

the ethnicity pay gap

a framework for reporting



background

On 12 October 2018, Theresa May announced that the Government was launching a consultation on mandatory ethnicity pay gap reporting for UK businesses. The deadline for consultation responses has now passed and the government is currently in the process of analysing the feedback it received on how best to implement ethnicity pay gap (EPG) reporting. Independent of any government mandate to report, we firmly believe that it is essential for businesses to examine their EPG.

There exists a litany of cases for which the practice of such voluntary transparency has enhanced the recruitment, attraction, and retention of a diverse workforce – and the business case for diversity is well established.

We have convened a forum of senior leaders and champions of ethnic minority inclusion to work towards reporting the EPG for their respective businesses ahead of any government mandate to do so. Not simply because it will be required, but because it is prudent to do so. At the time of writing, this includes representatives from the Bank of England, Bupa, Citi, Creative Equals, Deloitte, EY, ITN, Jomas Associates, KPMG, Lloyd's, PwC, Reluctantly Brave, Santander, Sodexo, Stella McCartney, and WPP.

EPG reporting is a vital step in opening up conversations about race at work and eliminating structural and inbuilt biases, conscious or unconscious, in the policies and processes of businesses at large. In this way, EPG reporting plays a key part in ensuring the working world is fair and equal for all.

We hope that in supporting businesses to investigate their EPG, industry will be catalysed to take tangible action on ameliorating disparities in the lived experiences of ethnic minorities in the workplace.

**special thanks to Deloitte, EY, ITN, KPMG and PwC
for their contributions to this white paper**

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1 why report the ethnicity pay gap?

The business case for diversity has been well established. Research has proven time and again a significant 'diversity dividend' enjoyed by those firms with more diverse representation at every level of the business - enhancing profitability, productivity, innovation and long-term business sustainability. While this is generally well understood both by diverse communities and those who champion diversity and inclusion, this is not always the case for the wider workforce.

Diversity and inclusion initiatives are continuously questioned, and the business case must be proven time and again. With the UK government having conducted a consultation on potential mandatory ethnicity pay gap reporting for businesses, it is prudent for businesses to begin both collecting this data and reporting it, ahead of any government mandate to do so.

Firms who engage in such practices of voluntary transparency have enjoyed the benefits of recruiting, attracting and retaining a more diverse workforce – their very public admission of their ethnicity pay gap and disparities in the experiences of diverse populations is also a commitment to take actions to ameliorate the current state of affairs.

Jon Dymond, Director, People & Organisation at PwC, says of the importance of pay gap reporting that, "the social contract of professional service firms, financial services and corporations more broadly is increasingly scrutinised in the public domain, and businesses must ask themselves: 'are we the agents of change in society we think we are?'"

Examining the ethnicity pay gap is an essential step in beginning to answer this question. A lack of diverse representation across all levels of a business results in outputs which do not reflect society at large, and businesses are at risk of alienating increasingly diverse populations. For any organisation, collecting and analysing this data is as much about understanding your employees and potential pressure points for minority talent as it is about capturing business opportunities and addressing potential injustices.

The ethnicity pay gap is not the final word in the state of affairs, but rather an essential mechanism to communicate about wider issues and disparities in the experiences of ethnic minorities in business. Reporting sends a signal that your firm is ready to have difficult conversations and, importantly, take actions to ensure everyone at your firm receives equal opportunity and treatment.

2 a general framework for reporting

While the methodology for collecting ethnicity data and reporting will vary from firm to firm, we have identified a general model which can be broadly applied to any firm looking to publish their ethnicity pay gap.



1. identify the right drivers:

Appeal to the heart and the gut feel for risk of your senior leaders and wider population. Key stakeholders must be genuine advocates for ethnicity pay gap reporting, and this often means engaging them with the business case as well as helping all understand the lived experiences of ethnic minorities in your firm.

A useful perspective to start from is risk: the ethnicity pay gap is about the firm's reputation and your license to operate. Not reporting and not being transparent has negative impacts for the sustainability of the business.

