

#### THE WOMEN AND EQUALITY UNIT

The aim of the Women and Equality Unit is to reduce and remove barriers to opportunity for all. We are working with colleagues across Government to bring about measurable improvements in the position of women which benefit society generally; and to promote equality for all, particularly in the development and delivery of Government policy and services.

#### THE SMITH INSTITUTE

The Smith Institute is an independent think tank that has been set up to look at issues which flow from the changing relationship between social values and economic imperatives.

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# closing the productivity gap

a follow-on from the women's  
economic summit 1999

Edited by Tony Pilch and Kate Ahira

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## Preface

### Natascha Engel

Programme director, Smith Institute

The Smith Institute is an independent think tank which has been set up to undertake research and education in issues that flow from the changing relationship between social values and economic imperatives. In recent years, the institute has centred its work on the policy implications arising from the interactions of equality, enterprise and equity.

As part of that agenda, the institute has been publishing pamphlets and running seminars on the government's determination to secure full employment and rising prosperity in every region and community of the country. This is, we believe, an important strand of policy making. We also believe that, although these ambitious economic goals have not yet received as much attention from commentators and other policy makers as the government's successful measures to create macroeconomic stability, or its championing of strong competition policies, they will prove to be at least as important to the future prosperity of the nation in the long run.

As part of this programme, we are delighted to be publishing the pamphlet *Closing the Productivity Gap*. This follows on from a previous transatlantic conference organised by the institute, investigating the economic contribution of women in the economy, and falls within the context of research carried out by the human capital management task force, Accounting for People, led by Denise Kingsmill, a major contributor to both the previous conference and the present seminar.

The positive impact of women taking a full and equal part in the economy plays an indisputable role in raising a nation's overall productivity in general, and closing the UK's stubborn productivity gap in particular.

But the closing of the productivity gap is a wider economic issue: management practices and government policies must work hand-in-glove to have any serious impact, and it was this interface that formed the focus both of the transatlantic conference and this present seminar.

Both Rt Hon Patricia Hewitt, secretary of state for trade and industry, and Rt Hon Dawn Primarolo, paymaster general, were clear in their message that the role of government is to facilitate a policy environment that allows good management practice to flourish and thereby gives everyone – including women – the opportunity to play a role in closing the productivity gap.

This is a discussion that will continue, but we hope that the Smith Institute's contribution – the bringing together of policy makers, thinkers and practitioners – will play some part towards rooting this debate firmly in the wider context of economic policy and development.



The government is committed to building a fairer, more inclusive society in which everyone can contribute to, and benefit from, rising prosperity. This includes supporting women's choices in the labour market, and supporting mothers and fathers in balancing their work and family lives. Doing so is good for parents and children, for business and for the wider economy.

### **Much progress has been made ...**

Among the most significant labour market developments over the past two decades are the rise of female employment and the improvement of the labour market position of women. In the UK, an estimated 82% of the extra jobs created between 1998 and 2011 will be taken by women.<sup>1</sup>

Britain now has one of the highest rates of female employment in Europe. Close to 70% of women of working age are in employment, compared with around 65% in 1992. The employment rate of mothers with dependent children has risen from 57% in 1990 to 65% in 2000, significantly closing the gap with fathers. The increase in employment rates has been concentrated among those women with working partners<sup>2</sup> and those with higher educational qualifications.<sup>3</sup> The largest increase in employment rates has occurred among women of child-rearing age.<sup>4</sup>

At the same time, the pay gap has narrowed significantly: since 1975, when the Equal Pay Act came into effect, the full-time pay gap has closed considerably, from 30% to 18.9% in 2002.<sup>5</sup>

### **... but more needs to be done**

Despite this progress, more needs to be done to support women's choices. For mothers, family responsibilities often have a significant and disproportionate effect on their employment patterns and earning prospects. While the link is

1 Armitage, B and Scott, M "British Labour Force Projections: 1998-2011" in *Labour Market Trends* vol 106, no 6 (Office for National Statistics, 1998) pp281-297.

2 Desai, T, Gregg, P, Steer, J and Wadsworth, J "Gender and the Labour Market" in Gregg, P and Wadsworth, J *The State of Working Britain* (Manchester University Press, 1999).

3 For example, the employment rate of women with A-levels has increased by 7.5 percentage points over the past 10 years to just over 73%, while the rate for those with no qualifications has fallen from around 53% to under 45% (Labour Force Survey, spring 1992 and 2002). In most OECD countries the employment rates of well-educated women have been gaining rapidly on those of fathers, while the employment rates of less well-educated women have tended to stagnate (Evans, J *Work/Family Reconciliation, Gender Wage Equity and Occupational Segregation: The Role of Firms and Public Policy* [2002]).

4 Desai, T, Gregg, P, Steer, J and Wadsworth, J "Gender and the Labour Market" in Gregg, P and Wadsworth, J *The State of Working Britain* (Manchester University Press, 1999).

5 Latest figures show the gender pay gap narrowing to 18% in 2003.

not absolute, caring responsibilities do affect women's employment rates. Employment rates for mothers with children under six are lower than the rates for mothers of older children and for those without children, although the gap has been closing.

While the employment rates of women without dependent children and men without dependent children have converged, those of women and men with dependent children have not. The most recent data suggests that 1.2 million women with children under six are economically inactive because they are looking after their families.<sup>6</sup> The impact of caring for young children appears to be particularly significant for lone mothers.

The imbalance in caring responsibilities between men and women is reflected in the fact that women take significantly more time out of the labour market than do men in order to care for children. These short or long interruptions in their employment translate into lower earnings, reflecting, for example, the depreciation of their skills and their reduced level of work experience compared with those who have not had to take time out.<sup>7,8</sup>

Women who return to employment after one year's gap receive a wage that is, on average, 16.1% less than the one that they had before – a wage penalty that is more than double that faced by men.<sup>9</sup> A recent study concluded that greater interruptions to employment due to family care by women as compared with men were associated with around one-seventh of the total gender pay gap.<sup>10,11</sup>

The impact on women's lifetime earnings is exacerbated by the fact that many who have previously worked full-time return to part-time work after maternity leave. The proportion returning to work part-time rose from 29% to 42% between 1988 and 1996, although the number returning full-time rose even more (from 15% to 24%).<sup>12</sup>

6 Labour Force Survey, spring 2002.

7 Walby, S and Olsen, W *The Impact of Women's Position in the Labour Market on Pay and Implications for UK Productivity* (2002), report to the Women & Equality Unit.

8 Women's Unit *Women's Incomes over the Lifetime* (Stationery Office, 2000).

9 Gregg, P "The Impact of Unemployment and Job Loss on Future Earnings" in HM Treasury *Persistent Poverty and Lifetime Inequality: the Evidence* Occasional Paper No 10 (1998).

10 Walby, S and Olsen, W *The Impact of Women's Position in the Labour Market on Pay and Implications for UK Productivity* (2002), report to the Women & Equality Unit.

11 In April 2002, women's average hourly earnings were around 81% of men's for full-time employment, although the gap has narrowed significantly, from 63% in 1970 (Women & Equality Unit, 2002).

12 Women & Equality Unit data, 2002.

Overall, the UK's rate of female part-time work is the second-highest in Europe, at 44.4%, compared with an EU average of 33.8%, and most employees in part-time work are women (79%),<sup>13</sup> a pattern that is reflected across the EU.

### A preference for part-time work

To a large extent, the predominance of part-time working reflects choice: in the UK, according to survey data from 2000, almost 73% of women working part-time said that they did not want a full-time job.<sup>14</sup> Survey evidence also suggests that around two-thirds of women considering returning to work would prefer a part-time job, and three-quarters would accept one.<sup>15</sup>

In addition, it is clear that the availability of part-time employment opportunities has been key to boosting female employment rates. EU data suggests that countries with a higher incidence of part-time work tend also to have higher female employment rates, although this relationship is not absolute.

However, the prevalence of part-time work may reflect the absence of other flexible working options that enable people to combine full-time work with family responsibilities. As in many countries, the nature of part-time work in the UK generally means lower pay and more limited training and career progression prospects.<sup>16</sup>

Furthermore, a significant proportion of mothers do not return to the labour market. A 2001 study found that 63% of women in employment at the time of giving birth returned to work at the end of their maternity leave. The figure for those back at work increases to 74%, 12 months after the birth.<sup>17</sup> However, lower-skilled, lower-paid women are less likely to retain labour market attachment.<sup>18</sup>

13 Labour Force Survey *Employment Report 2002* (Office for National Statistics, 2002).

14 *European Social Statistics – Labour Force Survey Results 2000* (Eurostat, 2000).

15 *Employment in Europe 2001* (European Commission, 2001).

