

The subject of Stephen Hester's bonus has been exercising commentators on politics, business, and labour relations. It has variously been framed as an issue of Stephen Hester's honour, as a skirmish in the global war for talent, and of the awkward symbolism of one man receiving so much from the publically-owned pay pot while public sector pay freezes bite for other workers.

Hester's bonus occupies the most recent paragraph in the story about pay, incentives and fairness that has emerged from the banking crisis. The engineers of opaque CDOs, who built houses of cards at the heart of august institutions, did so in part because they were incentivised to take risks, and because they bore no personal costs for their eventual collapse. [The Walker review](#) identifies remuneration as an key area of risk that boards need to bring in scope, to call time on pay policy that acts against the medium-term interests of the institution that is paying the salaries and issuing bonuses.

Chuka Umunna MP, [speaking on Radio 4's Today programme this morning](#), reminded listeners of the UK Government's commitment that banks with majority public ownership would pay bonuses to their executives commensurate with those banks meeting the Merlin targets. RBS has [missed its Merlin targets](#) for lending to small businesses, which is of no small concern to SMEs seeking capital to stay afloat. There is, it would seem, a disconnect between executive pay and the corporate behaviours that the pay is intended to incentivise and then reward.

Close the Gap has done work with a number of UK-based banks, looking at the issue of gender and reward, and has spoken to hundreds of women working across the financial services sector. These discussions paint a picture of pay structures that have the potential for great unfairness. Target-setting often functions in a way to disincentivise flexible working or part-time working, and bonuses for junior (mostly female) staff are sometimes linked to the performance of the senior (usually male) staff they support. Line managers often reward in their own image, and performance management frameworks appear to value stereotypically male attributes (aggression, risk taking) above stereotypically female attributes (team-working, building relationships).

The introduction of performance related pay, which is now a characteristic of pay policy in financial services, usually increases the gender pay gap within individual companies. It takes

effort and commitment to mitigate the unintended, but nonetheless real, negative effects on women's pay. Some banks in Scotland have made real headway on this, while others have not.

The issue, as Walker sets out, is one of managing risk. The financial services sector has not seen the torrent of equal pay cases that have swept through the pay policies of local government and the NHS, but it is not invulnerable. Close the Gap has seen evidence of unjustifiable differences in pay in some large financial services companies. However, the issue is not just about managing immediate financial and reputational risks. It is also about incentivising the types of behaviour that benefit companies and the wider economy. Scotland needs confident financial institutions that will keep capital flowing through the recovery. Scotland's financial services sector needs staff who can build business relationships across and within communities, who can innovate in the design of products and services. Our discussion about reward must shift its focus out of the executive suite and tackle the more complex question of how, or whether, companies can use reward to drive the behaviours in which we all have a stake.