Mind the Gap

Ethnicity pay gap reporting:

Why it matters and how to execute it

Introduction

What is an ethnicity pay gap report?

The UK government define the ethnicity pay gap of a company as "the difference in the average pay between staff from ethnic minority backgrounds in a workforce, compared to 'white' staff."[1]

Unlike gender pay gaps, there is currently no requirement for companies of any size to report their ethnicity pay gap and, as such, a limited number of companies do so. Additionally, it's often hard to identify how many companies are reporting on this as there's no centralised record. However, research shows the numbers are low.

What is being done to increase ethnicity pay gap reporting?

A group of 12 companies - Autotrader, Aveva, British Land, BT, ITV, LandSec, Lloyds of London, M&G, National Grid, Natwest & Shell - have come together to:

- share their experiences of ethnicity pay gap reporting;
- encourage other businesses to do the same; and
- lobby the government to make ethnicity pay gap reporting a regulatory requirement.

Understanding ethnicity pay gap reporting

The group of 12 companies have undertaken a study designed to understand methodologies and outcomes of ethnicity pay gap reporting in their companies. This study aimed to identify the critical success factors behind ethnicity pay gap reporting and answer process-based questions, specifically covering:

- motivations for reporting;

- data collection issues;

- the process for reporting;

- the skills and resources needed;

- communication strategies;

- the role of leadership support; and

- the impact of ethnicity pay gap reporting.

The results of the survey were initially shared in June 2022 at a meeting chaired by Caroline Nokes MP attended by various parliamentarians, representatives from the Equalities and Human Rights Commission, the Confederation of British Industry, Business in the Community and other leading agencies.

The findings of this study are detailed in this report and clearly demonstrate that reporting on ethnicity pay gaps is, with proper planning and resourcing, surprisingly easy to do. The participating companies want to encourage others to report their ethnicity pay gaps, as it's a key action organisational leaders can take to provide a more equitable workplace for more employees. When we know what our ethnicity pay gaps are, we can take action to close them. Reporting is a critical first step and is vital for transparency.

"AVEA is committed to continuous improvement in the representation of our workforce and the creation of an inclusive culture. Publishing our ethnicity pay gap is one of the ways we uphold our commitment to transparency and hold ourselves to account for improvement"
*Peter Herweck , CEO, AVEVA*

Report: Approaches to Ethnicity Pay Gap Reporting

The motivations and process of reporting

Of the group of 12 FTSE100 companies reporting their ethnicity pay gap, only one has been doing so since 2018 with a sharp uptake in the last two years. For those companies now reporting, there were three main motivating factors for starting ethnicity pay gap reporting:

1. A desire to have more transparency both internally and externally

2. A commitment to equal opportunities and diversity and inclusion

3. A responsibility to be accountable for actions

What is the first year you reported the ethnicity pay gap?

Year	Count
2018	1
2019	1
2020	4
2021	6
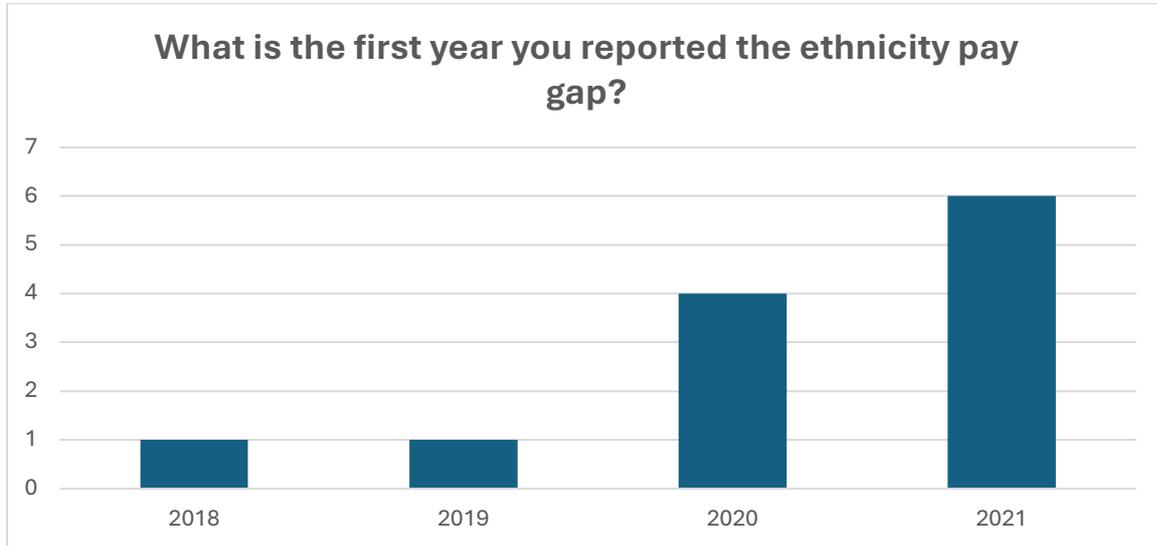
On reflection of the data acquisition process, the survey respondents indicated that it can be a lengthy timeframe for acquiring the level of data needed from existing employees, often being a multi-year process. However, once these processes have been implemented, it is incredibly easy to get this data from new joiners.

