**FEBRUARY 2017 NEWSLETTER**

# The Transparency Paradox

I attended the HR Directors' Summit in Birmingham earlier this month, ostensibly to co-present with ProShare members Barclays and Aviva on the share plans contribution to financial wellbeing in the workplace. But I also found time to sit in on a few of the seminars being given around the conference, one of which was delivered by Fiona Mullan, Head of HR for Facebook's International (non-US) business. For those of us un-used to the norms of Silicon Valley Fiona articulated the culture at Facebook, and painted a positive and balanced picture of ultimate transparency and openness.

For someone like me who embraces social media for all its enabling and democratising features but still chooses to draw a line between working and personal life (LinkedIn for my professional life and Facebook for my personal, with a few trusted crossover contacts), the accepted convention of connecting with all my colleagues through my personal Facebook profile does not fill me with joy. For one, I suspect they would quickly tire of my 'proud mummy-posts' and secondly, may not necessarily share my world-view on Trump, Brexit and the crises of the day (not that all my friends do, by any means). However, having mentally established that I would probably be a poor fit for working at Facebook, whilst listening to Fiona I began constructing a mental list of the challenges to be overcome when operating share plans (stock programs) in such an open environment. Is there such a thing as an Insiders List, where pretty much everyone is an insider given the myriad projects openly running at any given time? How to operate clearance to deal procedures? When to make share grants/awards? A good opportunity to flex practical problem-solving muscles.

It prompted me to consider whether ultimate transparency is a facilitator or a distraction to running a company effectively. It seems that the answer depends very much on how it is deployed.

Some have been at the transparency game much longer than others, most notably those operating the inspiring and transformative 'open book' management methodology first espoused by Jack Stack 30 years ago (http://greatgame.com/about/).

But in recent years, a small but growing number of US headquartered employers have opted for 'open salaries' or total pay transparency – Whole Foods Market, with 91,000 employees, shares pay data internally with its employees, while Buffer has for several years gone much further by posting all 65 employees' individual salaries publicly on its website. In keeping with their declared 'default to transparency' policy, Buffer also publishes its revenues and user numbers online every month. Read their persuasive primer here: https://open.buffer.com/introducing-open-salaries-at-buffer-including-our-transparent-formula-and-all-individual-salaries/.

Whilst the open salary culture would certainly shine an un-flinching light on performance and the gender pay dynamic – if Bob makes more than Maria, in identical roles without justification, clearly somebody is going to be having a full and frank conversation with HR – does it also have a less desirable Darwinian effect of placing too much emphasis on people's competitive instincts and less on merit, putting those unaccustomed to or uncomfortable with salary negotiations at a distinct disadvantage to their peers? Does this practice create more cultural problems than it ultimately solves?

Transparency around pay and income is not an isolated quirk of the US tech start-up scene – it's alive and well on this side of the Atlantic. In Norway, citizens can look up anyone's tax return online, even their neighbour's if they wish to do so. In keeping the spirit of transparency, however, everyone can see who's looked at what… so modern-day curtain twitchers beware.

Meanwhile in the UK, we are grappling ever-so-Britishly with the implementation of the Equality Act 2010 (Gender Pay Gap Information) Regulations. UK companies with 250 or more employees will be legally required to publish pay gap figures using median and mean calculations, and to report on the numbers of men and women by salary quartiles. Base pay and bonus are required to be shown separately. Given the inextricable link between share plans and pay, this is a topic that ProShare will be covering at its autumn Share Plans Conference on 3rd October 2017. Before then, share plans specialists might also check out Tapestry Compliance's timely webinar on the subject here: http://us5.campaign-archive2.com/?u=8c61e9ad39c4cc0c3d3c88b4d&id=ad7e3ab76b&e=6fe2ce398e Acas & the Government Equalities Office have published a helpful general guide, accessible here: http://www.acas.org.uk/index.aspx?articleid=5768

Employers will be required to take their first 'snapshot' of their gender pay data in April 2017, and publish it, along with an explanatory narrative, no later than April 2018 on their own website and a government sponsored website, and to continue to do this on an annual basis. Whilst there are no penalties for failing to comply, one can imagine the reputational damage of failing or refusing to do so. Reporting the gender pay gap data ultimately being slightly the lesser of two PR evils.

There has been much commentary on whether gender pay gap reporting really will be the 'sunshine that disinfects' the gender aspect of unfair pay in the UK or just aid further distortion (what I am calling the 'lies, damned lies and statistics' argument). It's posited that many companies will find themselves with significant pay gaps mainly due to the make-up of their workforces – for example, those in the hospitality or care industries who employ a disproportionately high number of women in low-paid and part-time roles, and who (along with the majority of listed companies) lag behind The 30% Club's target of 30% female representation on FTSE 350 boards by 2020. Despite notable progress in the NED space, the number of FTSE 100 companies with female CEOs still languishes in single figures. When Emma Walmsley takes over at GSK next month, this will be boosted to just seven. If we were writing a report card for Corporate Britain, it would definitely say 'could do better' on this metric. It is encouraging to see that executive headhunters, notably Egon Zehnder, are targeting 25 female CEOs in the FTSE 100 by 2025, demolishing the notion that it's primarily a problem of supply rather than demand.

Professional firms may do better in comparison to their listed peers on the pay gap front. Deloitte blazed a trail by publishing their gender pay gap in 2015, in support of - and way ahead of - the new regulations. They concluded that theirs was more an issue of how many women were progressing to senior levels in the firm, and less around how much employees were paid (the gap between genders at each grade being 1.5%, with the overall firm-wide gender pay gap being 17.4%). The detail is available here: https://www2.deloitte.com/uk/en/pages/press-releases/articles/large-companies-to-publish-gender-pay-gap.html.

There is so much evidence available on why gender equality (and fostering broader diversity) is not just the right thing to do in the context of building a fairer and more just society but also a 'no-brainer' in increasing the financial success of the companies that we found and work for. Were I to signpost even just the most recent examples, this would become a much longer article altogether. The consensus view is that the case for equality was made long ago – the challenge now is how to 'hard-wire' equality into pay practices, talent development and promotion opportunities. Will gender pay gap reporting help or hinder this? It will be an interesting year.

A very warm welcome to Unilever and Eximia who have both become ProShare members this month.

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