring major imbalances in the levels immediately below.
2. They implement initiatives before anyone has worked out what the problem is.
3. They treat all women the same, even if individuals face different barriers and have different development needs.
4. They try to fix female employees, rather than fixing the organizational structures that are holding them back.
We know that unequal representation in well-paid roles is a big and complex issue. Solving the problem will bring enormous benefits to individuals, organizations, wider society, and the global economy as a whole. But, sadly, there is no silver bullet. Solutions will come through years of sustained effort from all parties involved—and only if organizations carry out rigorous root cause analyses and take action to address the specific issues that are preventing them achieving their aims.

No two organizational transformations are the same: the changes needed will vary from business to business, depending on their strategic objectives and the processes, policies and practices they already have in place. However, there are some universal themes that all successful transformation processes are likely to share. We touch upon some of those themes on the following page.
Levelling the playing field

Below we outline some of the specific actions organizations, line managers and individuals can take to improve gender balance at senior levels and enable women to achieve their full potential.

What organizations can do:

- **Rethink how you recruit, develop and promote women**
  Consider opportunities to redesign jobs to make them more inclusive, and to recruit for more transferable rather than specialist skills, to expand your potential talent pool. Then rethink your selection and promotion processes to make sure you eliminate bias.

- **Make sure you pay everyone fairly**
  Start with a clear and robust way to assess the relative worth of jobs. Then forensically examine your organization’s reward strategy, particularly in terms of how it links pay to performance, to make sure that it doesn’t disadvantage women.

- **Get women into your pipeline (and keep them there)**
  Effective strategies include developing a high-potentials program, championing female role models, and offering re-familiarization training to women returning from maternity leave. You may also need to revisit your organization’s mobility strategy, as it may be having an adverse effect on women’s development.

- **Create the right kind of culture**
  A comprehensive audit of the invisible forces in your organization that favor a particular group is an effective first step on the road to creating a truly diverse and inclusive culture. Then you need to create a shared responsibility roadmap, helping senior leaders, line managers and women work together to bring about change.

- **Champion inclusivity, lead by example**
  For diversity programs to work, senior leaders need to champion them openly and take responsibility for their success. This includes setting real targets and being clear with the organization about what’s changing, and why advancing women will benefit the business as a whole.

What line managers can do:

- **Build trust from the beginning**
  Sit down with each female newcomer to discuss potential headwinds and develop strategies for overcoming them. Introduce her to the movers and shakers in the organization and encourage her to take on projects that are visible, important and complex.

- **Offer ongoing support and development**
  This includes proactively observing what female members are doing well, and suggesting opportunities they should go after in the organization. Make sure you continuously check for conscious and subconscious bias in your own approach and others’.
What women can do:

- **Work out not just where you are now, but also where you want to go**
  It helps to seek out people who are doing jobs you’re interested in and getting them to talk you through what’s key for the role. Work out which areas you need to build to get there, not just in terms of your technical skills but also influence and relationship-building.

- **Be strategic: live by design, not default**
  Take a proactive approach with your bosses, explaining to them what you hope to do and asking them for honest, regular feedback on how you’re developing.

- **Build strong, strategic networks**
  Think especially about who you need to know in order to achieve your goals. Consider asking your line manager to set you up with a mentor or sponsor, and to introduce you to the key people who can help you.
Conclusion

The gender pay gap issue is not simply an issue of pay. Nor is it simply an issue of gender. Instead, it highlights the persistent lack of diversity generally at the most senior levels of organizations, and across some of the highest-paying sectors and functions.

While legislation alone cannot remedy the situation, it has helped put equality at the top of the agenda, and brought renewed pressure on boards and governments everywhere to act. It even appears as if there might be enough momentum to bring about lasting change. This is not the end of the issue, however. In fact, the hard work has barely even begun.

Creating a working culture where men and women enjoy equal representation will mean undoing barriers and biases that have stood for generations. For every leap forward, we can expect a few steps back. Organizations that address the issue by increasing diversity among graduate recruits, for example, may find their gender pay gap widening in the short term.

But all the time and effort invested will ultimately be worth it—because, in the long term, it is the more balanced organizations that will win. They are the ones who will attract and select the best talent. They are the ones who will be able to innovate and outmanoeuvre their competitors. They are the ones who will have genuine insight into what all their customers need and want.

References

1 The Global Talent Crunch, Korn Ferry, 2016
3 Delivering through Diversity, McKinsey & Company, January 2018
4 The Mix that Matters, BCG 2016
5 Innovation, Diversity, and Market Growth, Center for Talent Innovation, 2013
About Korn Ferry

Korn Ferry is a global organizational consulting firm. We help clients synchronize strategy and talent to drive superior performance. We work with organizations to design their structures, roles, and responsibilities. We help them hire the right people to bring their strategy to life. And we advise them on how to reward, develop, and motivate their people.