The process can be eased by implementing some of the cultures demonstrated by the survey respondents when asking for demographic information from employees, including:

- Visible leadership sponsoring DEI pillars and role modelling

- Build understanding of why and how data is used to make positive change

- Messaging at a country level for international organisations

Creating an ethnicity pay gap report is not resource heavy and can be done with minimal external support. Pre-existing systems i.e. HR, payroll, and Office, are all the systems required for reporting.

The process

Identifying what ethnicity categories to use is crucial when creating an ethnicity pay gap report. Most of the survey respondents utilised Census data to determine categories, with smaller groups combined.

Following the identification of ethnicity categories, the reporting process can begin in earnest with a seven stage process:
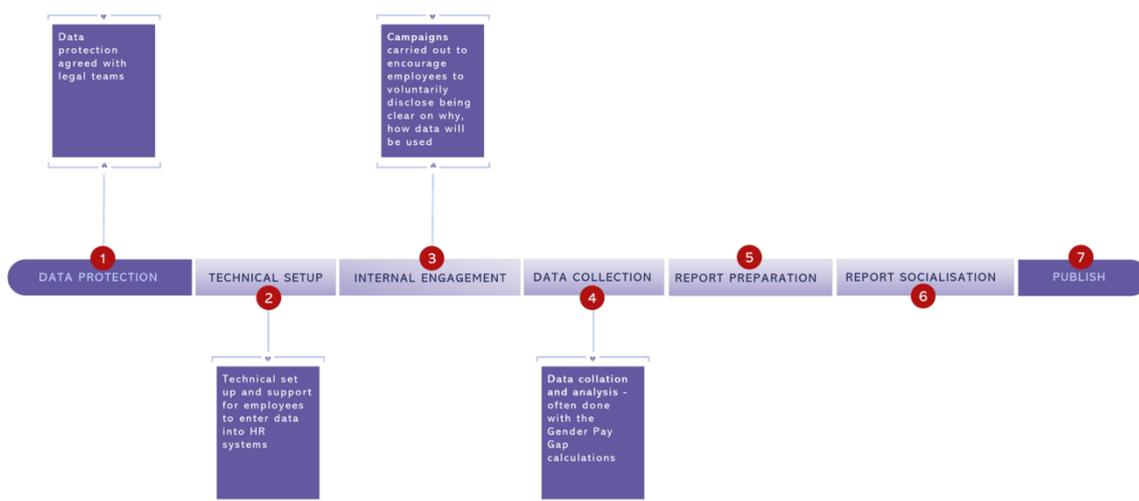
As with any reporting process, there is a need to engage internally with employees to ensure the rationale and process of reporting is understood. This ensures much wider internal engagement with the report and so a more robust data set.

The survey findings show several techniques employed to engage with employees, including:

- Encourage voluntary disclosure

- Share why and how data will be used

- Senior leaders share personally

- Employee Groups support

- Celebrations of key cultural days

- Lunch and Learn sessions

- Celebrate visible role models

- Videos of employees

"Shell plc was one of the first FTSE 100 companies to publish ethnicity pay gap data for Shell's UK businesses and we continue to use our voice externally to advocate for this to become mandatory, as part of our commitment to improving diversity, equality and inclusion for all. We continue to strive for 100% ethnicity declaration across our UK businesses, because accurate data helps us to take targeted action. Diversity pay gap reporting is a fundamental element of Shell's commitment to becoming one of the most diverse and inclusive organisations in the world."

