



**THE RELATIONSHIP BETWEEN ACTIONS TO PROMOTE
GENDER EQUALITY AND PROFIT:
A POSITION PAPER**

Employment Research Institute

The relationship between actions to promote gender equality and profit:

A position paper

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EXECUTIVE SUMMARY

Close the Gap is a partnership project that supports both employers and employees to promote positive action to address the causes of the gender pay gap. The project's core funding comes from the Scottish Executive, and the partnership includes the Scottish Trades Union Congress (STUC), the Equal Opportunities Commission (EOC) and Scottish Enterprise. The broad ideological base of the partnership reflects the belief that the gender pay gap is not only an equalities and gender issue, but that narrowing the gender pay gap will have significant economic benefits to the Scottish economy.

The gender pay gap is largely underpinned by women's disadvantaged position within the labour market and is recognised as potentially damaging to overall levels of economic performance. It has been widely argued that companies taking positive action to promote equality of opportunity between men and women and equal pay will benefit from a combination of cost minimisation and profit maximisation as a direct result of such action. This is often referred to as the 'business case' for gender equality.

In the interests of promoting the business case for gender equality action to employers, Close the Gap have commissioned the Employment Research Institute at Napier University to develop a position paper on 'The relationship between actions to promote gender equality and profit'. This research is intended to collate and analyse the existing evidence in support of the



business case for addressing gender equality in individual firms and to therefore support the work of Close the Gap. Towards this aim, an extensive review of the literature and evidence relating to action to promote gender equality and associated business benefits has been undertaken, the results of which are presented in this paper.

THIS RESEARCH HAS BEEN CARRIED OUT IN THREE PHASES:

PHASE ONE involved a general desk and web-based review of academic, policy and research literature using international databases.

PHASE TWO involved more in-depth desk and web-based review of research and policy documents produced by key stakeholders in Scotland and the UK.

PHASE THREE involved a more in-depth desk and web-based review of research and policy documents produced by international stakeholders where available.

This paper presents the research findings from all three phases of the research project. The methodological issues associated with establishing this relationship are also considered, as are relevant examples of best practice employers and the impact that positive action has had on their business. Three main areas are considered – actions to address segregation in the workforce (discussed here as increasing workforce ‘diversity’), addressing vertical segregation by improving the representation of women at senior management level and the implementation of flexible working practices that enable women to increase their participation in the labour market by combining paid work with caring responsibilities. These issues are considered key to closing the gender pay gap.

The potential benefits of increasing the gender diversity of the



workforce have been considered by some authors as part of the 'managing diversity' agenda within human resource management studies. Often discussed as 'social' or 'demographic' diversity, gender and ethnic diversity in the workforce has been argued to enhance company performance. The benefits to increasing diversity are associated with bigger and better labour supply, a reduction in turnover and recruitment costs and increased productivity through raising employee motivation. Evidence was found that high calibre female and ethnic minority candidates found diversity management to be attractive when applying for jobs indicating that companies with good diversity practices may expect to recruit the best candidates. Gender and ethnic diversity in management structures was also shown to have positive effects on business performance in terms of growth and returns to company investment and assets. Much of the evidence provided from a 'managing diversity' perspective is based on survey and/or case study data and has considered gender diversity at the same time as ethnic diversity. This area could therefore benefit from a better balance of methods and specific consideration of gender diversity. Similarly, more work could be done to investigate the impact of actions to address horizontal segregation in male dominated sectors in the context of current skills shortages in occupations traditionally associated with male employment.

The lack of women in senior management (vertical segregation) has also been investigated as part of the business case for improving the position of women in the labour market and narrowing the gender pay gap. Robust evidence has been found that positively links the proportion of women in corporate senior management with profit increases. Three large scale American studies show a significant correlation between companies with good records of promoting women and enhanced financial



performance. The validity of these studies is enhanced by the longitudinal nature of their data and the statistical techniques used. There is also evidence for the UK that suggests that women's representation on boards of directors is associated with good governance and makes good business sense.

Vertical and horizontal segregation could both be tackled by the implementation of family-friendly policies that would enable women with caring responsibilities to participate more fully in the labour market. Flexible working practices such as hours reduction (part-time, job share) and other policies such as home-working and flexi-time have been introduced by many companies and the evidence suggests that these companies have benefited financially. The business case for flexible working has been more widely researched than managing diversity and women in management. This seems appropriate given that the difficulties associated with combining paid work with unpaid caring are often a key barrier to increasing workforce diversity in terms of gender and for women ascending the career ladder. Using a range of methodologies including survey data, case studies and statistical analysis of the 1998 Workplace Employer Relations Survey data set, the evidence found suggests that companies implementing flexible and/or family-friendly working practices can expect to reduce recruitment costs and increased productivity. One study established a positive link between these policies and firms' financial performance.

This paper also provides brief examples of case study organisations who are able to demonstrate the benefits they have accrued from implementing positive action to address gender gaps in their workplaces. Crucially, employer accounts of the positive benefits that improving gender equality has had on their business indicate that equality is as much about profit and business performance as it is about social justice.



INTRODUCTION, BACKGROUND AND METHODOLOGY

Close the Gap is a partnership project that supports both employers and employees to take forward positive action to address the causes of the gender pay gap. The project's core funding comes from the Scottish Executive, and the partnership includes the Scottish Trades Union Congress (STUC), the Equal Opportunities Commission (EOC) and Scottish Enterprise. The first phase of Close the Gap was funded under the EQUAL community initiative and the focus of the project was developing innovative methodologies to progress equal pay within small and medium enterprises (SMEs) and in partnership with STUC affiliated trades unions.