2. audit your current data infrastructure:

Some useful questions to ask: How robust is your existing data? Is ethnicity data collected – if so, where in the employee lifecycle? If not, can your current systems be adapted to store this data? What is the current self-disclosure rate for ethnicity at your firm? What mediums do you use to collect ethnicity or people data and where is it stored e.g. employee engagement surveys, people data held by HR. Who are the gatekeepers for confidential data?

3. position the initiative:

Communicate to your people that you are looking at the ethnicity pay gap and your firm is looking to report this publicly. Announcements can be phased internally to key stakeholders and affinity groups to begin with, then more widely internally. Firms should signal externally that the EPG is being looked at as the initiative is officially undertaken.

This stage is also when you begin trying to increase disclosure rates for ethnicity data – a communications campaign may be necessary or simple reminders to complete people data may be sufficient (Section 4).

4. analyse and contextualise the data:

Build the necessary 'headline statistics' for reporting (Section 5), and take an additional deep dive into the data to uncover pressure points at the firm and explore where interventions might be most impactful (Section 6). Contextualise the data with the labour profile of the UK market as well as more granularly for each of your offices. For example, the labour profile of London will look very different from that of Edinburgh.

5. report and respond:

Report your pay gap internally and externally through appropriate channels. Some firms only publish on their website while others actively engage with media. Choose an approach which is fitting for your firm and ensure managers and senior leaders are equipped to respond to queries about the pay gap and why you have reported.

It is essential to communicate about interventions being undertaken by the firm alongside reporting your EPG. Reporting without any accompanying actions to ameliorate issues identified dissolves trust and makes reporting less impactful.

6. qualitative engagement

Speak to your people post-reporting to unpick nuances in issues identified. Host focus groups and town halls to have open discussions about the ethnicity pay gap at your firm. Feed in feedback year on year into your D&I initiatives and ensure the actions and interventions taken are having the desired impact on your people.

7. repeat

Follow the same process as you have previously to effectively compare data year on year. If you communicated any targets or enacted any interventions in the previous year alongside pay gap reporting, provide an update on the status of these.

3 collecting data and encouraging self-ID

Needless to say, it's impossible to report your ethnicity pay gap without data on the demographic profile of your firm. There are a number of challenges involved in collecting ethnicity data – deciding on classifications, ensuring and communicating confidentiality and the essential question of how to encourage self-disclosure of ethnicity data. If any one group disproportionately chooses not to disclose their data, the accuracy of pay gap reporting can be compromised or skewed. For some firms, this disproportionately comes from white employees at the top of the business, for others new recruits are the most reticent to disclose.

With disclosure rates for ethnicity data generally quite low across all businesses, encouraging self-ID may require a multi-pronged approach, leveraging brand, internal and external communications as well as tone from the top.

The sweet spot for confidence in the quality and accuracy of ethnicity pay gap data for those firms which have already reported sits between a 70%-30% and 80%-20% self-ID to prefer not to say / non-disclosure rate. These firms offered some best practice for encouraging wider engagement with drives for self-ID:

Communications and messaging

Instilling trust in the process of data collection is paramount to ensuring you are able to collect enough demographic data to conduct meaningful analysis. While this section explores how to distill trust through the positioning of self-ID campaigns, it is essential that the systems used to collect and store this data are in fact, secure, trusted and can ensure anonymity. The processes used in analysing the data must also account for the necessity for your employees to retain their anonymity.

- Communicate about the broader context of why this data is being collected:
 - Pay gap reporting is one piece of a drive for transparency which will benefit everyone
 - Sharing experiences and being open about pay, performance and progression for everyone in the business will only strengthen policies and processes