David Bunch, Country Chair United Kingdom, Shell

The skills and systems needed

Respondents to the survey identified several key skillsets along with resources and timescales necessary to develop their ethnicity pay gap report. These responses were broadly similar across all respondents with larger, multi-national organisations requiring a lengthier timescale than those in a single region.

Skillsets needed to develop an ethnicity pay gap report

- Data analysis

- Stakeholder engagement: executive leadership, legal, corporate relations, brand, policy, reward, IT, and HR

- Internal and external communications

- Project management

- Diversity and Inclusion expertise (report and action plan)

The impact of the report

Beyond giving an immediate view of any ethnicity pay gaps, the survey showed that all respondents have used their pay gap reports in the long term. The survey showed that the reports have been used to:

- Track trends and progress year-on-year

- Identify targeted action

- Monitor progress of representation across the organisation

- Supplement other data sets (e.g. staff survey)

- Support accountability for improvements on representation and inclusion

- Set/inform leadership targets

The survey also highlighted the importance of involving senior executive and board members with the report in order to increase internal engagement and increase its reach within organisations. Four approaches were revealed in the survey with those successfully communicating their report internally having:

- executive sponsorship of gender and ethnicity diversity initiatives;

- having the board/senior executives reviewing and approving of publication;

- board member or executive foreword; and

- have organisational objectives related to pay gaps.

"Lloyd's is the oldest insurance marketplace in existence – but it is also adapting and innovating to meet the needs of the times. A diverse market with an inclusive culture enables this evolution, driving high performance and building resilience in the face of growing global uncertainty. It also increases our ability to drive innovation by introducing new mindsets and viewpoints. Measuring and publishing our ethnicity gap is an essential part of building this diverse culture – ensuring transparency, facilitating targeted action and allowing all our stakeholders, from regulators to prospective employees, to hold us to account."

Monica Stancu, Diversity and Inclusion Manager, Lloyd's

Communicating the results

Communicating the results of an ethnicity pay gap report is an essential part of the process. Communicating the results internally not only helps to raise awareness of the report and process but also fosters a culture of trust and transparency.

The findings of the survey highlighted two approaches to communicating the results of an ethnicity pay gap report internally, with both formal and informal approaches taken to maximise internal engagement.

Formal reporting

• Briefing for senior stakeholders

• Senior leader communicates to all employees about the publication

• Shared on intranet, with headline findings and FAQs

• Also include in Annual Report or ESG Reports

Informal engagement

• Animations and videos

• Discussion forums with leaders

• Employee group engagement

Timescale needed to develop an ethnicity pay gap report

• Between 6-12 months duration

• Timescale increases for organisations starting from scratch

• Longest recommended time scale to plan is two years for a large multi-national

• Work required is not full-time effort for this period

• Minimum reported three months if required level of ethnicity data is already available

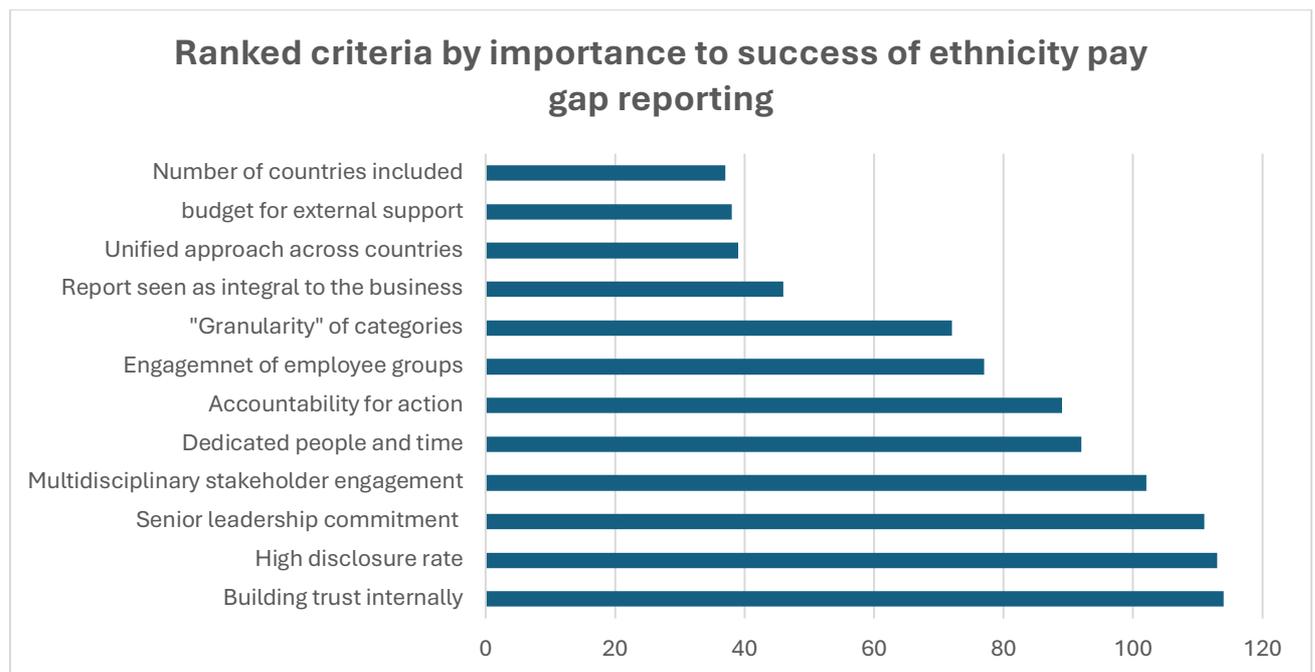*Estimated resource needed to develop an ethnicity pay gap report*

