Businesses are starting to choose to measure and report pay gaps by race and ethnicity voluntarily in the UK, say Brunswick's **JUSTINE HARRIS** and **DEAP KHAMBAY.** Yours should too.

Being Transparent on EQUALITY

ILLUSTRATION: DAVID PLUNKERT

WHY SHOULD THE ETHNICITY PAY GAP MATTER TO YOU?

With organizations being scrutinized more than ever by investors, regulators, media, politicians and the public, the failure to address the need for workplace equality can lead to significant damage to both a company's reputation and its culture. It is getting ever harder for employers to assure stakeholders that a workplace has an inclusive culture when there are disparities in pay between certain demographics—whether these are gender based or race and ethnicity based—without a clear analysis and granular explanation.

Ethnic and racial disparities are a difficult topic to discuss, let alone measure and correct, yet doing so is an imperative not just from a moral perspective, but from a business performance perspective too.

Progress within businesses to improve the ethnic and racial diversity of boards and senior leadership teams remains very slow. Commissioned in 2015, the Parker Review was established at the invitation of the UK government to conduct an official review into the challenge of ethno-cultural diversity at board level. And an update in 2020 shows very little progress has been made toward implementing its recommendations. Thirty-seven percent of FTSE 100 and 69% of FTSE 250 companies surveyed still have no ethnic representation on their boards.

According to 2017 research from the McGregor Smith review, the lack of diversity in business is costing the UK £24 billion a year in lost GDP and some large investors are preparing to vote against FTSE company chairs if their boards haven't met the Parker Review recommendations for ethnic diversity targets on boards for 2022. Diversity also significantly contributes to the ability of firms to attract talent, with 61% of women and 48% of men saying they assess the diversity of a company's leadership team when accepting job offers, according to research from PwC.

Following on the success of the 30% Club's work on increasing gender diversity on FTSE 350 boards and senior leadership teams, last year saw the launch of the Change the Race Ratio, a campaign led by the CBI and other leading businesses. It calls for FTSE 350 companies to commit to increasing racial and ethnic diversity among board members and at senior leadership level, by setting transparent targets and reporting on plans and progress through an ethnicity pay gap report. Brunswick is one of the founding members of this campaign, alongside Deloitte, Aviva, Unilever, Microsoft and others, which got off to a strong start in its first year, gaining 92 signatories and some notable ambassadors supporting the campaign.

ALMOST HALF OF BUSINESSES SURVEYED ARE PLANNING TO DISCLOSE THEIR ETHNICITY PAY GAP IN THE NEXT THREE YEARS. AN ADDITIONAL 10 PERCENT HAVE ALREADY DONE SO—UP FROM 3% IN 2018.

WHAT DOES THE "ETHNICITY PAY GAP" MEAN?

At the heart of driving progress on racial and ethnic diversity is the decision to set targets, measure progress and adjust actions. Transparent reporting of progress is also a core component, as it holds those businesses accountable for achieving their established goals on all DEI issues. The ethnicity pay gap report is a core part of that effort. In the UK, the ethnicity pay gap is defined as the gap between the average hourly rate of pay for white colleagues compared to the average rate of pay for colleagues from different ethnicities. The pay gap is linked to, but different from, equal pay, which seeks to ensure equal pay for equal or equivalent work and has been enshrined in law in the UK since the 1970 Equal Pay Act.

VOLUNTARY VERSUS MANDATORY REPORTING

The promise of legislative change is still pending, despite earlier expectations that regulation would be on the books by now. So, while reporting ethnicity pay gaps is currently voluntary in the UK, there have been calls from the CBI together with the Trades Union Congress (TUC) and the Equality and Human Rights Commission to make reporting mandatory. Today, a number of FTSE businesses, large consultancies and signatories of the Change the Race Ratio have already committed to publishing their ethnicity pay gap reports, which demonstrates the direction that leadership is heading. And while a growing number of companies are voluntarily reporting, to date only 13 out of the FTSE 100 employers do so, in part due to underlying concerns about the risk of translating their intentions into hard data.