16 Walby, S and Olsen W *The Impact of Women's Position in the Labour Market on Pay and Implications for UK Productivity* (2002), report to the Women & Equality Unit.

17 *Parents' Perceptions of and Attitudes towards Government Work-life Balance Initiatives – a Survey of Parents* (Women & Equality Unit survey, 2001).

18 Walby, S and Olsen W *The Impact of Women's Position in the Labour Market on Pay and Implications for UK Productivity* (2002), report to the Women & Equality Unit.

Supporting mothers' ability to balance work and family responsibilities can have significant benefits for their labour market attachment and earnings. Women with rights to maternity leave are more likely to return to work after childbirth, return to the same employer and return sooner.<sup>19,20</sup> Maternity rights also appear to increase job tenure among women with children<sup>21</sup> and reduce the risk of wage penalties associated with taking an employment break.<sup>22</sup>

A recent study<sup>23</sup> found that mothers with maternity rights are disproportionately more likely to return to work when paid and unpaid leave ceases (at four and at seven months), although the characteristics of women returning at these two points varies. Less skilled women and those with non-working partners tend to return at four months, while professional and managerial women with working partners tend to return at seven months. The study concluded that having rights encourages around 20% more women to return to their previous job before seven months than would otherwise be the case.

Access to flexible working options on return from maternity leave can also be an important factor in the decision to return to work. One survey found that 92% of non-working mothers said that flexible working arrangements would be either essential or important to help them back into work.<sup>24</sup> In a study conducted in 2000,<sup>25</sup> 10% of mothers who did not return to work after giving birth cited a lack of flexible working arrangements as a barrier to their returning to work. Another important factor is access to good-quality childcare. As the interdepartmental Childcare Review report<sup>26</sup> noted, available, affordable childcare is important in helping mothers to enter and to remain in work.

19 Waldfogel, J and Berger, L *Maternity Leave and the Employment of New Mothers in the United States* (mimeo, Columbia University, 2001).

20 Callendar, C, Millward, N, Lissenburgh, S and Forth, J *Maternity Rights and Benefits in Britain in 1996* (Department for Social Security research, Report No. 67, 1997).

21 Desai, T, Gregg, P, Steer, J and Wadsworth, J "Gender and the Labour Market" in Gregg, P and Wadsworth, J *The State of Working Britain* (Manchester University Press, 1999).

22 Joshi, Heather and Periella Paci *Unequal Pay for Women and Men: Evidence from the British Birth Cohort Studies* (MIT Press, 1998) cited in Walby, S and Olsen, W *The Impact of Women's Position in the Labour Market on Pay and Implications for UK Productivity* (2002), report to the Women & Equality Unit.

23 Burgess, S, Gregg, P and Proffer, C *Maternity Rights and Mothers' Return to Work* (2002) (unpublished).

24 *Parents' Perceptions of and Attitudes towards Government Work-life Balance Initiatives – a Survey of Parents* (Women & Equality Unit survey, 2001).

25 Work-life balance study (2000) conducted for Department for Education & Employment.

26 *Delivering for Children and Families* (Strategy Unit, 2002), report of the interdepartmental Childcare Review, Department for Education & Skills, Department for Work & Pensions, HM Treasury, Women & Equality Unit, Strategy Unit.

### **The economic value of balancing work and family**

The OECD has demonstrated a strong correlation between a composite index of policies to balance work and family life and the employment rate for women aged 30-34 (when their employment is most likely to be affected by child-rearing and childcare).<sup>27</sup> The index includes childcare coverage for the under-threes, maternity pay entitlement, extra-statutory leave provision by firms, voluntary part-time working, and other flexitime working.

The UK has a high positive reading, although its strong composite index reflects female part-time working to a greater extent than most other countries with strong scores. Countries that first introduced policies to balance work and family life now have the highest levels of female employment.

There are clear benefits for the wider economy when women's skills and expertise can be utilised effectively and retained in the labour market. A more effective use of human resources within the economy, including the better utilisation of the skills of those with caring responsibilities, is likely to have a beneficial impact on the UK's productivity. It is clear that an efficient labour market – one where the pool of labour is maximised and utilised to the full – is essential to the UK's competitiveness.

In addition, it is important to support women's participation in entrepreneurial activity. Women have always played a key role in enterprise in the UK, often in less visible support roles. Despite considerable social and cultural change within the UK, the proportionate increase in the number of women starting their own business in the past two decades has been half that of other countries, such as the USA, where it is estimated that 28% of businesses are majority-owned by women.

Although the relationship between entrepreneurial activity and economic growth is complex, recent international economic reports show a correlation between economic growth and rates of female entrepreneurship. Countries exhibiting the highest rates of entrepreneurial activity are typically characterised by more widespread involvement of women in enterprise.

The 2001 UK report from the Global Entrepreneurship Monitor noted that

<sup>27</sup> OECD *Employment Outlook* (June 2001)

men were around two-and-a-half times more likely to be entrepreneurs than were women and concluded that “one of the clearest ways for the UK to increase its levels of entrepreneurship would be by encouraging and supporting more women into business”. It also highlighted the importance of recognising the “differences between male and female entrepreneurs ... when designing responsive and appropriate future initiatives”.

The latest GEM report, published in December 2002, shows a slightly smaller gap between male and female entrepreneurship in the UK, but highlights a continuing low level of female entrepreneurial activity in comparison with many other countries taking part in GEM, including Canada, the USA, Australia, Norway and most countries in the Far East and South America.

### **Enhanced choice and support for women**

In January, HM Treasury and the Department of Trade & Industry published their strategy for giving mothers and fathers a real choice in balancing their work and family lives. Helping parents to balance work and family responsibilities has important benefits for families, particularly for mothers, but also for fathers, who are more likely to work long hours and are likely to miss out most on the opportunity to share in the upbringing of their children.

Supporting greater participation by men in undertaking family responsibilities is important to the objective of gender equality, and as important as increasing women's ability to participate in the labour market. Mothers still bear a disproportionate burden of caring responsibilities compared with fathers, even when both are in full-time employment. On average, in the OECD countries, mothers working full-time still spend around twice as much time on unpaid work as fathers.<sup>28</sup>

Helping mothers and fathers to balance work and family life can, by helping them to meet their parenting responsibilities, also have a positive impact on their children's health, schooling and prospects in later life.

That is why the government has recently taken steps to enhance choice and support for parents. Since coming into government in 1997, we have invested in the first national childcare strategy, the largest increase in maternity

<sup>28</sup> OECD *Employment Outlook* (June 2001)

provision in 40 years, the first ever paternity and adoption leave, and a new right for parents of young or disabled children to request flexible working. In the 2002 spending review we more than doubled investment in childcare, supporting our vision that every parent should be able to find affordable, good-quality care for their children.

Together with the introduction, earlier this year, of the new tax credits – the working tax credit and child tax credit – which will be available to nine out of every 10 families with children, these measures mean extra financial support and more choice for families than ever before. They will make it easier for one parent in the family to remain at home and care for the children if they choose to do so, but will also make childcare more affordable if both parents choose to work.

All families with an income of less than £58,000 are eligible for some help through the new tax credits. Families will also find it easier to share work in a way that suits them best, with couples that have children now able to claim the 30-hour element of the working tax credit if they jointly work 30 hours or more. Childcare support within the working tax credit is now flexible to changes in parents' childcare arrangements. And both the child tax credit and the childcare element of the working tax credit are paid directly to the main carer, usually the mother – representing a transfer of up to £2 billion from men to women.

The new tax credits are complemented by the national minimum wage, which has lifted the wages of more than 1 million people – around 70% of them women – and, according to the Low Pay Commission, it has had the greatest effect on women's pay since the 1970 Equal Pay Act. The adult rate, announced in March, will be £4.50 an hour from October 2003 and £4.85 an hour from October 2004. We expect 1.3 million people to benefit from the increase this October, and 1.7 million from the increase next October.

### **Reducing the pay gap**

Expected earnings are an important factor in women's decisions about whether to return to work, and so the reduction in the pay gap is important. The government is encouraging public-sector and private-sector employers to conduct pay reviews, including through the promotion of the Equal Opportunities Commission's pay review model, revision of the Equal Pay

Code, and the Fair Pay Champions. It has also recently extended funding to train trade union representatives in equal pay issues and negotiation.

As a major employer of women (who represent just over half of the civil service), the government has a role too. Nearly all government departments and agencies have carried out pay reviews this year and have prepared action plans to reduce any pay gaps.