The broad ideological base of the partnership reflects the belief that the gender pay gap is not only an equalities and gender issue, but that addressing its potential causes will return significant productivity gains to the Scottish economy. Women's disadvantaged position within the labour market, and particularly the gender pay gap, is recognised as potentially damaging to overall levels of economic performance. The UK government has drawn attention to the economic impact of patterns of gender inequality with particular reference to education and training in the recent report of the Women and Work Commission (2006) and the Kingsmill Review (2001). This 'business case' approach states that tackling gender based inequalities in the labour market could not only encourage economic growth in the macro economy but could also benefit individual firms. It has been widely argued that companies



taking positive action to promote equality of opportunity between men and women will benefit from a combination of cost minimisation and profit maximisation as a direct result of such action (Kingsmill 2001, Brett 2006). Employers require robust, measurable evidence of the 'bottom line' benefits they will accrue by addressing the gender issues within their own workforce, particularly in an increasingly competitive marketplace.

As Kingsmill (2001) has recognised, evidence and information sharing are key to promoting the positive impact a gender aware approach to human capital management can have on individual business performance.

“The driver of the virtuous circle in which business incentives prompt a strategy to promote diversity, which in turn deliver greater profits, is information. This means information and quantitative data available at the firm level to generate both an understanding of where best practice lies, and a situation in which those firms which are getting their human capital management right are rewarded through higher levels of investor confidence and ultimately higher shareholder value”

(Kingsmill 2001:51)

In the interests of promoting the business case for gender equality action to employers and promoting an agenda for positive change, Close the Gap have commissioned the Employment Research Institute at Napier University to develop a position paper on 'The relationship between actions to promote gender equality and profit'. This research is intended to collate and analyse the existing evidence in support of the 'business case' for addressing gender equality in individual firms, concentrating particularly on firm-level quantitative indicators.



Towards this aim, an extensive review of the literature and evidence relating to action to promote gender equality and associated business benefits has been undertaken.

This research has found that although the business case for actions to enhance equality between men and women in the labour market has been widely articulated, particularly in policy documents, quantitative evidence relating this action to profit increases for individual companies is less visible. However, evidence of business benefits that readily translate into higher profits such as increased productive capacity, reduced staff turnover and absenteeism, and recruitment of the most talented managers has been found. Overall, the findings of this research indicate that there are clear business incentives for individual companies to address gender inequalities in their own workforce. The evidence suggests that companies are benefiting by taking action on three main issues

- the demographic diversity of their workforce which includes gender diversity;
- the representation of women in senior management teams; and
- the implementation of family-friendly or ‘flexible’ working practices that allow women to participate more fully in the workforce.

METHODOLOGY

In line with the brief provided by Close the Gap, the objectives of this research were to

- Provide a robust analysis of evidence that links action to address gender inequalities and the benefits/profits that may be returned to individual companies, drawing on key business indicators;



- Discuss the inter-relationships between actions to address gender inequalities and specific business benefits such as improved retention; increased innovation, employee morale and productivity; and enhanced corporate image;
- Identify methodological and data-gathering issues and problems associated with carrying out research on the relationship between action to address gender inequalities and business benefits;
- Identify case study initiatives, organisations or practices which may be useful to Close the Gap in promoting good practice to employers or employers agencies.

THE RESEARCH HAS BEEN CARRIED OUT IN THREE PHASES:

PHASE ONE involved a general desk- and web-based review of academic, policy and research literature using international databases.

PHASE TWO involved a more in-depth desk- and web-based review of research and policy documents produced by key stakeholders in Scotland and the UK, including: Close the Gap: Equal Opportunities Commission, DTI, the Scottish Executive, TUC/STUC, CBI, voluntary sector representatives and local authorities' representatives.

PHASE THREE involved a more in-depth desk- and web-based review of research and policy documents produced by international stakeholders including: European Commission, major EU member state and other governments, ETUC and UNICE (European Business Federation). The results from all three phases are presented in this paper alongside discussion of methodological issues and issues for further investigation.



THE GENDER PAY GAP

In Scotland, the current gender pay gap in hourly earnings is 14% for full time and 35% for part time workers (Office for National Statistics 2006). This figure relates to mean, as opposed to median, earnings and excludes over-time pay. When over-time, shift pay and payment by results etc. are included, the gap between male and full time weekly earnings rises to 19% (*ibid*). The gender pay gap is underpinned by other aspects of women's inequality in the labour market such as occupational segregation, discrimination and women's role as unpaid carers (Walby and Olsen 2002).

Occupational segregation can be horizontal or vertical. *Horizontal* segregation occurs where stereotyped assumptions about male and female capabilities and preferences concentrate women into predominantly female occupations (and men into male occupations). For example, in Scotland in 2005, 82% of workers in administrative and secretarial occupations were female but only 8% of skilled trades people were women (EOC 2006b). The jobs that are predominantly female are more likely to be associated with low pay, contributing to the pay gap. *Vertical* segregation is associated with women's under-representation as managers and in other senior positions. In Scotland in 2005, only one in three managers and senior officials were women (*ibid*). Senior positions are generally better remunerated so female under-representation in these posts further contributes to the gender pay gap.



Women continue to do the majority of unpaid care in the UK economy (National Statistics Online 2007a) and there is evidence to suggest that women opt for part time work that affords them more flexibility to combine unpaid care with labour market participation (EOC 2005a). As most part time work is in low paid, stereotypically female jobs, opting for part time employment to ensure flexibility asserts a downward pressure on women's earnings relative to men's.

