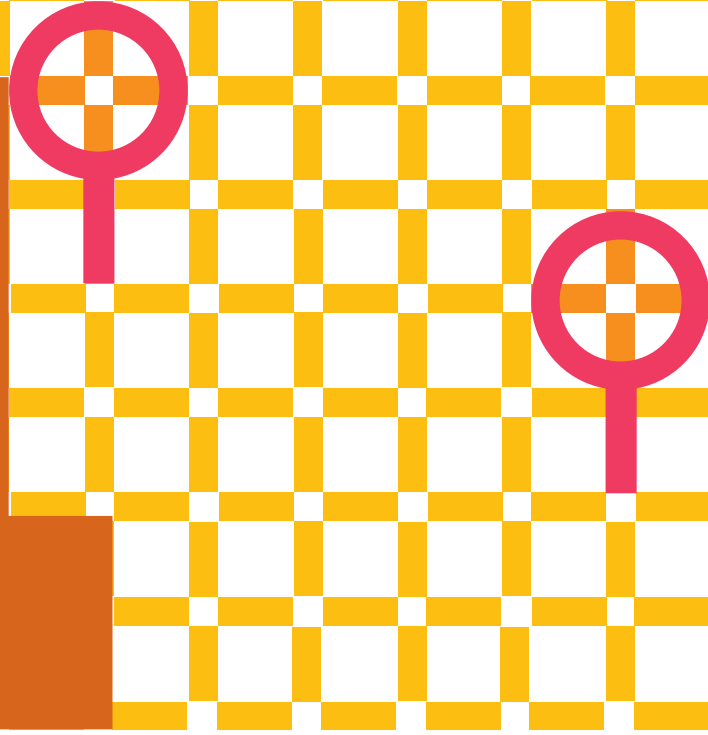


Ethnicity pay gap reporting – A focus on inclusion, equality and fairness



2 in 3 companies surveyed are now collecting ethnicity data

1 in 10 companies surveyed have reported their ethnicity pay gap

Almost **50%** of companies are planning to disclose in the next **3** years

In January 2019 the Government closed its Consultation on the introduction of mandatory ethnicity pay gap reporting. The recommendations of this Consultation have not yet been published. However, the Black Lives Matter movement, as well as the impact of the coronavirus (COVID-19) pandemic, means that issues around equality and fairness generally and race and ethnicity specifically have continued to rise up the agenda. As a result, in June 2020 a public petition to the Government to introduce mandatory ethnicity pay gap reporting reached over 100,000 signatories. In its response, the Government has committed to issuing a response to its initial Consultation by the end of 2020.

At the start of 2019, PwC conducted a short survey to understand how prepared organisations were for ethnicity pay gap reporting. The results of this were shared as part of our response to the Government Consultation, and this research was quoted in the Government's response to the recent petition. We know that in the last year a significant number of organisations have accelerated their work around ethnicity data collection, analysis and reporting. Therefore, we re-ran our survey over August 2020 to gain an updated snapshot of how companies are preparing for ethnicity pay gap reporting and supporting ethnic diversity in their workforces. Our latest ethnicity pay gap reporting survey was completed by over 100 companies, representing approximately 1 million UK employees.

Making the decision to calculate and disclose your ethnicity pay gap

We strongly believe that analysing diversity data and being transparent about the diversity of your workforce is an important step towards creating meaningful change. From our own experience, transparency not only demonstrates a strong commitment to ethnic diversity, but it also strengthens accountability for addressing the causes of inequality.

The use of targets and data to highlight where an organisation should be focusing their efforts to drive change and take action is critical, and the first step is collecting the data to understand the diversity of your workforce. In possession of the right facts, a business can understand whether opportunities are equal across its workforce and pinpoint any specific areas where action is required. Pay outcomes can also shine a light on underlying differences, for example whether ethnic minorities are represented equally across the organisation.

It is positive to see a notable change in the market since we last surveyed organisations at the start of 2019. Our latest survey indicated a considerable uptick in the number of organisations preparing to disclose.

Of the companies surveyed who are reporting, most are following the current gender pay reporting regulations methodology to calculate one pay gap figure based on average hour earnings of Black Asian and Minority Ethnic ('BAME') employees as a percentage of non-BAME employees. Just under half of those who have not calculated their pay gap state that the main reason for this is a lack of ethnicity data. Positively, we have seen an increase in the number of companies that are collecting data in 2020 (68% compared to 53% in 2018), which aligns with the fact that more companies are intending to disclose in the coming years.

'I have ethnicity data, but I don't know what do with it'

We know that many organisations who have collected ethnicity data are unsure of the best way to calculate and disclose their pay gaps. Many are also concerned about how to communicate and position data that can often be complex to interpret and address. Our advice is to:

1

Agree your methodology for calculating and disclosing, including on what basis (e.g. BAME vs individual ethnicity categories) any disclosures will take place. Consider consulting key stakeholders including employee networks to understand their views and expectations.

2

Complete analysis to understand the key drivers of the gap and work to build communications on this basis. This should include analysis of intersectionality and other data points that will influence your data (for example office location) to help you understand the key causes of gaps.

3

Extend your analysis where possible to investigate variances in how different groups enter, grow and leave your organisation to understand where action may have the biggest impact.

4

Consider your communications strategy carefully – agree key messages and consider how the tone or detail of the messages may need to be adapted for different audiences, particularly internally.

The number of companies who have voluntarily disclosed their ethnicity pay gap has increased from **3% to 10%**.

A further **8%** of those surveyed in 2020 intend to disclose their gap in the next year and **40%** have committed to disclosing in the next **1-3** years.