These measures will not just provide increased support for families but will benefit employers too, and have been developed with the needs and views of businesses, large and small, in mind. Helping their employees to balance work and family life can improve staff morale, retention and recruitment, reduce staff turnover and absenteeism, and enhance business performance. And promoting parents' choices as part of a flexible labour market also makes sense for the economy, ensuring that greater productivity goes hand-in-hand with fairness for families.

The government is also supporting women's participation in enterprise. The DTI Phoenix Fund, which resources business support organisations and community finance organisations working with businesses in disadvantaged areas and run by people from under-represented groups, has supported a number of projects that target female entrepreneurs, such as a women's enterprise centre run by Bolton Business Ventures, and Prowess, a trade association for business support organisations working with women.

However, there is also a need for a more comprehensive, strategic and long-term approach to the development of women's enterprise in the UK. In order to do this, the government has published its strategic framework for women's entrepreneurship. The long-term vision of the framework is to create an environment and a culture that encourages more women to start and grow businesses, and where every woman with the desire to start or grow a business has access to appropriate help and support.

The framework aims to provide background information and context for women's enterprise development, highlight the key issues that need to be addressed, and provide practical guidelines, examples of good practice and solutions for improved delivery of mainstream business support services.

The framework was launched on 8 May 2003 by Patricia Hewitt, secretary of state for trade and industry and minister for women.

Looking ahead, time will be needed for the new measures – many of which came into effect from April 2003 – to bed down. But some clear challenges remain, and the HM Treasury/Department of Trade & Industry document mentioned earlier sets out a series of next steps in the government's strategy, on which we have asked for views by 31 August 2003.

#### **Next steps in the government's strategy**

First, although we have come a long way, we must do more to encourage businesses to help their employees to balance work and family life. Through the work-life balance campaign, we will continue to promote the take-up of best-practice flexible working options, from flexitime to occupational maternity and paternity leave above the statutory minimum. We are also considering how to improve the current tax and national insurance contributions incentives for employer-supported childcare and we launched a consultation document on this in February (for comments by 31 May 2003).

Second, to meet the diverse childcare needs of today's parents, the home childcare scheme, announced in the 2002 budget, will help those who need home-based childcare, including parents of disabled children and those who work outside conventional hours. The new scheme, launched in England from April 2003, will allow childminders to register to provide care in the child's own home, and will mean that eligible parents will be able to claim support for the costs of this childcare through the working tax credit. We are now considering how to widen entry into the scheme beyond existing childminders.

We also want to promote equality of choice for parents. As noted above, supporting the greater participation of a father in his family is as important to gender equality as supporting a mother's career, and so we will be considering various options, including giving fathers time off to attend key antenatal care appointments.

Significant progress has been made in supporting women's choices. But we recognise that there is further to go. Equality for women is not just morally right. It is good for children and parents, for businesses and for the economy.



The government had been in power for only two years when we held the Women's Economic Summit in 1999, exploring key issues around women's role in today's world of work. The context has changed in many ways – we now have the Part-Time Working Regulations, tax credits for working families, and many more new rights for working parents – but many of the questions that we addressed then are still relevant today.

These measures are helping to challenge many of the taboos that still exist for women in the workplace, and make it clear that “career woman” and “mother” are not mutually exclusive terms. Over the past few decades, women have made huge strides forward in terms of their representation in higher education, their presence in the workplace, and their importance as consumers.

However, they are still being held back from reaching their full potential at work. The facts make stark reading: the pay gap is stuck at 19%, while the gap between women working part-time and men's full-time hourly earnings has actually increased recently, to 41%.<sup>29</sup> (Similarly, while the weekly income of a single woman aged 30-34 working full-time with no children is 99% of that of similar men, this plummets to 75%, five years on.)

### **A timely re-examination**

Which is why it is all too timely that we are meeting here today to re-examine what can be done to close the productivity gap. Because one is linked to the other. If women are held back at work both in terms of the progress that they can make and the jobs that are open to them, then that has an impact on our productivity. It means simply that we do not always have the right people in the right jobs.

On 7 May 2003, I launched the strategic framework for women's enterprise. Women constitute the largest under-represented group in the UK in term of business start-up and ownership, whereas in the US they account for 28% of all privately owned firms.

But this is not just a women's issue. It is an economic issue striking at the heart of how we help our workforce to balance their life commitments with

29 New Earnings Survey figures published on 16 October 2003 show that the full-time pay gap stood at 18% in April 2003, with the part-time pay gap at 39.6%

their work ones and, as such, it affects men as well. According to the Equal Opportunities Commission, men are now responsible for one in three childcare hours, and half of all full-time men want flexible working.

Parents of both sexes and workers of all backgrounds are starting to demand more flexible working options and an end to the long-hours culture. In 1999, we set out to explore just how we might achieve this and enable the UK economy to go from strength to strength by harnessing the economic potential of both women and men.

### **A raft of measures**

Since 1999, the government has taken forward a raft of measures to help reach this goal and make it easier for working parents to spend more time with their families.

The Employment Act 2002 gives all parents of children under the age of six the right to ask their employers for flexible working arrangements, and underlines our commitment to encouraging employers to allow this to become the norm in the workplace. By spring 2002, over 5 million people in the UK were already working flexibly, and we are keen to see this number increase.

We have increased the statutory rate of maternity pay to £100 a week from April 2003 and extended the period of paid maternity leave from 18 to 26 weeks. For the first time, we have also extended to adoptive parents the right to have maternity leave, and introduced two weeks' paternity leave, payable from April at £100 a week, for new fathers.

As well as boosting the amount of money and support available to new parents, measures like the national childcare strategy and the working tax credit have extended support to a broader spectrum of families.

We introduced the national childcare strategy in 1998, with the aim of guaranteeing a nursery place for every four-year-old needing it. Having met that target, we are now on course to make quality, affordable and reliable childcare places available to all three-years-olds by 2004. We are on track to create new childcare places for 1.6 million children by 2004.

Working families tax credit has been instrumental in getting more money into the pockets of the lowest-paid, with nearly 1.3 million families now benefitting from getting more help with childcare costs. By 2004, SureStart will have reached a further 400,000 children in some of the UK's most disadvantaged areas, and given them the best possible start in life.

In April 2003, two new tax credits were introduced. Child tax credit and working tax credit, which replace working families tax credit, offer a new framework of support for families. These two measures will be the biggest financial boost for mothers since the introduction of child benefit – and we have significantly increased child benefit to record levels as well.

Supporting families is obviously an important end in itself, but these measures also help more women to remain part of the workforce post-motherhood.

Just as the government is looking at how we can support parents and families over their life cycle and taking the appropriate actions, we also want to encourage employers to take more of a long-term view when it comes to their staff.

The government is playing its part in providing the framework for mothers and fathers to find the work/life balance they want, while promoting business opportunity and productivity. We are also leading by example by requiring all departments to carry out an equal pay audit, instituting targets to increase the number of women within the senior civil service, and providing flexible working arrangements and holiday pay schemes.

#### **Handing the baton on to business**

The next challenge is to hand the baton on to business. How can you change the way you work, to promote opportunities within your organisation for both men and women, mothers and fathers, in such a way that the benefits to business are tangible in terms of increased competitiveness and productivity?

The benefits to staff of being properly trained and properly treated are clear cut. However, the benefits to business and the economy, while perhaps less immediately obvious, are no less impressive. In today's fiercely competitive

and knowledge-driven economy, business success depends on attracting the best-qualified people, equipping them with the best skills, and then keeping with them.

I recently asked Denise Kingsmill to head up a new task force, called Accounting for People,<sup>30</sup> which will look at how companies can make the most of their people's talents, boosting their competitiveness and subsequently their profits.

As well as evaluating the growing body of evidence, when the task force reports back to me in the autumn it should also be well along the way to developing practical guidance to help businesses say something meaningful to the outside world about their people management.

Even a cursory glance at the workplace throws up a number of instances where improvements in this area are desperately needed. For example, in UK listed companies a paltry 4% of executive directorships are held by women. The situation is arguably worse in the FTSE 100 companies, where only one company had a female chief executive officer in 2002.

The task force is not aimed solely at redressing the under-recognition of women in the workplace. But fair employment practices must be one of the key indicators of an efficient employer that recognises the rewards of looking after its assets, and not just costs.

Consequently, the task force's remit is to look at how effective people management can have a practical bearing on a company's competitiveness, create an unassailable business case, and then assist companies to implement it in their workplace.

Similarly, in the aftermath of the Higgs review, I have asked Professor Laura Tyson to chair a group that is examining the best way of persuading companies to have more diversity on their boards.<sup>31</sup>

<sup>30</sup> This task force published its report on 3 November 2003

<sup>31</sup> Laura Tyson published her report *Report on the Recruitment and Development of Non-executive Directors* on 19 June 2003

Again, while there is an equality argument to be made, the economic argument is equally compelling. The composition of a board sends important signals about the values of the company, and having more women in the boardroom would mean that companies better represent the society in which they operate. This, in turn, would inevitably lead to improved competitiveness and productivity.