- Connect your self-ID outreach to shared company values
 - For **EY**, their company purpose, 'Build a Better Working World' proved a powerful pivoting point to communicate about why self-ID was important for the organisation
 - **KPMG's** 'Count Me In' Campaign uses people's stories, shared through video, to encourage increased self-declaration. By showcasing and celebrating employees from different backgrounds, grades and regions, the firm look to encourage all employees to step-up and be counted by completing their diversity profile in the confidential HR system
- Build genuine advocacy at board and executive level. Senior level advocacy can sometimes feel insincere, dissolving trust
 - Host one-to-ones with senior leaders to ensure they understand the business case for pay gap reporting as well as why it is important to your people
- Leverage tone from the top to communicate about why self-ID is important
 - **BNY Mellon** has launched a campaign in which senior leaders and role models throughout the business answer the prompt 'I self-ID because...' in videos disseminated throughout the firm (AWAITING APPROVAL FOR INCLUSION)
 - At **ITN**, the CEO sent a firm-wide email encouraging individuals to update their people data, including their demographic data. Included in the message was the firm's reasoning for collecting the data and what they would be doing with it
 - **Deloitte** regularly goes out to its people to remind them to update their personal details – the request contains clear information on the rationale for this and the impact it will have on the firm's diversity objectives
- Host forums with employee resource groups, affinity groups or networks to discuss the topic of self-ID. Host firm-wide forums or small focus groups on self-ID to understand how your people perceive and feel about self-ID at your firm
 - Building an understanding from qualitative data on why people choose not to self-ID will help you uncover how to encourage greater buy-in and approaches more likely to result in high disclosure rates

- Be clear on what data is needed, how this will be protected and used and what actions will come off the back of data collection
- Be clear on what data will and won't be reported – ensure confidentiality is clearly communicated
- Do not collect data which will not be reported or acted on
 - For each data point reported, there should be related follow-up actions (see Sections 5 & 6)
- Ensure everyone at the firm is onboard with why data is being collected and why the ethnicity pay gap will be reported
- For some firms, white employees have the lowest self-ID rate – the message should be clear that transparency improves standards firm-wide for everyone
- Depending on the firm, a comprehensive internal communications campaign or plan may not be necessary – simple laziness may be accountable for a significant portion of non-disclosures for people data
 - Collect data for the whole employee lifecycle: from application and onboarding to engagement surveys and exit interviews – clear messaging at every touchpoint will make keeping people data updated regularly more of a habit
 - Seek opportunities to ask for data at times when people are in the mood to complete this information
 - At **PwC**, employees are reminded to update their people data
 - while they are completing compliance exercises
- Allow and encourage ownership of data at manager level rather than housing responsibility solely within HR
- Managers should understand the importance of demographic data and encourage their teams regularly to update their people data
 - Develop guidelines on the management of data for managers
 - Managers should know what pay gap reporting and other associated data points (attrition by population, hiring and promotion etc.) mean for their teams
 - Associate KPIs for managers with this data: accountability for D&I should be firm-wide
- GDPR is a legitimate concern but an illegitimate excuse for not collecting data on ethnicity:
 - Asking your people to self-disclose is considered consent of data
 - However, ensure messaging around confidentiality is sound

4 analysing the data

Analysing pay gap data raises a lot of questions: how much do we report publicly? Internally? How do we segment the data? Perhaps more essential than all of these questions is the very foundation of reporting: what does it mean? In the experience of firms who have reported already, including PwC, Deloitte and EY, it is crucial to critically examine every component of the data rather than simply focusing on the headline statistics.

Determine where the gap has appeared and why

After examining their data, PwC found that when partnerships were excluded, their ethnicity pay gap dropped to 0%. A clear lack of representation at the upper echelons of the business was identified, and PwC could begin crafting targeted interventions to build a pipeline of minority talent to partner level.

Drill beneath the headline metrics and mean pay gap calculations to understand where the data might not be painting the full pictures. Consider what has and hasn't been included to determine if anything is skewing the data and examine what happens to the mean pay gap when you exclude and include different parts of the business

- e.g. Support staff, Contractors, Partners

Use the data to identify breakpoints in the business. Some questions to ask when dissecting the data:

- When does minority talent leave the business?
- Is there a 'middle' which minority talent does not break through?
- Are there problem areas in some parts of the business and not others?
- Who replaces minority talent leaving the business?

Retaining focus

The collection of ethnicity data and pay gap reporting requires grouping many different populations together into a single category – in fact, the current recommended methodology for ethnicity data collection (pulled from the UK census) has 18 classifications. Ethnicity pay gap reporting simplifies this greatly, reporting all classifications as a single group. Whilst we advocate drilling behind the headline metrics, it is also important not to get extremely granular in the analysis of ethnicity pay gap data when examining the differences between different ethnic minority populations. Slicing the pie into too many pieces can make it difficult to take significant and tangible actions off the back of reporting.