Strategies to reduce the current pay gap therefore must include actions to address occupational segregation and enhance flexible working practices, alongside the UK government and Scottish Executive's current approach of encouraging employers to voluntarily carry out Equal Pay Reviews (EPR). EOC research showed that only 14% of large private sector organisations stated that they undertook an EPR in 2003. This figure more than doubled to 28% in 2004 but in 2005 34% of large organisations had implemented an EPR (EOC 2005b) indicating that progress had somewhat stalled. Given that there is a 'business case' for addressing equal pay issues (Brett 2006), many employers are losing out by not considering the economic or business related benefits associated with pursuing gender equality in their workforce.

The 'economic' argument for addressing inequality between women and men in the labour market is familiar in terms of the macro-economy. It has been convincingly argued that addressing women's position with respect to pay inequalities and labour market participation could bring extensive productivity gains to the UK economy on aggregate (Walby and Olsen 2002, Women and Work Commission 2006). The recent report of the Women in Work Commission estimated that removing barriers to women working in traditionally male jobs



and increasing their labour market participation could be worth between £15 billion and £23 billion to the UK economy – that’s between 1.3% and 2% of GDP (Women and Work Commission 2006:vii). The UK government, particularly through the Women and Equality Unit of the Department for Communities and Local Government (DCLG) (formerly based within the Department for Trade and Industry (DTI)), are increasingly promoting the ‘business case’ for addressing equality and diversity issues to individual employers. In microeconomic terms, individual firms are being invited to consider gender equality as a ‘bottom line’ issue that is directly relevant to their business.

This paper assesses the extent to which a relationship between actions to promote gender equality and profits for individual firms has been evidenced by relevant academic and policy research. The methodological issues associated with establishing this relationship are also considered, as are relevant examples of best practice employers. Three main areas are considered – actions to address horizontal segregation in the workforce (discussed here as increasing workforce ‘diversity’) addressing vertical segregation by improving the representation of women at senior management level and the implementation of flexible working practices that enable women to increase their participation in the labour market by combining paid work with caring responsibilities.



MANAGING GENDER DIVERSITY

Much of the evidence provided by the academic community has come under the guise of ‘managing diversity’ (sometimes known as ‘equality and diversity’) literature in the field of human resource management. The term ‘managing diversity’ has been in widespread use since the late 1980s when academics and the business community alike began to consider the possible effects of incoming changes in the demographic composition of the workforce which meant that white males would become the minority of new labour market entrants. ‘Managing diversity’ encompasses many definitions but can be summarised as “valuing everyone as individuals - as employees, customers and clients” (Anderson and Metcalf 2003:vii). Within the literature, three key types of diversity have been identified; social or demographic diversity (differences in age, race, ethnicity and gender); informational or organisational diversity (differences in education, tenure and functional background) and value or psychological diversity (differences in personality and attitude).

The majority of research has focussed on social (or demographic) diversity and a strong ‘business case’ argument for demographic diversity has emerged. The business case for increasing diversity has most often centred on actions to increase the representation of women and/or minority ethnic employees and the potential economic benefits that can accrue to companies who can successfully increase the diversity of their workforce. In one of the earliest books on the business



case for equality and diversity, Ross and Schneider (1992) argue that considering equal opportunities enables organisations to

- Manage change by attracting people with new and different ways of thinking
- Create a working environment where total quality can take root
- Anticipate and meet the changing needs of customers
- Recruit and promote the best people by widening the traditional sources of candidates
- Retain the best people by ensuring that their needs are fully taken into account
- Increase productivity by raising motivation and commitment
- Increase profitability by reducing attrition and recruitment costs (Ross and Schneider 1992: 99)

Opportunity Now, a business led campaign for the promotion of women in the workplace, categorises the link between *gender* equality and business 'excellence' in two areas; effectiveness and cost (Opportunity Now 2001). Equality is linked to business effectiveness in terms of attracting the best employees; employee commitment; increased productivity and quality of product; organisational flexibility; innovation; and satisfying female customers, shareholders and other stakeholders (Opportunity Now: 8). Equality is linked to cost reduction in terms of reducing turnover and employee absence and reducing the risk of employee litigation under equality legislation (*Ibid*:9). Opportunity Now also outlines case study companies that have implemented strategies for achieving gender equality and can describe the positive impact that these strategies have had on their 'bottom line' issues (Opportunity Now 2001).



The Chartered Institute for Personnel Development (CIPD) has been active in articulating and in evidencing the business benefits associated with diversity. As part of their ‘change agenda’, the CIPD commissioned extensive research to explore the potential benefits of managing diversity. Subsequently, Anderson and Metcalf (2003) found that the benefits of diversity management had yet to be fully explored by individual organisations and cited the lack of robust academic evidence as a contributing factor. However, they also found that “more and more organisations are finding from practical experience that there are benefits to be gained and that managing diversity makes business sense” (Anderson and Metcalf 2003:2). In a survey published in 2006, responding employers indicated that ‘recruitment and retention’ was their key driver for diversity (CIPD 2006). The Confederation of British Industry (CBI) has also stated that business “[will] benefit when employees are recruited, trained and promoted without reference to race, age, gender, disability, sexual orientation or religion” (CBI 2005).