### **The best person for the job**

Underpinning all these reviews and policies is the notion that employing the best person for the job has to be in the best interest of individuals, companies and the economy alike. Government and the business community both need to continue to work together, first to identify what obstacles continue to stand in the way of this – such as the long-hours culture or lack of affordable childcare – and then to find ways of removing them.

Ultimately, a recruitment system that is accessible based on merit can only be good news for us all. That is why I am pleased to have the opportunity to further discuss the issues outlined above, and to continue to build up the sense of co-operation and momentum between government, businesses and individuals when it comes to resolving them. The productivity gap is a shared problem, and it is in everyone's interest to find a swift and effective solution.



We have all heard the phrase that a company's people are its greatest asset. You hear it often enough, but how many companies act on it?

If people really are their greatest asset, then you would expect companies to look after them with the same scrupulousness with which they care for their other assets. You would expect companies, surely, to give a proper account of their stewardship of the asset when reporting to shareholders. And you would expect investors to ask searching questions about how the company is managing the asset.

#### **A measurable business asset**

Why the gap, then, between the rhetoric and the reality? My guess is that a lot of companies see the phrase as simply a motivational lever: say something nice about the workforce and keep them happy. What they are missing is that the workforce really is an asset, a measurable business asset, and that the way it is managed can have a material impact on business earnings and long-term sustainability.

The extent of the gap came to light in the evidence-gathering for the Kingsmill Review on Women's Equality and Pay. I was, frankly, astonished to find how few companies make any serious attempt to report to their investors on human capital management. It would be entirely understandable, if the matter did not have an impact on the bottom line. But there is mounting evidence of a strong correlation between management performance and business performance.

This is what led to the formation of the Accounting for People task force, which I am happy to report is now motoring. It brings together high-level people from the business, professional, academic and trades union worlds. Its task is to examine and evaluate the growing body of evidence, and develop practical guidance to help businesses to say something meaningful to the outside world about their people management.

I do not delude myself that companies are going to want to espouse this overnight. They will be anxious about the burden – the burden, for them, of collecting and writing up the information in a meaningful manner, the burden on their shareholders of making sense of either cursory, simplistic

data or over-long, woolly narratives. I am very concerned to meet the point. If company boards do not believe that human capital management has a bearing on corporate performance, they are not going to want to report on it at all. The challenge for the task force is to make an unassailable business case – which I am confident that we can do – and to offer them the tools to do the job.

#### **No need for legislation**

This will not, I stress, be the subject of legislation. If the case is well made – if we can convince companies that effective people management really does have a practical bearing on their competitiveness – there will be no need for legislation. Equally, if we fail to convince them, legislation will get us nowhere.

It is not, then, a top-down exercise. Our style is resolutely open and consultative. We look to companies to examine the case for themselves. We challenge employers to take a long, hard, look at their workforce, and see, for example, if the mix of people really does fit the needs of their business. Do they have the right skills, the right experience, and the right competencies – to help the business reach optimum productivity, and stay there?

Until now, it has been almost impossible to answer such questions in a meaningful way. The task force will be concentrating its efforts on identifying a manageable set of key indicators – based on current best practice, and backed up by the best research evidence, not just from Britain but globally.

It should not be rocket science, you would think. Of course companies should pick the right people for the job. Of course they should make sure that their staff are properly trained and motivated, and made to feel like valued members of the team. In an increasingly knowledge-based economy, businesses well know that they have to compete to attract and retain the best qualified. They must recognise that they have to look carefully at balancing their need for experience against the value of new blood. They must see that it makes sense to convert the costs of recruitment and retention into an asset of value to the organisation.

But the evidence piled up in the Kingsmill review that many organisations still fall far short. The idea of equal pay for equal work, for example, has been around for decades, but the report highlighted just how far we still have to go before women and men are treated equally in the workplace.

The task force is not, I should stress, aimed at redressing the under-recognition of women in the workplace. But fair employment practice – of which this is just one angle – is surely one of the key indicators of an efficient employer, one that treats its human assets as assets, not as costs.

In the period up to Easter, we have been engaged in an intensive round of evidence-taking sessions, hearing from a wide range of experts. As our ideas begin to take shape, we will go out to consultation on them over the first half of the summer before preparing our report for Patricia Hewitt. I hope everyone here will feel motivated to contribute in whatever way they can.

It is an exciting – and sometimes daunting – challenge. What we are after is culture change, and there is only a little good practice that we can draw on, globally. But the prize is there for the taking: if we can help our companies to get ahead in human capital management, we can help them to get an edge that few competitors anywhere can match.



Corporate governance in the UK is fundamentally sound. Sir Adrian Cadbury's Combined Code, with its philosophy of "comply or explain", has generally served the business community well, with its mix of flexibility and intelligent discretion and the valid exception to the sound rule.

Since the code was adopted in its present form, the most progressive companies have continued to improve the rigour and effectiveness of the work of their boards. They have blazed a trail where others should follow, and my review has suggested revisions to the code that reflect best practice and hence a road map for increased effectiveness.

At the heart of these proposals is the recognition that the effectiveness of the board will depend a great deal on the suitability and quality of its members, and on their behaviours and practices in the boardroom.

#### **A broader pool of candidates**

The current situation, where many directors are appointed from a relatively narrow pool of people sharing common experiences, career patterns and backgrounds, has typically limited the degree of independence found among non-executive directors.

To change this status quo, the *Review of the Role and Effectiveness of Non-executive Directors* suggests that each board should have a nomination committee to make recommendations on appointments to the board. This committee will be responsible for evaluating the balance of skills, knowledge and experience on the board, and will use that information to identify any gaps in ability that any particular appointee will be required to plug.

The review also suggests broadening out the pool of candidates for non-executive director appointments, to include more people from a greater variety of backgrounds. Ensuring that a board has an appropriate mix of skills and experience is essential, if it is going to be an effective decision-making body. It is the range of skills and attributes, acquired through a diversity of experiences and backgrounds, that combine to create a cohesive and effective board.

Research carried out for the review showed that almost half of non-executive

directors questioned had obtained their position as a direct result of a personal contact or friendship. By putting the whole appointment process on a more formal footing, I hope that non-executive directorships will cease to be about "who you know" and instead become almost entirely a case of "what you can do".

#### **Sending signals about company values**

The composition of a board sends signals about the values of a company. A commitment to meritocracy and equal opportunities can be great for motivating staff and even for a company's reputation. However, if the board itself does not reflect this approach, it inevitably takes on a somewhat hollow ring.

My research shows that non-executives are, typically, white males who are approaching retirement age and have previous plc director experience. In many instances, undoubtedly, they were the best people for the job. But in other cases, candidates from other backgrounds who have a broader, different mix of skills and experience could and should be considered.

For example, women account for only a small number of directors. One of the reasons for this may well be that areas where women tend to be more strongly represented – such as human resources, change management and customer care – have not typically been regarded as providing a route to the board. However, the issues that come up in these roles encourage skills and attributes that are highly relevant to the boardroom.

International experience could also bring an important additional dimension to a boardroom, especially for those companies operating in international markets. The review also suggests that boards should start looking towards private companies and the charitable or public sector to increase their breadth and diversity, which in turn can help to increase their effectiveness.

As women are more strongly represented at senior levels in the non-commercial sector – accounting for 30% of directors, compared with just 6% in the FTSE 100 – there is every chance that this could, over time, lead to an increase in the number of women making it into the City's boardrooms.

This is not a question of political correctness, but rather of sound business and economic sense. Having a proper procedure for appointments to boards on a meritocratic basis can only help to boost that board's effectiveness and abilities.



## Introduction

### Natascha Engel

Programme director, Smith Institute

This morning's seminar follows on from a 1999 seminar, the Women's Economic Summit, which was held in association with, as it was then called, the Women's Unit. The aim of that event was to explore strategies to grow the US and UK economies, focusing on appropriate ways of harnessing the economic potential of women.

Three-and-a-half years on, we have again joined up with the Women & Equality Unit, as it is now called, and I think that their name change and the change in their location from the Cabinet Office to the DTI reflects the shift in policy that has happened – a subtle policy shift, but an important one. That today's seminar is called Closing the Productivity Gap also indicates that this agenda is now embedded in the economic mainstream. But the fact that we still have a gap between men and women, in all sorts of ways in the workplace, means that we still have some bridging to do.

## Presentation by

### Rt Hon Dawn Primarolo MP

Paymaster general, HM Treasury

Can I welcome you all to No 11 this morning for this follow-up event to the Women's Economic Summit in 1999.