23% of companies surveyed have calculated their ethnicity pay gap for 2020 compared to just **5%** in 2018, and an additional **33%** of companies in 2020 are planning to calculate their pay gap.

Navigating data collection challenges and improving response rates

One of the first challenges organisations wishing to calculate their ethnicity pay gap are faced with is data collection. Almost 35% of the companies we surveyed don't currently collect any ethnicity data and this number is likely to be higher in smaller companies. The main barriers to collecting the data remain as; concerns around the legal and GDPR requirements (50%); concern that HR systems do not have the capability to collate this data (33%); and uncertainty about what the ethnicity options should be (30%). For global firms, there are also concerns around collecting data consistently in different countries, although we have seen an increase in the number of companies collecting diversity data globally (an increase from 41% to 57% over the last two years).

For many organisations that have started to collect their data, there remain concerns around if they have sufficient data from responses. This is an ongoing challenge with data that must be collected on a voluntary basis, with 47% of organisations saying that they are unable to publish their gap due to poor or insufficient data driven by low response rates.

This is a challenge that even those with higher response rates continue to focus on. Over 70% of those surveyed are planning new initiatives to improve response rates or expand their diversity data. Of these the vast majority will consider using active senior leader engagement and sponsorship (88%), positive engagements with diversity networks (86%), and communicating the purpose of data collection (84%) to improve their response rates.

'I don't collect data at the moment – where do I start?'

Although there will be GDPR and legal considerations which vary by country, in the majority of territories collecting diversity data on a voluntary basis should be possible. This is certainly the case in the UK where a number of large employers in the public and private sector have already voluntarily disclosed employee data on ethnicity. As such, they should not be a barrier for organisations wishing to gather and analyse this data. Our advice is to:

1

Work with your local legal and GDPR teams on a territory by territory basis to understand any local restrictions or documentation that is required.

2

Build a 'term sheet' for collection in each territory which sets out any required legal steps; the type of data you plan to collect (including beyond ethnicity) and the categories you will use for collection.

3

Often organisations use local census data or equivalent where available to determine data categories as well as local market practice. In addition, consider running focus groups or listening exercises with employees where you are unsure to test diversity categories and begin to build awareness for any data collection exercise.

4

Identify the best technology and systems for data collection. For those with a single HR system in place with self-service capability this may be the best option. However, where you have disparate HR systems and/or disconnected employees you will likely need to consider a variety of tools and technology to reach different groups whilst ensuring the process remains simple and the data is appropriately protected.

5

Plan your communications strategy. As we discuss below, getting good response rates can be challenging and so building a clear communications strategy from the start will be critical to success. Identify your key messages, channels and stakeholders and how these can be adapted to reach different employee groups. Consider collaborating with employee networks (where they exist) to refine your message and gain their support in communicating it.

'I have some data, but not enough for meaningful analysis'

The more robust your data set, the more insight you will gain. While we recommend aiming for 80%+ disclosure, you can still gain insight with less (we suggest 60% as a minimum). However, we would recommend that organisations remain focused on maintaining and improving this over time. Our advice is to:

1

Where response rates are low, focus your analysis on areas with higher disclosure, or supplement with focus groups to gain initial insights.

2

Look at your response rates to identify areas of the business or groups of particular employees where response rates are low. Use this information to investigate the causes of low responses and target future communications for these groups.

3

Use targeted communications to positively engage employees on why their data is needed and how this data will drive actions and outcomes. Consider breaking your employee population into different 'personas' so you can create communications that actively address their concerns with reporting. For example for some it may be a lack of trust that you will use this data positively, whilst others may assume that communications are not aimed at them because they do not see themselves as 'diverse'.

4

Work closely with any employee networks to build trust with certain groups and actively and openly address identified concerns.

5

Make data collection 'business as usual' by identifying moments in standard processes (e.g. annual training) where data collection reminders can be embedded. At the same time, review other employee communications to identify where 'nudges' on data collection can be included – for example whenever new diversity initiatives are launched, or as part of any reporting communications.

Ethnicity data (and other types of diversity data) can be used for much more than reporting. Diversity data helps you to understand the makeup of your organisation, how it is evolving and find which actions and interventions will have the biggest impact on your organisation. Internally, it helps drive accountability for change amongst your leadership and shows your diverse staff that you are genuinely committed to change. Externally it is also an important signal of your commitment to the inclusion and diversity agenda to your investors, customers and potential employees. Collecting, analysing and publishing data is an important first step. The next is to use this data to drive action and change. At the same time it is important to recognise that this change will be hard to sustain and achieve if it does not occur within an inclusive culture. As such, it is important to also consider and measure the inclusiveness of your organisation to ensure that you create an environment and culture where people from any background can thrive.

Actions to improve ethnic diversity in the workplace

It is encouraging to see organisations continue to invest in a variety of actions to improve ethnic diversity in the workplace. Common activities include ensuring recruitment processes are open and attractive to all and bias is reduced (82%); setting a clear strategy on the action you will take to address ethnic diversity (74%); and taking steps to provide fair access to the best work opportunities (66%). In general, this data is similar to that observed in our last survey. The exception is in relation to sponsorship and career support for staff of different ethnicities – in our last survey, no respondents identified this as a key activity, compared to 40% in our latest survey. This suggests a real step change in recognising specific challenges relating to promotion and progression that need to be addressed.

Key contacts

Alastair Woods

Partner

T: +44 (0) 7834 250359

E: alastair.woods@pwc.com

Katy Bennett

Director

T: +44 (0) 7715 211210

E: katy.e.bennett@pwc.com

Jason Buwanabala

Diversity and Inclusion
Consulting Manager

T: +44 (0) 7841 786964

E: jason.buwanabala@pwc.com

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2020-09-10_RITM3649998