However, where the theoretical business case for increasing diversity has been strongly articulated, its relationship to profit increases is more difficult to evidence. Furthermore, any discussion of aspects of diversity related specifically to gender is often subsumed into diversity which *includes* gender with other grounds such as race and age. The potential benefits of addressing inequalities between men and women are therefore less easily identified and the issue of gender pay equality is often entirely obscured. While some academic studies characterise demographic diversity as ethnic and gender diversity (Erhardt et al 2003, Kochan et al 2003, Ng and Burke 2005), a minority consider gender diversity alone (Dwyer et al 2003). Whereas these studies mainly consider diversity of the overall workforce, there is a significant body of research examining the relationship between diversity at management (or often board) level.



Ng and Burke's recent study (Ng and Burke 2005) showed that women and minority ethnic candidates found diversity management to be attractive when accepting offers of employment. Their results are based on a survey of 113 MBA job seekers from one mid-sized university in Ontario, Canada. The evidence provided by this study suggests a link between diversity management practices and the attraction of high achieving employees. The authors state that their results "support the notion that individuals with high levels of achievement prefer to work for more progressive organisations" (Ng and Burke 2004:1206) thus adding weight to the claim that organisations with good diversity practices in respect of gender and ethnicity can expect to recruit the best available candidates.

The relationship between demographic diversity (in this case gender and ethnicity) on boards of directors and firm financial performance was examined by Erhardt et al (2003). Data from 112 large US companies from various industries were examined by both correlation and regression analysis. The results supported the hypothesis that race and gender diversity on the board of directors was positively linked to returns on investments and assets (Erhardt et al 2003:107). The authors also indicate that their results are consistent with other attempts to examine demographic diversity at workforce, as opposed to board, level (Murray 1989, Richard 2000 *cited in* Erhardt et al 2003). The results of this study are robust for large scale companies (the average number of employees in the sample was 20,202) furthermore, the authors indicate that there is no evidence to suggest that the impact of diverse boards of management would be any less for smaller and medium sized companies and that it is "possible that diversity may actually show larger effects on smaller organisations, as individual efforts are more noticeable" (*Ibid*: 108).



Kochan et al (2003) conducted a large scale study into the effects of workforce diversity (race and gender) on business performance. This field based research was carried out in four large American organisations by researchers from a cross section of universities over the course of five years. The data used was wide and varied and included survey data on organisational context and existing group processes, archival data on workforce composition, census data on customer base and objectives measures of business performance. This research was heavily situated in theoretical perspectives on the effects that (observable) diversity has on group dynamics and their implications for business performance. However, this study found that there were few direct effects of diversity on performance, either positive or negative. The authors state that findings suggest “that this is likely because context is crucial in determining the nature of diversity’s impact on performance” (Kochan et al: 17). The difference between effects associated with gender diversity and those associated with racial diversity were not explored in great detail however the authors note that they “found that gender diversity was less problematic than racial diversity” (*ibid*). This indicates that studies examining *either* gender or racial diversity effects on business outcomes could be more meaningful than those attempting to isolate the effects of both simultaneously.

In one such study, Dwyer et al (2003) sought to investigate the effects of gender diversity in management at middle, as well as senior, management level on firms’ financial performance. Given that previous studies of the effects of diversity (not just gender diversity) have been reported to have had mixed results, the authors hypothesised that other organisational variables were influencing the relationships between diversity and the bottom line. Two of these ‘contextual’ organisational variables were



explored; firms' growth orientation and organisational culture. Results suggested that:

- Gender diversity in management should enhance performance for firms seeking growth and;
- The appropriate culture should be in place to fully realise gender diversity's benefits for firms seeking to diversify their managerial ranks (Dwyer et al 2003: 1017).

This study, based on 177 responses from a survey of banking institutions, indicates that examining gender diversity in the context of organisational culture reveals more about the potential benefits that gender balance in management can bring and, similarly, that organisational culture must be receptive to the potential benefits of gender diversity. The results of Dwyer et al's study may give some indication as to why evidencing the link between gender diverse boards of directors and bottom line performance has proved to be so elusive – an adequate discussion of organisational context has been largely absent. Furthermore, it would be useful to have evidence relating positive action in specific male dominated occupational sectors. Some traditionally male employment sectors, such as construction and engineering, are currently experiencing skills shortages. It has been argued that increasing the numbers of female recruits in these areas would be one way to remedy skills shortages by effectively increasing the available pool of job applicants (see Thomson et al 2005, EOC 2006a). As occupational (or horizontal) segregation is also a contributing factor in the current gender pay gap, evidence relating to the potential effects of occupational desegregation is key to narrowing the gender pay gap.



WOMEN IN SENIOR MANAGEMENT

In recent years, there has been a significant rise in the number of women in managerial positions in Scotland. In 1981, only 1 in 5 managerial positions were filled by women but in 2005, that figure was up to 1 in 3 (EOC 2006b). However, the level of women in management is still disproportionate to the numbers of women in the labour market overall (*ibid*). This is particularly marked in some sectors. In Scotland for example 89% of employees in the health and social work sector are female but only 19% of health service Chief Executives are women (Fitzgerald and McKay 2006). The barriers to women's participation in management have often been characterised as 'glass ceilings' or 'sticky floors'. The relative lack of women in management has been explained in terms of the cultural barriers within organisations (e.g. Rutherford 2001), by the pervasiveness of the stereotype that associates management with maleness (e.g. Schein and Davidson 1993) or by asserting that women do not desire positions of seniority (e.g. O'Connor 2001).