Today we are considering how women's participation in economic activity can boost productivity. The government's long-term goal is that the UK will achieve a faster rate of productivity growth than its main competitors, but we also want to build a fairer society where everyone has the opportunity to fulfil their potential, to make choices about what is best for them and their family and to benefit from rising prosperity.

Achieving these goals in increasing productivity and building a fairer society are major challenges for us all. It means doing more to make the most of the resources that we have, particularly making the most of the people we have. It means opening up opportunities and choices for people who have previously been excluded or disadvantaged. We do all this in the context of a rapidly changing global economy, which demands changes in the way that we all work.

This morning we are here to talk about the contribution that women in particular can make to increasing productivity. We want to take stock of the progress we have achieved so far and, most importantly, to think how best to tackle the inequality in opportunities that women still face.

### Balance is good for business

It used to be almost accepted that women could not have a family without damaging their career and it was widely believed that women could not fulfil their family responsibilities properly if they had careers. But these views have been consistently challenged, and the government is addressing the issues that make balancing work and family life difficult: the issues of low pay, childcare, flexible working arrangements and parental leave.

Where women who do want to work are held back from entering or progressing in the labour market, we are wasting a great deal of potential, and a valuable resource is lost to the economy. Utilising women's skills and expertise effectively is essential to the UK's competitiveness, and helping all employees to balance work and family life makes sense for individual businesses too.

It can increase staff morale, help retention and recruitment, reduce staff turnover and absenteeism and so enhance business performance overall. Plus, giving women more access to childcare and flexible working arrangements will help them to be more productive as employees – employees who are not constantly distracted by concerns about childcare, feeling secure in the knowledge that their children are well cared for.

In a few minutes, we are going to hear from Patricia Hewitt, who is the secretary of state for trade and industry and the minister for women. In these two roles, Patricia has a key role in ensuring that the government meets our productivity target and delivers our target on bringing about improvement in gender equality.

After that, Denise Kingsmill is going to tell us about the work of the Accounting for People task force, which she chairs, which is looking at ways that organisations can measure the quality and effectiveness of their human capital management.

### **Women's participation rising**

I think we can be encouraged by the progress that has been made in increasing women's participation and achievement in the workplace. Britain now has one of the highest rates of female employment in Europe. Nearly 70% of women are in employment, compared with 65% in 1992. The employment rate for mothers with dependent children has risen from 57% in 1990 to 65% in 2000. As well as these increases in participation, we have seen the pay gap narrow from 30% in 1975, when the Equal Pay Act came into effect, to 19% now.

Significant progress, but there is still a long way to go – and, hopefully, at a faster pace than to date. Much more still needs to be done to support women's

choices. While the data indicates that we are moving in the right direction, we all know that significant inequalities for women still exist.

Women who return to employment after one year's gap receive a wage that is on average 16% less than the one they had before, which is more than double the wage decrease experienced by men, and a significant proportion of mothers do not return to the labour market at all. The data shows us that low-skilled, low-paid women are less likely to return to work, with all the consequences for their future prosperity – or, should I say, the lack of it.

A large number of women come back into part-time jobs. While many do this out of choice, many feel forced into it by a lack of flexible working options that might help them to combine full-time work with family responsibilities. As well as access to flexible working options on return from maternity leave, what is clearly another key factor is the access to good-quality childcare.

### **Government measures**

Since 1997, we have taken some major steps forward in addressing labour market inequalities. In January, the Treasury and the Department of Trade & Industry published our strategy for giving mothers and fathers a real choice in balancing their work and family lives, and we would welcome your views on that.

Since 1997, there has been an unprecedented increase in investment in childcare, focused on helping those in greatest need first. We have also introduced the largest increase in maternity provision for over 40 years, the first-ever paternity and adoption leave and a new right for parents of young or disabled children to request flexible working. In last year's spending review, we more than doubled investment in childcare, supporting our vision that every parent should be able to find affordable, good-quality care for their children.

These measures are complemented by the more than £1 million per day that we spend on direct support to low-to-middle income parents through the childcare element of working tax credits. These changes, plus the introduction of the new tax credits, mean extra financial support and more choices for families than ever before.

The government is also supporting women's participation in enterprise, including through the Phoenix Fund. Patricia has also published the *Women's Enterprise Strategy Framework* and we are working to encourage individual businesses to help their employees to balance work and family life through the work-life balance campaign. We will continue to promote the take-up of the best practice of flexible working options and we have just consulted on ways in which we could improve the current tax and national insurance exemptions in order to provide greater incentives for employers to help their employees with childcare costs.

Clearly, we need time for all these new measures to bed down – many of them came into effect only in April.

Promoting parents' choice – and, particularly, choice for women – as part of a flexible labour market makes sense for the economy as a whole. It ensures greater productivity hand-in-hand with fairness for families. It makes individuals more effective at work and it enhances their quality of life. This is good for parents and children, good for business and good for the wider economy. But we all recognise that there is still a long way to go. The government needs to listen carefully and respond to your concerns as we move forward, and today's meeting gives us an excellent opportunity to do that.

Can I, in conclusion, thank you all for coming this morning. In introducing Patricia Hewitt, secretary of state for trade and industry, I am confident – not only because she is a friend and a colleague, but also because of her long-standing contribution to the cause of equality – that we have a champion more than equal to the challenge before us. It gives me great pleasure now to introduce her to you, as we move through the speakers for this morning.

## Presentation by

### **Rt Hon Patricia Hewitt MP**

Secretary of state for trade and industry and minister for women

It is a great pleasure for me to be here, having been at the first Women's Economic Summit that we held at No 11 several years ago.

When I was appointed to the cabinet, a few weeks later I was being introduced to a rather male-dominated business conference by a very senior British businessman and he said "new secretary of state for trade and industry, cabinet minister for women – I'm not sure whether those two roles have anything to do with each other"! I said: "Women make up approximately one in three of our entrepreneurs, nearly half the workforce, and we make the majority of the decisions as consumers."

That is why equality and economic success go hand in hand; and it is that understanding that explains the fact that, for more and more of our most successful businesses, diversity is now a boardroom issue. You simply cannot ignore it.

I was going round a car factory in the Midlands the other day – a male working environment – and the managing director who was showing me around said: "Until very recently, we were 90% men on the shop floor. But that's not what the workforce out there is; that's not what the customers out there are; and if we're going to be the best – and that's what we want to be – then we've got to recruit and retain people from every section of the workforce."

#### **The business case**

Take Unilever: only the other day, they were saying to me: "We need to reflect our customer base, on our board and right across our staff, because we're a global company." They said: "Our customer base is as diverse as the world's population and we need to be reflecting that in our organisation, because otherwise we're never really going to understand our customers and stay close to them."

And that, fundamentally, is what is driving diversity and equality onto the boardroom agenda. It is why we are seeing more and more businesses – as Dawn has said – implementing creative approaches to family-friendly working, recognising that they will get greater productivity, they will find it easier to recruit and they will find it much easier to retain their staff, if people can balance their work and the rest of their lives.

When we were in opposition, the old politics was about choosing a successful economy on the one hand and a fair society on the other. In those old politics, it was the Conservative Party who were the party of economic competence and success and we were the nice people who cared about public services and social justice. But you need both, and so the central proposition we made in 1997 is that social justice and economic success in the modern world go hand-in-hand, because in a knowledge-driven economy – where economic success depends much less on capital, much less on raw materials and natural resources and much more on skills, knowledge and creativity – you have got to use the abilities of all your people.

And that is why this equality and diversity agenda is central to our productivity agenda. We have to raise the productivity of our economy in order to keep growing our prosperity and our quality of life and, of course, to keep improving our public services.

Dawn has talked about what we are doing in the whole family-friendly arena and we have outstanding examples of companies, many of them in the top 100 companies, that have already seized this agenda. Then we have the others that just don't get it.

I was talking to one of our most successful retailers, Next, which is a company that clothing manufacturers die to get a contract for. They are hugely successful. Next was telling me about one of the hundreds of companies that approach them every week for a contract. They had gone to visit this company that wanted to work for them and the managing director of Next said: "We're a retailer in a very fast-moving environment and what we need is small quantities, delivered very fast." So the manufacturer said: "Our standard turn-around time is eight weeks."

And Next said: "Well, that's not good enough. The customer is not going to hang around for eight weeks; the weather will have changed by then. We want it faster. Can't you do it faster by putting on extra shifts?" The managing director said: "We've got about 450 staff, with about four part-time secretaries." Next said: "Couldn't you have more of them? Couldn't you have a more flexible workforce?" The managing director said: "If we started doing that, everyone would want it."