This context is important, as there can sometimes be pushback post-reporting; when people are uncomfortable with data they will ask for more data. To ensure action is not delayed after reporting your pay gap, clear recommendations and actions should be made at the time of reporting the wider ethnicity pay gap before diving more deeply into the disparities between different ethnic minority communities in your business and developing interventions to mitigate these more specific challenges.

5 reporting

Once the data have been collected and an acceptable ratio of disclosure to non-disclosure rate for confidence in ethnicity pay gap reporting reached, you can begin to look to publish the data.

Ethnicity pay gap reporting is somewhat more complex than gender pay gap reporting for several reasons, namely because there is no standard or mandated reporting method as yet. Methods of reporting can therefore differ greatly between firms, making ethnicity pay gap reporting difficult to compare and extract meaningful cross-industry analysis from.

For those firms which have reported already, ethnicity pay gap reporting typically appears alongside gender pay gap reporting in the firms' annual reports. Pay gap reporting is published online and occasionally with a press release.

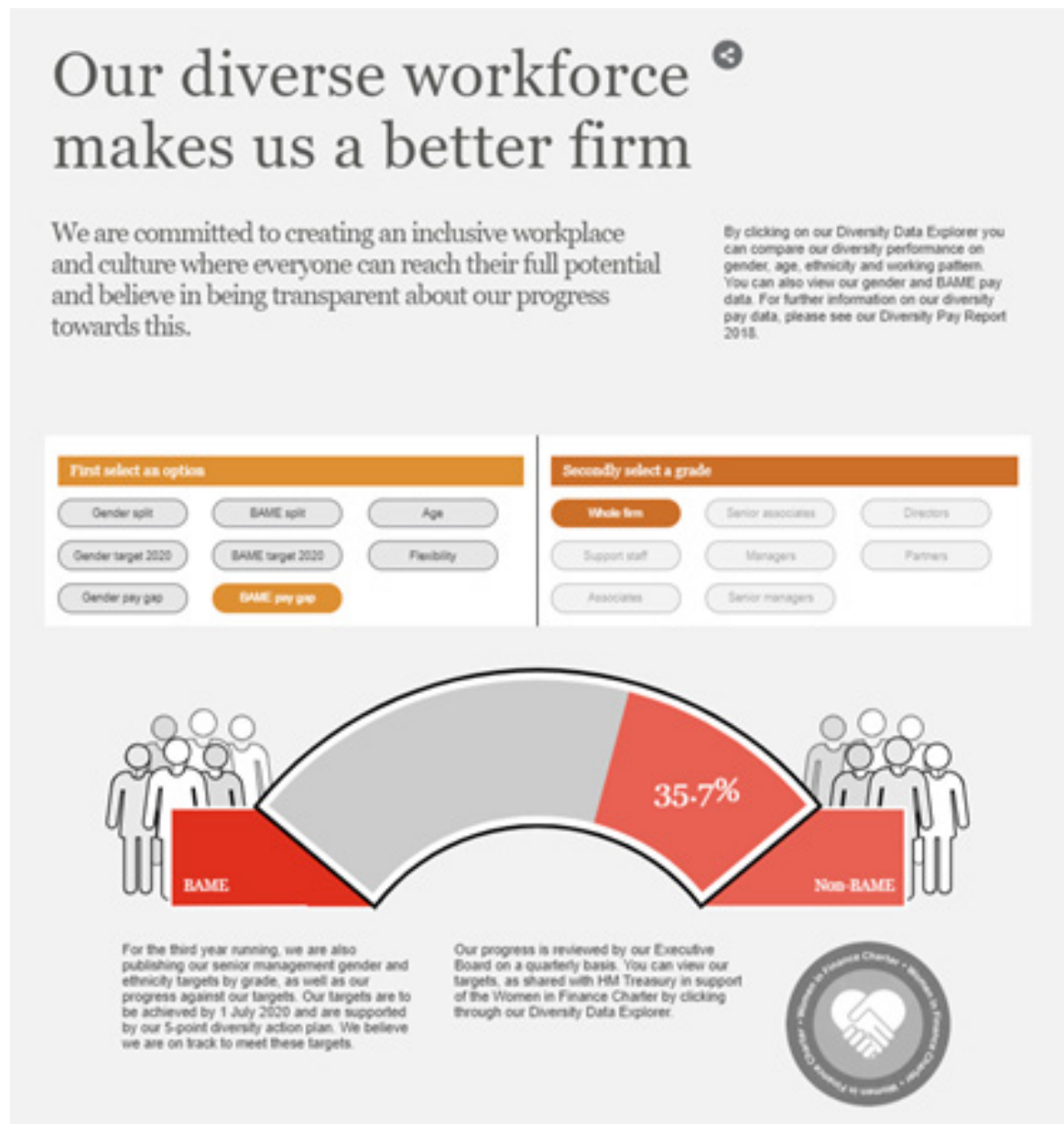
To reach as close to a common standard for ethnicity pay gap reporting as possible, the following best practice is advised from those firms who have already reported:

Use the UK government's mandated standards for gender pay gap reporting as guidelines for which data to publish:

- mean ethnicity pay gap in hourly pay
- median ethnicity pay gap in hourly pay
- mean bonus ethnicity pay gap
- median bonus ethnicity pay gap
- proportion of white to non-white employees receiving a bonus payment
- proportion of white and non-white employees in each pay quartile

In addition to the above, and as with gender pay gap reporting, it is advisable to publish a statement confirming the accuracy of reporting and how calculations were conducted.

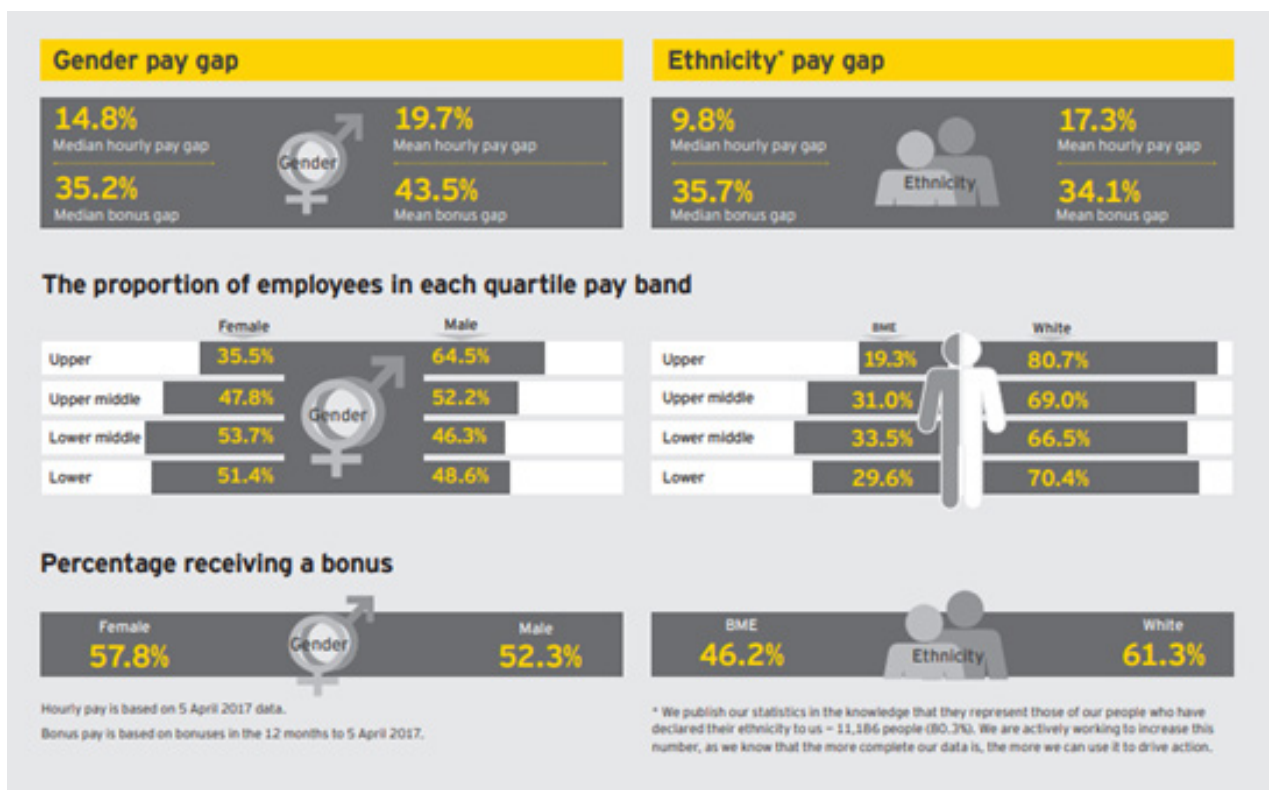
Example: PwC publishes an interactive tool in its annual report each year, allowing viewers to view all pay gap and related data across ethnicity and gender in one place:



copyright PwC, 2017

Reporting timeline: *ITN and EY* both phased in ethnicity pay gap reporting internally prior to publishing externally. EY held Partner briefings on their ethnicity pay gap reporting while ITN held townhalls to ensure everyone understood the data, why they were reporting, and what actions were being taken to address their pay gap.

Example: *EY* produces an annual pay gap report each year, publishing gender and ethnicity pay gaps alongside one another. EY also includes in this report some of the mitigating actions they have taken to ameliorate both.



copyright EY, 2017

6 actions post reporting

Essential to reporting the ethnicity pay gap are actions taken after the fact. As has been previously discussed, reporting the ethnicity pay gap is an essential mechanism to communicate to your employees, external stakeholders and the wider world that you are looking to address structural and systemic biases in your organisation which affect ethnic minority employees.

A consistent theme arising from interventions applied by those firms which have already reported their pay gap is the understanding that the same medicines will often have multiple applications; in supporting one diverse community, it is possible to benefit the entire employee base as well.

It is worth mentioning again that it is advisable to begin putting some interventions in place at the time of reporting. Although this is not an exhaustive list, there are several core interventions which can be applied:

Ensure accountability

Give senior leaders targets related to representation within their respective business units or functions.

- At **Deloitte**, the Executive has analysed the partner pipeline from a BAME perspective for the last two years

This can trickle down to the manager level as well: examine the proportions of individuals receiving promotions – are managers promoting more of x population than y? Ensure there is accountability and questioning of this metric if it becomes apparent one population is being favoured over another.

- **ITN** ensures managers are aware of the requirement to be accountable for D&I even before they are hired, with any manager who is interviewed being asked what they'll do to push ITN's D&I agenda forward.
- At **Deloitte**, real but anonymised comments from diverse talent were shared with partners in mandatory inclusive leadership workshops, as part of ensuring a commitment on what the firm classifies as 'respect and inclusion' at all levels of the organisation.

Fair work allocation

An important bias to address is in relation to fair work allocation – equal access to the best work, career defining projects and exposure to key clients or stakeholders. In addition to the above, fair work allocation builds more diverse client facing teams. With clients increasingly valuing and asking for diverse teams, eliminating biases in the allocation of work has the added benefit of increased client satisfaction.

- For **PwC** this meant changing processes for their resourcing function. When teams are being put together for projects they ensure the same individuals and pools of talent aren't being tapped for the best work. Just because someone has done something well or right one hundred times before doesn't mean another person shouldn't get the chance.

Promote "race fluency"

Talk, lead and inspire by being open about the experiences of ethnic minorities at your firm and the wider business world. Speak out when you spot biases in action or discrimination. Education is also key in building advocacy, make sure information and material is approachable, available and digestible. Leverage employee resource groups and networks to hold events in partnership and promote firm-wide discussions on race.

- **Deloitte** formed a BAME advisory council – a group of BAME employees who regularly meet with the Managing Partner for Talent and provide input on the firm's talent strategy
- **KPMG's** Black Heritage Reverse Mentoring programme – championed by the Managing Partner – gives leaders insights and understanding about background, experiences and day-to-day life at KPMG from its more junior Black Heritage employees, who in turn drive the relationship, are exposed to the skills required in leadership, and are enabled to develop a more senior network. The Managing Partner participated in the pilot cohort and since then, two further cohorts have been launched. The success of relationships as part of this programme sparked the creation of KPMG's Black Entrepreneurs' Awards – an annual competition and business growth programme designed to inspire, accelerate and celebrate success among external entrepreneurs from Black Heritage backgrounds.