As more women move into management positions, academics have begun to focus on women's experience of management as distinct from that of men. The argument that women bring specific skills and aptitudes associated with femininity and 'softer' approaches to management, particularly human capital management, have emerged (see for example Chesterman and Ross-Smith 2003). Management styles identified as 'transformational', as opposed to 'transactional', have been



linked to women and those traditionally female skills such as nurturing and empowerment of others (Tichy and Devanna 1986, Rosener 1990). The extent to which women do actually manage in this way has been highly debated within the literature (see for example Bacchi 1990) although the idea that women can ‘add value’ through uniquely female traits and skills underpins at least part of the business case for enhancing women’s progression into managerial positions.

Recently, the business case argument in support of women in management has been given more attention in the literature. Cassell (1997) has argued that the re-focussing of equality issues towards the business case has been due to the relative failure of ‘equal opportunities’, grounded in social justice arguments, to achieve proportionate representation of women in management. The perceived failures of the equal opportunities approach have, for some authors, been associated with employer resistance to increased equal opportunities legislation that was seen to curtail employers’ autonomy to manage their own HR functions and equal opportunities priorities (Ross and Schneider 1992). Furthermore, the recognition of changing demographic trends is a key element of the business case for women in management, much as it is for business arguments surrounding ‘managing diversity’. The increased number of women entering the labour force means that “employers need to make more use of the skills of women and focus on how to retain high quality women staff” (Cassell 1997: 12). This argument assumes, as is the case in discussions of ‘transformational’ leadership, that women invariably display the characteristics and aptitudes that are traditionally associated with femininity. Nonetheless, much of the evidence presented in support of the business case indicates that firms with more women in senior management positions show superior business performance.



Singh and Vinnicombe (2005) make it clear that increasing the number of women in top corporate management is a 'bottom-line issue' and that action to address gender imbalance on the board could benefit individual firms in a number of ways:

- Extending the portfolio of skills at the top of the organisation
- Giving the organisation a better feel for female customers
- Providing female role models for younger high potential women
- Ensuring the organisation looks attractive to potential female applicants and
- Guaranteeing that all levels of management are filled with the best executives (Centre for Developing Women Business Leaders 2006).

The Centre for Developing Women Business Leaders, based at Cranfield University in the UK, produces 'The Female FTSE Report' annually. This research has monitored the progress of women onto the top corporate positions in the UK since 1999 "in an effort to address the global issue of women's lack of access to board positions in the corporate sector" (Singh and Vinnicombe 2005:9). In the latest Female FTSE Report (Singh and Vinnicombe 2005), research based on data from FTSE 100 companies (and other sources) indicated that while a new record number of FTSE 100 companies now have female directors (78), 22 FTSE 100 companies still had all-male boards. Research also showed that the new female directors bring a much greater diversity of experience to the boards than their male counterparts. According to this study, the wealth of diverse experience that women are able to bring to the boardroom represents a 'breakthrough' that is simply good for business.



Robust statistical analysis contained in the latest Female FTSE Report indicates companies with women directors scored significantly higher than companies with all male boards, in relation to good governance indicators. The companies with female representation had higher scores for process transparency and were found to be more likely to have board development processes (Singh and Vinnicombe 2005:5). These authors did not establish a correlation between the presence of women directors and financial performance measures. However, they do state that their study

“...cannot conclude that gender diversity on the board is not beneficial to shareholder value. Ultimately, diversity is always part of exemplary corporate governance which will enhance shareholder value in the long term”

(Singh and Vinnicombe 2005:22).

Statistical analysis contained within the Female FTSE attempting to link gender diversity on the board with the financial performance of the individual companies in question provides only a ‘snap shot’ of the data at a given point in time. Indeed, the Female FTSE overall is not intended to investigate the relationship between these variables as much as to track women’s progress onto corporate boards. However, a longitudinal analysis would perhaps provide more evidence of a link between women’s progress into the boardroom with the performance of companies embracing gender diversity in senior management.

The North American organisation, Catalyst, explicitly set out to investigate the link between gender diversity at board level and financial performance in their 2004 report ‘The Bottom Line: Connecting Corporate Performance and Gender Diversity’



(Catalyst 2004). Their study used a longer time period and, accordingly, found more robust evidence of a positive relationship between women's representation in corporate governance and financial indicators of success. Using two measures of financial performance, Return on Equity (ROE) and Total Return to Shareholders (TRS), and data on 353 Fortune 500 companies from 1996 to 2000, their research concluded that there is a connection between gender diversity and financial performance (*Ibid*:1). A key finding from Catalyst's research was that the groups of companies with the highest representation of women on their top management teams experienced better financial performance than the group of companies with the lowest women's representation. This finding held for both measures of financial performance, ROE (35% higher) and TRS (34% higher). Adding weight to this finding, an analysis by industry found that in each of the five industries analysed, again the group of companies with the highest women's representation at the top of the organisation experienced a higher ROE than the group with the lowest. Furthermore, in four out of five industries analysed the group of companies with highest female representation experienced a higher TRS than the group of companies with the lowest number of women in their top management teams. Similar to the arguments made by Singh and Vinnicombe (2005), Catalyst states that there are unambiguous business benefits to be accrued to individual companies developing and leveraging female talent into senior management.

“The business case for recruiting, developing and advancing women maintains that companies that have diversity and manage it properly make better decisions, produce better products and retain several key business advantages over more homogenous companies. In short, the business case for women in management



contends that companies that achieve diversity and manage it well attain better financial results than other companies” (Catalyst 2004:3).