There was a manufacturer not keeping the customer they wanted happy, and they did not get the custom – surprise! My bet is that they are probably not still in business and, if they are, it will not be for very much longer.

So, there is a very strong business case.

#### **Legislation as a soft lever for change**

What we did with the package of laws, which we brought in April, was not to try to impose a "one size fits all" solution. You cannot, by definition, impose flexibility by law, because what will suit one employee in one job with one set of family circumstances will not suit someone else doing a different job in a completely different company.

So what we did instead was to use the law as a soft lever of change, by saying: you have a legal right to ask for different working hours that will suit you; the employer has a duty to consider that request seriously and can turn it down only for a good business reason. You have the backstop of an employment tribunal, though I hope very much we will have very few of those cases.

We reinforce it with a great deal of really good-quality information – case studies, a helpline, advice and so on – for the employers as well as the employees, and we will monitor it very intensively over the next three years to see that it is working. That way, we can get this issue of family-friendly working and flexible working onto the agenda of every business and accelerate a change that, if we did just leave it to the market, could take 20 years to get to where we really want to be.

#### **The stubborn pay gap**

So, that is a central part of our strategy here for higher productivity through

making use of all our talents. One reason why it is so important is that, as Dawn has indicated, it is this problem of matching and balancing paid work and family and other responsibilities that accounts for the very stubborn pay gap. Yes, it is down from well over 30%, but it is still at around 18% or 19%. That is a great deal higher than it ought to be. And the cost that women and their families pay for that is enormous.

Denise will have much more to say about that, because the work that she is leading on the human capital accounting task force is looking at how we can get more businesses to deliver on the mantra that people are our greatest asset, and how we tackle one of the key underlying causes of the pay gap – which is that six out of 10 women in employment are in low-skilled, low-paid jobs. Sometimes these jobs are low paid because they are women’s jobs. As we know, women’s contribution to employment is typically undervalued and, in any country, you will generally find that the jobs dominated by women are low paid.

So we need to look at how we build on the Equal Pay Act – but, of course, there are a lot of other things that we need to do as well.

We have far too few women in the boardrooms, and here the public sector is well ahead of the private sector. If you look at the cabinet and government, one in three ministers are women. In the FTSE 100, a quarter of managers and fewer than one in 10 directors are women. The work that Laura Tyson is leading with her group, following Derek Higgs’s report, will, I think, give us some real insights into how we can extend the magic circle that exists – or seems to exist – when it comes to the recruitment of non-executive directors.

#### **Building and using skills at every level**

We are also looking at the whole area of skills, and this is an issue for women at every level. The emphasis we are putting on basic skills will make an enormous difference to the opportunities available to women trapped in some of the lowest-paid jobs.

If you are a woman in my city of Leicester for whom English is a second language, you may have quite high skills in the clothing sector, a sector that has been very dominated by women traditionally. But you may well find

yourself in a job that is shockingly low paid – sometimes not even paying the minimum wage – because your skills are too narrow, because you may not have good English, because you do not have other skills to offer, because you have almost no choice at all about getting away from an exploitative employer and a company that may not have much of a future.

So we are tackling basic skills and dealing with this scandal of 7 million working-age people who do not have basic numeracy and literacy. That is a crucial part of this agenda.

But there is also an issue at the top end. We have a terrible shortage of people in Britain with science and engineering qualifications: it is one of the shortages that employers draw to our attention most often. But we have 50,000 women with science degrees who are not using those degrees in employment. They are not in employment at all, or, when they do return to work after leave, they go into a job that does not use that qualification. Baroness Susan Greenfield has been helping us with putting together a whole strategy for how we recruit women, and then how we retain women, in science and in engineering.

#### **Women as entrepreneurs**

The final point that I wanted to mention is women as entrepreneurs, because, if you look at the entrepreneurship rate in Britain, we do better than many of our European counterparts. But that is not true among women. The latest report of the Global Entrepreneurship Monitor found, very disturbingly, that we were almost at the bottom of the league table of developed countries for the rate of women starting and growing their own business.

If we could get women starting a business at the same rate as men, we would have an extra 100,000 start-ups every year. The potential is there. Indeed, in the North East, which has a very low overall rate of entrepreneurship, we are seeing women start up businesses faster than men. So we have put in place a strategy and are supporting a whole network of business advice and support organisations that are particularly attentive to the needs of and the barriers faced by would-be women entrepreneurs.

So, that is the agenda; those are some of the key actions that we are taking to

marry our commitment to a successful, dynamic, innovative economy with our commitment to equality and to diversity. I think it is a hugely exciting agenda. I know that all of you here share my passion for it, and I think perhaps what is most exciting is that together we can make a real difference.

## Discussion

*Diana Whitworth, Chief executive of Carers UK*

I am very surprised that neither of you have addressed the issue of elderly care as an issue for women (although it is also an issue for men). We have done a survey of our members, who are all carers, and discovered that over 50% of them have had to give up work in order to care. We are talking about people who are caring probably for 20 hours a week or more and also contributing a huge amount to the economy. Many of the measures that the government has taken, particularly around flexible working, would adapt very well to being extended to elderly care, for men and women who have to pick up the responsibility for looking after someone who is old or somebody with a long-term condition.

*Baroness Margaret Jay*

I was involved in the earlier summit, and we heard from the American participants about the concept of women's incubators, as far as developing women's entrepreneurship was concerned. At that time, we had one in the UK – in Glasgow – which, sadly, failed. I wondered if that was something that was part of the present strategy.

And the other thing that the American contributors were very interesting about was the concept of benefit tapering – which is more of a Treasury question – which enabled people to stay with some of their benefits intact (housing benefit, for example) if they could succeed in showing that some of their development of their entrepreneurship, or even their employment, was something that they could set against their benefits for a limited period.

*Janet Paraskeva, The Law Society*

The government has done a huge amount in relation to the working families tax credit and so on, but I wonder if we have done any research about the extent of its take-up and who is actually taking advantage of it and what kinds of jobs those women go into.

Anecdotally, one hears about it being very successful for middle-class women, who are educated and able to deal with the complicated forms and so on, but, clearly, the significance of its difference is going to be when it actually

reaches many more women, who are going to fill the gap that Patricia talked about. I wonder whether there is any research being done.

*Response: Rt Hon Patricia Hewitt MP*

Diana, let me start on your point. You are absolutely right, and several people did say, when we were consulting on the family-friendly package, that we should extend it to elderly dependants. My view of this is that it was very important to build a consensus around what was quite a controversial extension of employment law, and so the package was put together by a group – the employers, trade unions, small businesses, equal opportunities and family groups – all working together to come up with something that they thought was workable. If we had tried to do too much to start with, I do not think we would have done anything at all.

I also think that the interest that society as a whole has in making sure that children are properly brought up is so great that there is a compelling case on public policy grounds for government to intervene in that area. Having said that, most employers, once they embark on this, actually do do it for everybody. Otherwise, you can set up some quite difficult resentment between those who do not have children and those who do. We will look at this again in three years' time, when we can see how it has worked, then we can look at whether we can extend it.

On the point about incubators: We are not saying there must be women's incubators, because some women entrepreneurs do not want any "special treatment"; others very much want to be part of women's networks or business clubs and get support and information from each other. I think this is very much an issue for the regional development agencies, the business links and groups like Prowess, which is one of the women's entrepreneurship networks, to see where there is the demand for it. If the demand is there, the financing is available for incubators – and they are being set up increasingly all over the country.

*Response: Rt Hon Dawn Primarolo MP*

Very briefly, just to add couple of points: On carers, within the tax credits we looked very closely at the issue of "If you can pay a tax credit for childcare, why not a tax credit for carers?" and that matter is not closed.

As Patricia said: In terms of scale of change, the priority has been childcare – and particularly for those women in the lower-middle income range. With the child tax credit and the working tax credit, we are trying to put in place, very carefully, building blocks that enable us to take decisions about where we would want to intervene, at what point, and how.

So, in terms of Margaret's question on tapers, we have entered that debate on a very narrow, careful basis because of all the complex interactions with labour markets and pay.

In terms of take-up, while the child tax credits were aimed at 5.75 million families, we currently have 5.5 million families who have applied or are getting it – a phenomenal change. And 1.3 million families on income support or job seekers allowance are getting the child tax credit boost straight away.

What is really interesting about the debate is not that we have transferred money from men to women (which we have), not that we have put up front the importance of putting money directly to women (which we have), but that we are not paying it fast enough. As difficult as that is in some areas – and I would not underestimate it for some families – I think that speaks volumes about the type of agenda that we are talking about this morning, in terms of shifting preferences.