• Staff days required: range three to 80, with a mean of 27

• 58% of respondents required external support

• This was primarily for marketing agencies for external assets, external legal and audit support and initial calculations

• Financial cost was reported as between just £6k and £20k with funds allocated to the creative aspects of the report i.e., design work

The process can be eased by implementing some of the cultures demonstrated by the survey respondents when asking for demographic information from employees, including:

• Visible leadership sponsoring DEI pillars and role modelling

• Build understanding of why and how data is used to make positive change

• Messaging at a country level for international organisations

Those companies in this report who have successfully reported their gender pay gap have seen an overall positive impact both internally and externally.

Internally, organisations reported an increase in trust and transparency within their organisation, this being the most desired outcome of the process.

Ranked criteria by importance to success of ethnicity pay gap reporting

Criteria	Value
Building trust internally	~114
High disclosure rate	~113
Senior leadership commitment	~111
Multidisciplinary stakeholder engagement	~102
Dedicated people and time	~92
Accountability for action	~89
Engagemnet of employee groups	~77
"Granularity" of categories	~72
Report seen as integral to the business	~46
Unified approach across countries	~39
budget for external support	~38
Number of countries included	~37

Reporting of their ethnicity pay gap has also seen organisations go further and build specific action plans and intervention programmes (e.g. mentoring, targeted development programmes) to advance Diversity, Equity, and Inclusion (D, E & I) internally.

Externally, reporting has helped to demonstrate a commitment to D, E & I, helping to build a positive brand image to customers, consumers and the wider market.

"At ITV, we work to create an inclusive culture where everyone can be themselves and thrive. To help achieve this and ensure accountability, we have been reporting our ethnicity gap since 2018, as it is important that people od colour are represented at every level of our business. We are pleased that our median and mean ethnicity pay gap has steadily improved over the last four years and we will continue to work to maintain this progress."

Ade Rawcliffe, Group Director of Diversity & Inclusion, ITV

Summary

To conclude, ethnicity pay gap reporting is not as difficult as it may seem. With the right processes and systems in place, any organisation can report on, and make progress towards reducing, their ethnicity pay gap.

These 12 companies have shown that is it possible, and they've even provided the blueprint for how to make a start. Each organisation will have it's own challenges to overcome and there will be plenty of opportunities to learn what will work best for your organisation along the way. By sharing both the problems and solutions, we can all make progress together.

The group asks that you pledge to start reporting your ethnicity pay gap as a first step to reducing it - and there's no time to start like the present.

Further resources

The CIPD has created a guide to ethnicity pay gap reporting which you can find here: https://www.cipd.org/uk/knowledge/guides/ethnicity-pay-reporting-guide/#gref

You can contact the creators of this report at either press@autotrader.co.uk or di.global@aveva.com

Creating an ethnicity pay gap report is not resource heavy and can be done with minimal external support. Pre-existing systems i.e. HR, payroll, and Office, are all the systems required for reporting.

[1] https://www.gov.uk/government/publications/ethnicity-pay-gap-report-april-2020-to-march-2021/ethnicity-pay-gap-report-1-april-2020-to-31-march-2021