Taking the right approach to ethnicity pay gap reporting

pwc

The need for greater equality

There are few things more important to an organisation than its reputation, culture and people. And there are few issues that test the strength of those assets more than workplace equality.

Organisations are being scrutinised more than ever by investors, regulators, media, politicians and the public. As a result, failure to address the need for workplace equality can lead to significant damage to both reputation and culture.

Conversely, taking positive action to address workplace inequality can have a positive impact on an organisation's reputation. Even where there is work still to do, being honest and open about the issues and expressing a desire to change will help. Ultimately, taking action on diversity is good for business.

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No organisation or workforce should tolerate a lack of diversity. Understanding and addressing this issue is important culturally and ethically. But it is also critical to success. Diverse workforces, with diversity of experiences, insights and perspectives make better decisions and deliver better results.

Katy Bennett
Diversity and Inclusion Consulting Director at PwC

As such, it is vital organisations hold themselves to account and address issues of inequality.

1 By understanding what those issues are and how they have come about.

2 By putting in place meaningful, measurable steps to remedy them.

The requirement to report

Since 2017, organisations of over 250 employees in the UK have been required to collate and report gender pay gap data, with the first filings submitted by April 2018. In January 2019 the UK government closed its consultation on ethnicity pay gap reporting.

We do not yet know what will come of that consultation, but it seems highly likely that in the future this will become a new requirement alongside gender pay gap reporting. It's certainly clear this is on the UK government's agenda, alongside potential future measures, such as pay reporting around disability.

At PwC in the UK, we have been voluntarily publishing our ethnicity pay gap data since 2016 because we believe it's an important step towards ensuring our workforce is diverse, inclusive and fair for everyone.

We believe transparency drives accountability, and we have been open about the fact our data is not where it should be. We have found through our own experience that reporting numbers is important, but it's only one step in our journey. The numbers themselves won't change anything. The real driver of change inside our business is the way we use the data we've collected to identify the pain points behind the numbers, and form clear, targeted action plans to address them.

The right thing to do

We don't see diversity reporting as a compliance exercise. We believe organisations should be tackling inequality because it is the right thing to do, both for their people and their business.

We know there are a number of organisations, like PwC, that are already reporting their ethnicity pay gap. But for the majority, reporting is a long way off. The reasons for this vary, from the complexities of collecting data to concerns around the quality and extent of this data. However, delaying reporting will not solve these challenges and will only add to the complexity.

And while organisations may not be proud of their numbers in year one, there is greater potential risk in not addressing this issue in terms of long term reputational damage.

Ultimately, organisations should see this as an opportunity to create stronger relationships with their people and future-proof their business; attracting diverse talent to work within an environment that recognises the importance of inclusion and workplace diversity.

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> Shining a spotlight on diversity in the workplace will help drive change. This iswhy we chose to voluntarily publish our Black, Asian and Minority Ethnic (BAME) pay gap from 2016. It's a step to ensuring we take the right actions to ensure fair representation. By recording and reporting pay gaps, firms can begin to understand the reasons behind the gap, and take targeted action to address them. Reporting on ethnicity pay gaps may reveal harsh truths but that's a real trigger for action.

Laura Hinton
Chief People Officer at PwC

Time to act

If the UK government mandates that organisations over a certain size should start collecting and reporting their ethnicity pay gap data, many organisations will only then start thinking about how they do so.

These organisations should be aware that this will be a more complex task than gender pay gap reporting, with significant legal, HR systems and General Data Protection Regulation (GDPR) implications. Just as importantly, they will need to create a trusting environment where employees are willing to volunteer their data and believe it will be used to drive positive change.

We do not yet know how the government will identify ethnicity categorisations, or the lines along which organisations will be required to report. However we do know many organisations do not currently record data on their employees' ethnicity categorisation in a way that would lend itself to an easy correlation with payroll data.
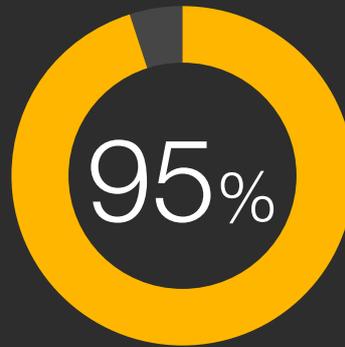
95%
of companies we surveyed have not analysed their ethnicity pay gap.
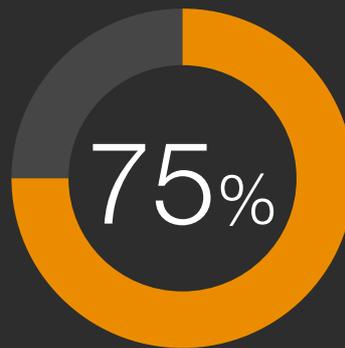
75%
do not have sufficient data to analyse their ethnicity pay gap.[1]

1 PwC surveyed 80 organisations, of whom the majority are significant employers in the UK (with 60% of respondents having a UK workforce exceeding 1,000 employees and 20% having a workforce exceeding 10,000 employees).

As such, there is a significant data collection exercise to be done, which also requires understanding of legal and GDPR implications. Among the respondents to our research, 40% of those who do not collect data on ethnicity said the most common cause for not collecting data was concern around legal and GDPR restrictions. This becomes even more complex for organisations looking to undertake the exercise globally.