Their extensive research, using longitudinal data and a relatively large sample of companies, have shown that there is indeed a positive correlation between women in senior management and indicators of financial performance for individual firms.

In an another extensive study spanning 19 years, Adler (2001) concludes that there is a high correlation between “a strong record of promoting women to the executive suite and high profitability” in the 215 Fortune 500 companies included in his study (Adler 2001:2). This study began in 1992 and took advantage of a very large base of data for Fortune 500 companies for the period 1980 to 1998. Companies were scored in relation to their record for promoting women to executive positions. The 31 firms that scored the highest (the ‘top’ seventh of the sample) were then evaluated for profitability (*Ibid*:4). Six firms were then discarded due to lack of data for 1999 leaving 25 ‘top’ scoring firms overall. Three measures of profitability were designed in order to evaluate the firms; profits as a percentage of revenue, assets and stockholders’ equity (*Ibid*:5). The results of this study showed a clear pattern of enhanced profitability for companies with the best scores for promoting women, using all three measures and controlling for industrial affiliation. To be precise, Adler concluded that they [the 25 Fortune 500 firms with the best record of promoting women to high positions] were “between 18 and 69 percent more profitable than the median Fortune 500 firms in their industries” (*Ibid*:1). The quantitative methodology used in this study is relatively robust and the longitudinal nature of the data set improves the validity of the conclusions drawn from it. As with other studies that



show correlation between female representation in the board room and profits for individual firms, the author is keen to point out that correlation does not establish causation (*Ibid*:6). However, Adler believes that the positive correlation between the presence of women executives and higher than normal profitability is indeed an example of good governance and good business decision making.

“One of the smart decisions that that those executives have made is to include women in the executive suite, so that the best brains are available to continue making smart, and profitable, decisions for the firm.... Wise executives might well keep this evidence in mind as they consider promoting talented individuals to the executive suite”
(*Ibid*).

Welbourne (1999) also used longitudinal data to investigate the financial effects of women on the top teams of Initial Public Offering (IPO) companies between 1993 and 1996. Although spanning considerably less time than Adler’s (2001) later study, this research gives some indication of long term effects. Using extensive regression analysis on a sample of 476 companies (of a possible 585 that went public in the US in 1993), the presence of women was found to be positively related to firms’ short term (measured by market price/book value per share) and long term performance (measured by stock price and earnings per share). Welbourne (1999) concluded that “having women on the top teams results in higher earnings and greater shareholder wealth” (Welbourne 1999:11). Diversity benefits have been clearly indicated by this study but, interestingly, the results show that it is the *mix* of men and women on the top management teams that drives better long term performance, and not the presence of women *per se* (*Ibid*).



WORKPLACE FLEXIBILITY

In the 1990s, ‘family-friendly’ policies emerged that were designed to support women in their role as both paid workers in the formal labour market and unpaid carers in the household (Wise 2003b). These types of policies are now known as ‘flexible’ or ‘work-life balance’ policies, reflecting a more inclusive approach to allowing all employees (not just those with caring responsibilities) to balance their work and non-work time. However, many of these policies still focus on supporting the needs of working mothers (*Ibid*) and the term ‘family friendly’ is still in widespread use. A better balance between work and non-work time can be achieved through a number of measures including;

- Reduced hours (part-time, job share);
- Changing when hours are worked (compressed working week, flexi-time, term-time working);
- Where hours are worked (home working); and/or
- Providing periods of paid or unpaid leave (*Ibid*).

The EOC states that 40% of mothers (compared with 10% of fathers) have either given up or turned down a job because of difficulties combining it with their caring responsibilities (EOC 2005a). ONS figures reveal that working age women with dependent children are less likely than those without to be in employment (National Statistics Online 2007b). Given that women are the majority of unpaid carers in the UK workforce (National Statistics Online 2007a), it follows that the



introduction of flexible working practices could enable women to participate more fully in the UK workforce. Indeed, there is evidence to suggest that organisations which provide part-time working opportunities can be more successful at recruiting women (Dex 1999, Wise and Bond 2003) precisely because women tend to use part time work to combine work with unpaid caring.

The definition of a 'good work-life balance' depends upon the interaction of employee and employer needs and is often negotiated by individuals. However, flexible working strategies have been promoted from an employer, as well as an employee, perspective, arguing that employers have much to gain from implementing the flexibility that their, often female, employees need. The business gains to be made from the implementation of flexible working are described in terms of enhanced recruitment and retention; reduction in absenteeism and turnover; improved employee commitment and morale and associated productivity gains (Women and Equality Unit 2003).

There is some evidence to suggest that flexible working practices can have pay offs to individual companies, as well as for UK productive capacity as a whole. As Yeandle et al (2006) have noted, the rationale for operating family-friendly working practices is multi-faceted and includes the 'business case' where "the cost of developing and operating the policies are considerably outweighed by productivity gains and reduced operating costs" (Yeandle et al 2006:7). Hogarth et al (2001) found evidence to support some of these propositions. Using survey data, they found that 72% of responding employers reported that work life balance practices fostered good employment relations; 58% of respondents thought that they improved staff motivation and commitment and 52% agreed that



they helped lower turnover, reduce absenteeism and retain female employees (Hogarth et al 2001:233).