In the new tax credits, we will be able to analyse geographically who is getting it and where it is going. We have also funded two projects, one in the London borough of Newham and the other in Bradford, about communication strategies – because it is all very well advertising, but if you do not reach the people who will most benefit, then you have not achieved the aims of the policy. Patricia talked about people for whom English is not their first language. In the borough of Newham, I think there are 80 different languages – and that is a huge communication challenge. So we have got the pilot in place to look specifically at who gets it, and what the barriers are for those who are not getting it.

*Jan Hall, Spencer Stewart*

I am not sure if this issue is too marginal for you. But, as somebody who is

spending their time recruiting senior women and putting people onto boards, one of the things I think could usefully be explored is how you bring back that group of incredibly talented women – some of whom have got science and engineering degrees – who have been well educated and, in their early career, before they had their families, were very successful and could contribute enormously to the productivity gap.

They could be the sort of women who would go on boards and become more senior and help us in that area, but there are a large number of them who have fallen out of the workforce at the kind of levels at which they were operating.

What I do not know is how we get them back in and build their confidence because, although they are very bright, smart women, they have stopped doing stuff for a while. It does not take very long – a year to two years – before you are not very employable.

So my question is: Is there a way of bringing together some employers to really think through some initiatives that could signal to these women that there are opportunities to bring them back? I suspect you could bring them back in and you could create the kind of women who could make a real difference in the boardroom and at the top of businesses.

*Sharon Sasson, Barclays Bank*

It is an unfortunate fact that employment at senior levels implies long working hours. In reality, flexible working is also a declining option as you progress into more senior roles. Some recent research at my organisation found that the perception of long working hours and inflexibility in working arrangements acts as the main barrier to women's willingness to apply for more senior roles.

Do the panellists have any views on how this long-hours culture can be challenged – especially in today's market, where there is a continuing focus on headcount reduction – and also given the fact that it is actually not in a company's interest to stop you working these long hours?

*Response: Rt Hon Patricia Hewitt MP*

I hope that Laura Tyson might pick up on the point about women's

appointments. We have also been going around the country having these wonderful sessions with women who are interested in a public appointment – and, quite often, that is a good way to get back into a role and then spread your wings from there.

But there are also issues about how people who are taking a career break keep in touch with their particular profession or sector, and I believe Denise has thoughts on that.

On your point, Sharon, I think there is an enormous problem with this long-hours working culture. It is not universal: it is very American, very Anglo-American; you do not get it on the Continent or in Scandinavian countries, and they have some pretty successful companies. The problem here for organisations is that it is in their short-term interest to demand these absurdly long working hours and to get everything they possibly can from people in whom they have often invested vast amounts of training and development.

It is not actually in their long-term interest, because it gives them horrible retention problems, particularly among women, and it shrinks the recruitment pool. Some women are just saying: "I don't want that kind of life." So they are not even applying for jobs in the City of the kind you are talking about.

So, long term, the interest for financial service firms, professional institutions and so on is actually to operate a more balanced and a more flexible system that may involve very long working hours when you are doing some crazy deal or doing some appalling project, but then allows you to step back a bit, and allows you different options if you have children and so on – different solutions for different companies.

I also think, in the public sector as well as the private sector, we are still much too timid about job sharing in senior roles. I have been trying to get a job-sharing minister into my department. I have got it onto the prime minister's radar screen, but I have not quite managed to crack it yet. And there are examples, private and public sector, of highly successful senior job sharers, and that is one of the ways to deal with this problem.

## Presentation by

### Denise Kingsmill CBE

Chair of the Accounting for People task force on human capital management

I thought it might be useful, following what the ministers have said to set the scene of what the government has been doing overall, to give you a little insight into one of the pieces of work that we are doing to carry through some of these ideas a little bit more deeply and take the next step into how we can bring about some real change.

We – the Accounting for People task force – just recently published our consultation document and you will see it in your packs. I hope you can look at it carefully, and I would look forward to receiving your comments on some of the issues that are raised in it in due course.

#### Biggest pay gap in Europe

The genesis of the Accounting for People task force arose from the previous review I had been asked to look at on women's employment and pay, and, in particular, the reasons for the persistence of the 18% pay gap – which is actually approaching 19% now. One has to ask why it is, in this country, that after 30 years of equal opportunities legislation, after 30 years of having an Equal Pay Act, we still have such a large pay gap – the largest pay gap in Europe – which has been remarkably persistent.

Ministers were concerned about why this was happening and asked me to look from a slightly different angle: to bring to bear some of the methods that are used in the Competition Commission and bring a bit of economic analysis and understanding as to what the reasons are for the pay gap.

We now know that 66% of the female workforce goes into only 10 professions, which are all low-paid sectors: low-paid clerical work, shop assistants, care workers and so on. You also have the situation I describe as the “sticky floor”. The glass ceiling affects very few women; the sticky floor affects a great many of them. It did not matter whether I was looking at nursing or investment banking: you always found this pyramid structure whereby the

men were at the top and the women were at the bottom.

There was also an extraordinary situation whereby you would find that women – quite highly qualified women – had a rate of progress through an organisation that was much slower than that of their male contemporaries and they stayed in grades very much longer than the men did. Most of these organisations were not practising direct discrimination; they understood that discrimination on the point of recruitment was not something that a responsible corporation or company should do. But what was happening thereafter, once in the company, was something that I was concerned about. It was extraordinary how high the attrition rate was after about five years, in many organisations.

#### Annual reports ignore people

One of the recommendations of the Kingsmill review was that there should be further study into the way that corporations manage their people and how they use them as assets. We have all seen, in every annual report we have ever looked at, that they are always full of glossy photographs of smiling workers polishing their machines, all looking incredibly happy. Then, when you open up the report, there is nothing inside about people at all. There are many pages about the remuneration of senior executives. But in terms of actually reporting on the people issues, there are practically none.

This reflects on the situation that I found when I went around to see over 100 chief executives in the course of the Kingsmill review. They would sit with their human resources person alongside them and would often have a pile of glossy brochures, so they could point out to me that they had an equal opportunity policy, and a maternity rights policy, and a return to work policy, and a flexible working policy – and every policy that you can think of.

But when you actually asked “Yes, but why do you have these policies, in relation to your corporate objectives? How do these affect your corporate objectives? How do you align them with your ideas of success, and how do you align them with your ideas of profitability?” there was very little thought about these kinds of questions. And then when you asked them “Well, you've got these policies, what sort of steps do you take to measure the outcomes, and are they effective? Is it working? Are they good things to have?”, again,

there was silence.

The axiom of all good managers then occurred to me, that “we manage what we measure” and if we are not measuring something, then we are not likely to be managing it particularly well.

### **Taking the people asset seriously**

If you look, as I have over the past six months, at the FTSE 250, it is absolutely astonishing how few of them have, for example, the human resources function or the “people function” on the board. I think there are about 20 companies in the FTSE 250 who have the people function on the board, and yet all of them would say that “people are our greatest asset”. Indeed, in most cases, they are also their greatest cost as well. You do wonder what is happening, that they are not understanding exactly what is happening to their key asset, and whether or not they are getting the best out of it.

So we are looking at ways of encouraging business to do more of this. There are some businesses out there who are doing some really good, exciting and interesting things, and I am pleased to welcome here today three members of my task force: Patti Bellinger from BP, Fred Goodwin from the Royal Bank of Scotland and David Bishop from KPMG, all of whom, I think, would also support me in the thought that there is a lot more to be done in this area.

One of the reasons we found for the high fall-out rate of women in many of these large organisations was not that they were leaving to have babies – which was the knee-jerk response of many – but rather that, when they looked up in the organisation, they saw a sea of grey suits and thought to themselves: “This is not where I’m going to flourish; this is not where my values are going to be recognised; this is not where my contribution is going to be understood.” There needs to be a critical mass of women in the organisations: to bring about change, for the value of diversity and, very importantly, to encourage the others coming up behind.

### **Measure in order to manage**

So, in the Accounting for People task force, we are looking at some of the things that companies ought to measure. One company was telling us all about their graduate recruitment programme, which was very expensive.

They were very proud to tell me that they had recruited absolutely in equal numbers and they were very proud about the results of their recruitment process, but did they do anything about tracking those graduates? Not at all.

After the first year of management training, they had no idea where those graduates were going in the organisation. They had no means of tracking them. They had no means of ensuring that those graduates acquired the skills for success within that organisation; there was no career planning for the benefit of the organisation or for the benefit of the individual.

It seems to me that this is a huge lacuna in British management. We are not managing the people that we claim are our greatest asset with anything like the kind of rigour with which we may be managing, for example, our property portfolios or our debt portfolios, or any other aspect of our business.