- **KPMG** formed a Black Heritage Working Group, which is made up of key stakeholders within the organisation, who are responsible and passionate about increasing the recruitment, retention and development of Black Heritage employees. Representation within the group includes the Managing Partner for the firm, the Head of People, two Partners from within the Business, the Chair of their African-Caribbean Network and the Co-Head of Inclusion, Diversity and Social Equality.

Investment in returnships

When returning to work from a career break, women and ethnic minorities are disproportionately under employed. By investing in comprehensive back to business programmes for those who have taken career breaks, diverse experienced hires may be more attracted to join the business.

- **PwC's Back to Business Programme:** PwC established a six month paid senior internship programme to help senior professionals to restart their careers after an extended break. The programme aims to address the career break penalty and help more people restart their careers.
- **KPMG** start with the assumption that each role can be performed flexibly. The firm supports the 'Hire Me My Way' campaign which encourages more employers to offer part time, flexible jobs and their comprehensive Intelligent Working policy accommodates any working schedule outside of the traditional working pattern; focusing on outcomes rather than time spent at work. To ensure that prospective applicants are aware of the options available, KPMG detail its openness to career-returners on all job advertisements and feature flexible working role models internally and externally on its Firm-wide intranet, videos and communications.

Recruitment

Ensure that all short and long lists have strong diversity credentials. Similarly, hiring / promotion panels should have a diverse composition.

- **ITN** takes further measures, including interview at least one BAME candidate for every role and banning appointments without due processes

- **KPMG** has developed a Black Heritage Talent Insight Programme, which provides multiple students with exposure to the variety of opportunities available across their organisation through business overview sessions and work shadowing placements. As part of the programme, there is also an opportunity to be fast-tracked through the recruitment process and secure a position on the Graduate Programme in the same year.

Senior Progression Coaches

The bulk of firms who report their ethnicity pay gap have since launched formal senior sponsorship programmes. These programmes aim to give high potential minority talent senior sponsors within their firm who are able to advocate for them in rooms and areas of the business they have yet to access.

- **At EY**, a formal allies programme for diverse future talent has been rolled out, providing each candidate on their internal future leaders programme with two senior allies who act as mentors and sponsors.
- **Deloitte piloted** their 'Not in your own image' sponsorship programme for senior leaders to sponsor diverse talent within one of their business units, with a view to extending it to all service lines. Their pilot reverse mentoring programme, pairing BAME employees with senior leaders, has also had very positive feedback

Check-in on progress

Regularly check-in on how any actions taken post-reporting are working in the business. Host focus groups and town halls to discuss the EPG in your firm.

Directly after reporting their ethnicity pay gap, ITN hosted focus groups to discuss their planned interventions, asking employees; "what do you think of what we're doing / planning to do?" "What have been your experiences at the firm?"

If managers or senior leaders have been made accountable for some diversity data and targets, ensure these are regularly reported:

- **At Deloitte**, HR can access a monthly diversity dashboard. This includes demographic composition of their teams, attrition rates, etc. all of which can be broken down by ethnicity; this dashboard also goes to operating unit leads

additional resources

general resources and information

[The UK Government Consultation on Ethnicity Pay Reporting](#)

[Race in the Workplace - the McGregor-Smith Review](#)

example ethnicity pay gap reports

[PwC Diversity Pay Report 2018](#)

[PwC BAME Pay Gap Press Release 2017](#)

[PwC Annual Report 2017 – Pay Gap tool](#)

[Deloitte Ethnicity Pay Gap Press Release](#)

[Deloitte Ethnicity Pay Report 2019](#)

[EY Pay Gap Report 2017](#)

[ITN BAME Pay Gap Report 2018](#)

[KPMG Pay Gap Report 2018](#)

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about INvolve

INvolve is a membership organisation championing diversity and inclusion in businesses. INvolve consists of three initiatives; EMpower, OUTstanding and HERoes, working across ethnic minority, LGBT+ and gender diversity respectively. Through the delivery of events, programmes, thought leadership and advisory services, INvolve helps member firms drive cultural change and create inclusive workplaces. We also publish annual role model lists, celebrating business leaders and future leaders who are leading change for diversity and inclusion in business.

For more information : www.involvepeople.org