Bevan et al (1999) conducted research into the business benefits of family-friendly employment practices in small and medium sized enterprises. Using 11 SMEs that had implemented a range of family-friendly policies beyond the statutory minimum as case studies, their research identified the business benefits as

- Reduced casual sickness absence
- Improved retention
- Improved productivity
- Improved recruitment
- Improved morale and commitment

Furthermore, it was possible for some of the case study companies to estimate the financial cost and benefits associated with certain family-friendly arrangements. Using rudimentary company data, Bevan et al (1999) estimated that replacing a leaver was likely to cost a minimum of one third of the recruit's first year salary and that extended tenure of a post due to family friendly provision could result in "considerable [savings] even when the costs of providing the family-friendly policies were offset against these savings" (Bevan et al 1999:4).

One study (Gray 2002) establishes a direct relationship between family-friendly policies and performance measured in financial terms. This research analysed large scale survey data from the WERS98 (the 1998 Workplace Employer Relations Survey), which represents a major departure from the case study methodology that dominates much of the research in this area.



Regression and correlation analysis results indicate that, when controlling for a wide range of workplace characteristics, “there is strong evidence to suggest that family-friendly policies are associated with superior, rather than inferior, performance” (Gray 2002:24).

Dex et al (2001) also found business incentives for employers implementing family-friendly and flexible working. This research, carried out for the Joseph Rowntree Foundation, also used the WERS98. Three methods of regression analysis were used to estimate models of labour productivity, quality performance, financial productivity, rising sales, turnover and absence data in order to examine the ‘business case’ for family-friendly working practices. It was found that these types of policies are associated with small amounts of improvements in the private sector organisations, but not in the public sector (Dex et al 2001) and that, more encouragingly, nine out of ten organisations with some experience of these policies found them cost effective (*Ibid*).

This is supported by research from the EOC that indicates that 76% of employers said that, where policies had been introduced, there had been no set up costs. This research (EOC 2005a) also found that the majority of employers (71%) reported no on-going costs from flexible working practices and leave arrangements (*Ibid*). The benefits reported to employers operating flexible working included a positive impact on management-employee relations, employee motivation and commitment and labour turnover (*Ibid*). Most significantly, 39% of the workplaces that had four or more flexible working practices and leave arrangements reported financial performance that was better than that of similar workplaces in the same industry (*Ibid*). It was also found that workplaces which employ mostly men,



particularly in traditional craft industries and occupations, were less likely to offer flexible working and were therefore missing out on the benefits reported by other firms. IFF research (2005) on the other hand found no significant differences by sector or organisation in perceptions of the benefits of flexible working in their employers' survey.

The CIPD's *Flexible Working: Impact and Implementation* survey (CIPD 2005) also explored the business effects of flexible working and found that recruitment and retention was most likely to be positively affected by its implementation. 27% of survey respondents found that flexible working had a major positive effect on retention and a further 47% believe it had a positive effect (CIPD 2005:2). Over half of those surveyed believed that recruitment had benefited from the implementation of flexible work practices (*Ibid*).



DISCUSSION

This review of evidence relating actions to address gender gaps to business benefits has shown that there is a clear business case for individual companies to consider gender equality in their workforce. Encouragingly, measurable evidence of profit increases resulting from action to address gender inequalities has been found. The evidence has suggested that employers are benefiting by taking action on three main issues

- the demographic diversity of their workforce which includes gender diversity;
- the representation of women in senior management; and
- the implementation of family-friendly or 'flexible' working practices that allow women to participate more fully in the workforce.

Sources have included the academic community, policy documentation and employer case studies provided by employers' representatives such as the CIPD.

Focussing mainly on social (or demographic) diversity, various studies have indicated that equality and diversity considerations can enable businesses to increase profitability in terms of recruiting the best available talent from the widest possible talent pool (Ng and Burke 2005, Kochan et al 2003). Similarly, it has been shown that firms with more diverse management teams have better business performance than those with less diversity in management (Erhardt et al, Dwyer et al 2003). Only



one of these studies (Dwyer et al 2003) investigates gender in isolation (the others look at gender and ethnic diversity simultaneously) indicating that diversity arguments could benefit from targeting gender equality more thoroughly. The methods used were mainly survey data (Ng and Burke 2005, Dwyer et al 2003, Kochan et al 2003), although Erhardt et al (2003) used correlation and regression analysis. More quantitative methods may produce results that are more easily measurable and could be used to advance the business case for gender equality more effectively to the business community.

Studies investigating the business effects of women in senior management have had more positive results using more quantitative approaches. Singh and Vinnicombe (2005) found that firms with women on their senior boards of directors scored better than all-male boards on good governance indicators. The North American organisation, Catalyst, found a robust, positive relationship between women's representation in corporate governance and financial indicators of business performance (Catalyst 2004). Similarly, the results of Adler's (2001) study found that there was a clear pattern of enhanced profitability for companies with the best records of promoting women. Welbourne (1999) showed that a *mix* of women and men in the board room provided optimal financial performance and shareholder value. These studies all use econometric regression techniques to show a correlation between women in senior management and firms' financial performance but Adler (2001), Catalyst (2004) and Welbourne (1999) all benefit from using longitudinal, as opposed to 'snap shot', data. Longitudinal research gives a picture of the data that allows for 'before and after' comparison, making it easier to isolate the effects of women on the business.



There is also considerable evidence to suggest that family-friendly policies are having positive benefits for the companies implementing them. The range of methods used in these studies has been broader including case studies (Bevan et al 1999), employers' surveys (EOC 2005, IFF 2005, CIPD 2005) and statistical analysis of the WERS98 (Gray 2002, Dex et al 2001).