We are looking at best practice: we are looking at the companies that are doing it well and what lessons we can learn from them; we are looking at what happens in other countries; and we are looking at ways in which we can encourage companies to do it.

### **A factor material to success**

Running alongside my investigation, the Company Law Review has recommended that all companies be required to produce an OFR – an operational and financial review – that is reporting, in their annual report, the issues that are important to their success. Not just the profit and loss account, not just the issues that look at the past financial position, not just those that look at the current financial position, but those factors that are material to a company’s future success. In our increasingly service-based economy, it is going to be a peculiar company that is not going to say that people are material to their success.

So it is quite likely – and it may be one of the recommendations that comes out of our report – that we would suggest that people should be reporting in this OFR issues relating to their management of people, because people are material to their future success.

Once we get this clearly on the agenda, what is likely to happen is that this is going to become increasingly an issue that people focus on, in terms of their management. I do not think there is going to be a revolution as a result of our report. I hope it will be the start of an evolution, whereby these issues are more properly looked at. I hope that, in that way, the skills and talents of women within the workforce will begin to be better valued, better understood, and the means of tapping into those skills and talents will be enhanced.

## Further discussion

*Margaret Prosser, Women's National Commission*

All of us in this room are quite clear about how the pay gap comes about and we know that it is for a range of different reasons, not least that women's jobs are undervalued and that there is so much job separation in the labour market.

There are things that need to be done, and Patricia talked very positively about many of them, but one of the other ways that we could be more helpful is to be a little more pushy about the responsibility of companies to provide training for women. We all pussy-foot around the training agenda, we like to be encouraging and we do not like to be too forceful, but history tells us that unless there is some regulation or some demand then companies do not provide training.

A good number of years ago, when we had training boards, there was a really excellent training programme for women assembly workers in assembly plants to retrain to become engineering technicians. I would like to hear Denise's view on that.

Equally, what do we do about encouraging public services to see women's contribution as being of greater value – because there is not the economic bottom line to be addressed in the same way as there is in private companies?

*Response: Denise Kingsmill CBE*

This is really a rather fundamental issue that is going to change the face of the

21st-century company and will mean that different issues are being identified as to what makes a successful company – a company with sustainable growth and sustainable success, as opposed to something that looks great one year and is on its knees the following year.

An example that I would like to give, which fits in with Margaret's point, is a recent initiative of Harriet Harman, the solicitor-general, whose work I admire greatly. What she has done in the Crown Prosecution Service is to introduce a new training scheme that is exclusively for administration and clerical grades. Most of the entrants are ethnic-minority women. The scheme enables them, on a part-time basis, to qualify as lawyers, and is an example of a fabulous initiative in the public sector – which demonstrates how having a woman at the top of an organisation can sometimes shift people's perspective, and is a win-win situation for the employers.

The CPS were short of lawyers; they wanted to promote internally, but it was the men that were taking up the training opportunities. By creating a training opportunity clearly defined and exclusively related to particular low grades, it meant that these lower-grade people, who, often, had missed out on education and training, had an opportunity to get a second bite at the cherry. It is good for the organisation, fulfils a shortage, moves these women up through the organisation, and gives confidence and encouragement – and, I think, is the kind of initiative that can really take place.

As for training, this is one of the issues that is terribly important. Women, despite the fact that they outperform men at just about every educational level, still do not get the necessary vocational training, or it is not made available to them. Even the BBC, which has a brilliant record of promoting women through the organisation, recognises that training opportunities are the one area where women do not get to take up those opportunities.

Companies often say that they spend x million pounds on training and that there is x million hours of training per employee. But you need to get down below that. What does that training actually mean? Who are they training and what is that training for? How does the training align with their own corporate objectives and the skills that are necessary for success in the organisation?

*Margaret Murray, CBI*

Denise, in your interesting paper the emphasis is very clearly that your work is not a matter for legislation. In the course of your speech you referred to a parallel exercise, the Company Law Review, and I would just like you to clarify exactly whether there will be a legislative fall-out from your work or not.

Second, on training, I would like the audience to get a grip on the facts. The UK spends more than any other EC country on training. Our track record is surprisingly good. We are very good at denigrating ourselves and seeing how much better we can be. Forty percent of our workforce is now covered by the Investors in People standard. Other countries, from South Africa to France, are trying to replicate the standard. We can always do better, but we are not as bad as Denise and Margaret Prosser have suggested.

*Vicki Price, Department of Trade & Industry*

I wanted to go back to the issue of low pay and part-time work, which is absolutely essential. It is interesting when you look at the number of women in part-time work in the UK, which is much higher than you get elsewhere. At the same time, entrepreneurship is very low. The two are linked because there is the possibility in the UK to do part-time work and have these flexible hours, whereas you do not have it elsewhere, so what women do is to start their own jobs.

But the real issue for us at the DTI – and why we actually need to look at entrepreneurship – is that those low-paid part-time jobs are going to be disappearing to India and China, for example. The real question is how we up-skill women – and Margaret’s point is very valid here – to move on to those jobs that are more higher-value added. Training has to come into the whole picture to allow that to happen. That is where the real question and policy action needs to be.

*Response: Denise Kingsmill CBE*

It has to be training targeted to specific objectives. It is not enough just to offer a training opportunity; it has to be a training opportunity that people can take up, that they can fit into their lives.

The Investors in People initiative has been very good in the past. It needs to be reinvigorated, and needs to be given a bit more of a gender agenda so it is actually focused towards the particular needs of low-paid, part-time women workers – who are often the ones that are least confident at seeking out training opportunities. Good companies are trying to do that and do have some terrific initiatives, particularly in the financial services sector.

*Dr Tony Munton*

I just wanted to highlight the childcare issues, because I think we would all agree that, in terms of closing the productivity gap, the availability of good-quality, affordable childcare is key.

In terms of achievement, what the national childcare strategy has achieved should in no way be minimised. Over a million new childcare places, free nursery education for three- and four-year-olds and, as the secretary of state mentioned, a doubling of the budget for the SureStart scheme.

However, we do face some serious challenges here and these challenges, in a way, are a microcosm of the kind of challenges that are facing us when we are dealing with this productivity gap issue. The early-years workforce is 98% women. It is a low-skill, low-pay workforce.

However, there is a current problem in terms of the cost of childcare for women. In London, a full-time nursery place will cost in excess of £6,000 a year. That is roughly 20% of your income, if you are a middle manager. The bad news is that that has got to rise, because, at the moment, it is a low-pay, low-skill workforce and thus we have a problem with the quality of childcare.

One of the reasons that most women who go to work do not use formal childcare provision is because they do not trust the quality. Recent government studies have told us that the quality of childcare out there is mediocre – and mediocre, quite clearly, is not good enough. That is reflected in figures like the rate of 25% turnover among nursery staff currently. That means the average five-year-old whose parents both work goes into year one at primary school having had eight different carers.

What we need to do is significantly raise the quality of childcare, and to do

that we are going to have to significantly raise the cost. That means we have to start thinking a little bit more creatively about how we fund early years and childcare because, if we do not do that, we are going to run into a buffer when it comes to closing the productivity gap.

*David Rough, Non-executive director, Land Securities*

I used to be an investment person in the City, and one of the things we got deluged with was a 50-page document on a company. Forty-nine pages were talking about the financial influence and the business structure. Less than two paragraphs were about the human assets of the business, whether it be management or whether it be the workforce.

Can I strongly recommend to you that, in terms of the report you are producing, it becomes mandatory that the recommendations that you put in it actually go into the annual report? As you say, people only manage what is measured.

We have a situation now where most FTSE annual reports are over 110 pages; over 25-30 pages are pretty pictures and blurb, which is completely meaningless to most people. I beg you to put the management of human resources on a sensible footing in annual reports to give investors a better understanding of how a company is managed – because it is people that make a successful business, not the other way round.

*Denise Jagger, Asda*

I totally endorse the requirement to measure what we manage, but it is important that it extends to private companies as well. A large company such as ours is not listed in the UK and it misses out. Providing a way of measuring that is not overly burdensome will mean you get small private companies able to do it, companies that are beyond listed FSTE 250 companies, which I would urge.

*Response: Denise Kingsmill CBE*

On the whole, there are companies like Asda that are doing good things in human capital management and are keen for it to be a requirement to report. They do not actually want us to be specific about what they report; they want to be able to demonstrate the things that they are doing themselves. They do

not want to have a box-ticking exercise – and that is the last thing that we want, as well.

What we want companies to do – and this is why I talked about the OFR – is to give some serious thought to their own future, to their own productivity in the future, and to those issues and those things they need to do to enhance that productivity. And recruiting, training and keeping the very best people is, at all levels, very important.