THE COMPLEXITIES OF REPORTING

As your organization begins to think through the challenges related to transparency in this area, there are a few things to keep in mind. The quality and depth of the data you hold are going to be key; to achieve that, you'll have to prepare carefully. HR functions reaching out to employees to ask for their racial and ethnic data could potentially face resistance driven by a lack of trust from the very individuals that you need to hear from.

Being clear and intentional about your employee engagement and communication strategies is critical to mitigating any risk created by asking for this data. A company-wide position and series of commitments on DEI is an important tool to help establish the trust needed from employees. Taking them on the company's journey toward key elements of progress on DEI, with consistent, thoughtful communications is key—as is explaining what you need, why and what it will be used for.

Above all, owning the approach to DEI from the top of the organization and making sure this is a part of an ongoing two-way dialogue between senior management and employees will be core to the creation of trust on this issue. This will provide you with the platform you will need to craft a compelling ambition, narrative explanation and Q&A's that are appropriate for your employee base.

LANGUAGE SENSITIVITIES & LEGAL & CULTURAL DIFFERENCES

Using the right words matters. There is a wide variety of terminology used when talking about race and ethnicity across markets. One well-received recommendation within the controversial March-released report from the Independent Commission on Race and Ethnic Disparities was the scrapping of "BAME" (a widely used UK acronym for "Black, Asian and Minority Ethnic.") This term is unpopular with many ethnic minorities and is viewed by critics as reductionist and unhelpful, as it implies that all non-white ethnic groups are part of a homogenous group. Such thinking, and others like it, fails to recognize the nuanced and intersectional differences fundamental to identifying and addressing key issues around inequality.

Establishing a clear understanding of what is legally possible with regard to reporting in any particular market is also very important, so taking legal advice can be advisable to mitigate the risk of employees taking legal action against employers for misusing their data, or fears about transgressing the rules of GDPR regarding data privacy. In businesses with small sample sizes in some ethnicity groups, it may be harder to ensure data privacy and anonymity, so there is much to think about.

In some countries, it is illegal to collate racial and ethnic data; this includes countries such as Belgium and France. As a result, accounting for the differences in access to data and the ability of companies in certain markets to set specific goals or targets needs careful navigation. Such challenges are making it harder for chief people officers to create meaningful and comparable global representation targets for race and ethnicity, with leaders often setting country or region-specific goals in line with local demographic guidance and predictions. Yet, despite these challenges, some global companies are choosing to establish a single standard within their organization globally, which indicates the future direction of leadership in this area, regardless of the barriers to doing so.

THE PERCENTAGE OF COMPANIES SURVEYED CALCULATING THEIR ETHNICITY PAY GAP HAS RISEN FROM 5% IN 2018 TO

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PERCENT IN 2020.

DEMONSTRATING PROGRESS

All efforts toward, and investment in, creating a more inclusive and diverse workforce are now part of the fundamental expectations of how companies think about managing their most precious resource. Addressing any ethnicity pay gap is an important part of a company's commitment to action on the much wider DEI agenda, which begins with a clear ambition and point of view from the CEO, respectable targets and a regular schedule of transparent reporting on progress.

Beyond being ahead of any upcoming legislation, sharing your specific ambition on this issue is a strong indicator to future talent that you mean what you say. It is also worth pointing out that this issue is just as important to your customers and investors as it is to your employees, with many asking increasingly searching questions of a company's determination to drive change in this area. They will be looking closely at your business's public commitment toward addressing existing inequalities in your workforce and its recognition of the benefits of a more diverse and balanced workforce.

While organizations may not be proud of the data they share in year one, it is the starting point for acknowledging the challenge and starting to make progress. The much greater risk is long-term damage that comes from not making DEI a core part of your strategy and approach.

Above all, well-meaning statements and ambitions around racial and ethnic equality, without a demonstration of concrete accountability and action, will no longer suffice, whether for your employees, or your customers or investors. The choice is yours. ◆

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