The evidence base upon which the business case rests could still be strengthened by more empirical investigation and the resolution of some key methodological issues. Fundamentally, it is difficult to prove a direct positive relationship between actions to promote gender equality and profit at the firm level. For example, some studies (e.g. Adler 2001, Catalyst 2004) indicate that having women in corporate senior management correlates to higher profits and shareholder value but a causal relationship between these variables would be difficult, if not impossible, to prove statistically due to difficulties in controlling for other variables such as the business cycle itself. Similarly, case study and survey data cannot provide a causal link but rather indicate that many employers are convinced that pursuing gender equality within their workforce has meant an improvement in their bottom line. There is therefore a need for more statistically robust methods of analysis that could strengthen the correlations that already exist and to extend these analyses into other sectors, using larger data sets and longer time periods.

Furthermore, it would seem that there is a lack of evidence examining the effects of actions to promote gender equality with reference to products markets. Much of the evidence base shows that firms can enhance their competitiveness with reference to the labour market through enhanced recruitment and retention, or that more women directors positively influence capital market performance. However, there has been little, if



any, empirical work done on product market performance and its relationship to actions to promote gender equality. Given that different businesses have different priorities in labour, capital and product markets, a more multi-dimensional approach to evidencing the ‘business case’ could prove to be more useful to a greater number of employers.

Overall the results of the studies reviewed indicate that there is indeed a strong argument for individual employers to consider gender equality as a key issue for their business. The challenge remains for employers to capitalise on the potential benefits of actions to promote gender equality already identified by the evidence provided in this paper and by other employers already active in this area.



REAL BUSINESSES: REAL BENEFITS

An increasing number of businesses that are based in, or operate in, Scotland are awakening to the business benefits of diversity and are implementing a range of policies and initiatives that address the multiple causes of gendered workplace inequality.

JP MORGAN

Implementing flexible working and challenging occupational segregation

JP Morgan introduced a package of initiatives entitled 'War for Talent'. These measures include mandatory diversity training for all staff, the reworking of flexible working practices and a competitive package of benefits for parents including emergency crèche and enhanced maternity and paternity leave. Women have been directly supported through a women's network and informal mentoring. The company found that

- the number of professional women hired into London rose from 34% to 53% between 1998 and 2000
- the female attrition rate fell from 10% to 32% of total leavers
- the percentage of women returning from maternity leave improved by 57% (Opportunity Now 2001)

JP Morgan has also been working in Scotland to address the lack of gender diversity in its technology functions and in the IT industry more generally. A strong focus on diversity in 2006 has enabled the Investment Banking Technology section of the



European Technology Centre in Glasgow to increase its female membership to 21%, compared with a Scottish average of 15% in the IT sector.

The European Technology Centre has partnered with the Govan Initiative in Glasgow to deliver IT learning opportunities to girls under the auspices of the Computer Clubs for Girls (CC4G) programme. This aims to raise girls' technical competence and awareness, and to promote the IT sector as one in which participants may wish to consider a career.

BT

Addressing gender pay inequalities and implementing flexible working

BT has used its own communications technology to introduce flexible working practices, mostly in terms of home working, job sharing and part time work. The company has since reported that flexible working has helped retain 1000 people and reduce absenteeism to 20% below the UK average. Improved retention saves BT c£5 million a year on recruitment and induction costs. BT has also reported that home based call centre operators handle 20% more calls than site based colleagues and, with over 9000 employees working at home, there has been overall productivity gains of 15% to 31%.

“Increased flexibility has enables BT to recruit more effectively and our retention rate has improved with some employees turning down offers of more highly paid employment in favour of the flexibility we offer”

Caroline Waters, Director of BT People Networks (DTI 2003:26).

BT has also taken a leadership role with regard to the equal pay



debate, and has a commitment to ongoing pay reviews and action planning to address gender pay gaps.

BT has a legacy of occupational segregation with the workforce historically split between engineers (primarily male) and clerks and operators (primarily female). Pay structures for the two groups were largely developed separately. The company also identified other factors that contributed to their pay gap:

- career choices and early stereotyping;
- gender bias in vocational choice;
- education achievements of older women;
- caring responsibilities;
- lack of family friendly policies;
- early specialisation.

Board leadership has enabled BT to take steps to address its gender pay gap holistically, which has included the development of a single pay structure and work-life balance solutions.

“We don’t believe that people are going to come and work for you if they don’t believe they are going to be fairly treated.”

Caroline Waters, Director of BT People Networks (Brett 2006:48).

PEEBLES HYDRO

Implementing flexible working

Peebles Hydro is a large, privately owned hotel and leisure complex in the Scottish Borders. This leisure complex has been reaping the benefits of flexible working for 15 years.

Current work-life balance arrangements for staff at Peebles



include flexi-time, special shift arrangements, compressed working hours, some access to on-site crèche and also access to on-site health facilities.

The hotel has been innovative in considering changes to shift patterns, and in many areas of the business a departure has been made from industry norms. Departmental managers are confident that staff are performing better and are reciprocating the flexibility afforded to them by helping out at busy times.

Peebles Hydro introduced flexible working to ease recruitment and retention difficulties. The policy has been successful and the company have both retained staff and have also recruited local people who otherwise might not have been able to participate in the labour market (Wise 2003a).



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CLOSE THE GAP

Close the Gap is a partnership project working to close the gender pay gap in Scotland. The project is funded by the Scottish Executive and Scottish Enterprise. Partners include Scottish Executive, Scottish Trade Union Congress, Equal Opportunities Commission and Scottish Enterprise.

www.closesthegap.org.uk



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