In order to collect ethnicity data, organisations must be transparent with employees about what personal data is being collected and how it will be used. Tackling this challenge head on is a key first step in ensuring organisations don't fall behind in preparing to address this important issue.

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Personal data regarding ethnicity is classified as a special category of personal data under the GDPR. When processed, such data may create significant risks to employees' fundamental rights and freedoms, for example, resulting in unlawful discrimination. The GDPR is designed to protect individuals. The GDPR doesn't prevent the collection of ethnicity data, however, it is important organisations consider the GDPR requirements that must be addressed before starting such collection.

James Drury-Smith
Data Protection Strategy, Legal and
Compliance Services Director at PwC

People-first communication

Our research also found that among companies who have attempted to collect data on employee ethnicity, many reported low response rates among staff. This is a critical issue that must be overcome. In the UK, as in many countries, employers cannot compel employees to disclose their ethnicity, so they need to take steps to encourage voluntary disclosure.

It is important, therefore, that organisations also think about how they build an internal communications plan around the data collection process. This should proactively answer concerns and address questions about:

1 How and why that data is being collected.

2 Where it will sit.

3 How it will be used.

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The complexity of this issue is far from limited to the data collection exercise. There are significant challenges around even starting this conversation in the workplace. There is a lot of hesitation around language and cultural differences and the approach organisations take needs to balance the need for data and reporting with engagement, communication and building trust.

Nandini Das
Change Consultant at PwC

Putting people at the heart of approaching this topic is key to driving engagement and opening up the conversation. An essential first step is to identify the different stakeholders and groups within an organisation, working with them to agree their involvement and understanding their communication needs. Thinking about how different stakeholder groups communicate can help with developing a tailored communications plan toenhance engagement.

For example, at PwC we actively involve our employee networks in our communications planning. These networks help to create a forum where perspectives from a specific employee group can be heard and can support in relaying vital communication back to specific groups.

Engaging your relevant stakeholder groups in a tailored and considered way helps to improve the reporting process and lays the foundation for implementing impactful improvements.

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Our employee networks play a key role in helping us create a diverse and inclusive environment. Engaging with networks across your business will play a critical part in ensuring the voices of different groups of employees can be heard. They will be vital in shaping communications for disclosure on ethnicity pay and generating solutions to bridge any imbalances.

Shalah Akhtar
Manager and
Muslim Network
Lead at PwC

Legal and systems considerations

Where ethnicity pay disparities are identified, there is a real risk of discrimination challenges. Employers could face 'direct' discrimination issues where pay differences are because of employees' ethnicity, and 'indirect' issues in situations where policies, processes and practices inadvertently disadvantage employees of a particular ethnicity. Organisations with ethnicity pay gaps will need to be prepared for queries from employees.

Starting the review process as early as possible will enable organisations to put effective communication channels in place, assess their ethnicity pay position and develop an action plan to address any imbalances. However, employers should bear in mind the sensitivity of any analysis and risk of disclosure in the event of legal action from employees.

Trying to assess and address the legal implications of ethnicity pay disparities in a hurry will be more challenging and give rise to greater risks than approaching it in a proactive and orderly fashion. Planning and communication may not make the problem go away, but keeping employees in the dark for longer than necessary and waiting until the issue is in the news will only make it a more volatile situation.

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> Ethnicity pay reporting is a crucial step forward in ensuring pay fairness, but brings with it significant legal risks for employers. We are already seeing an increase in pay-related discrimination claims within organisations, and expect this to intensify with the disclosure of ethnicity pay gaps. Employers should act now to assess any areas of exposure, and take appropriate legal advice to ensure confidentiality.
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> **Ed Stacey**
> Head of Legal
> Services at PwC

Alongside these considerations, understanding what this means for HR systems is essential. For most organisations, it will be more effective and efficient to use a core HR system to collect and calculate ethnicity pay reports.

Leading HR systems will have functionality and supporting data models that can be configured to provide 'self service' processes to capture and update employee diversity data in a secure manner. However, some organisations will need to work with their systems providers to apply upgrades to obtain these features, which can have cost implications.

Importantly, the most complex element of data capture and reporting is not the systems aspects but creating trust with employees to share this personal information and improve response rates.

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> Collecting diversity data is not complex from a systems perspective. The real challenge is generating trust from your employees to share their personal information. Specifically, you will need to ensure they trust the data they provide is confidential and cannot be accessed by their direct teams and managers. Getting this access hierarchy right and communicating it effectively is critical.

Prateek Kumar
Senior Manager, HR Technology at PwC

Where to start

The process for establishing, analysing, communicating and then working to improve your ethnicity pay gap may appear daunting, and it is certainly not without its HR systems, legal, compliance and PR challenges.

On the next page we have outlined a plan that covers the main elements that need to be considered to initiate data collection and calculate your ethnicity pay gap.

For every organisation these five action areas will mean slightly different things. But this process will be relevant to all.

Similarly, when approaching data collection, some organisations may choose to consider what other data to collect. Should they limit themselves to ethnicity, or could this become part of a wider employee engagement programme to get a better understanding of issues such as sexual orientation, social mobility and disability? Doing so will certainly help communicate a broader commitment to equality and may help organisations get well ahead of future reporting requirements.

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We have implemented a number of measures to collect our ethnicity data, from capturing it at the point of joining, to making it easier for current employees to provide the data via self-service channels they can update anytime. We also focus on building trust, through reassurances about how the data will help us ensure greater fairness in all our people processes.

Sarah Churchman
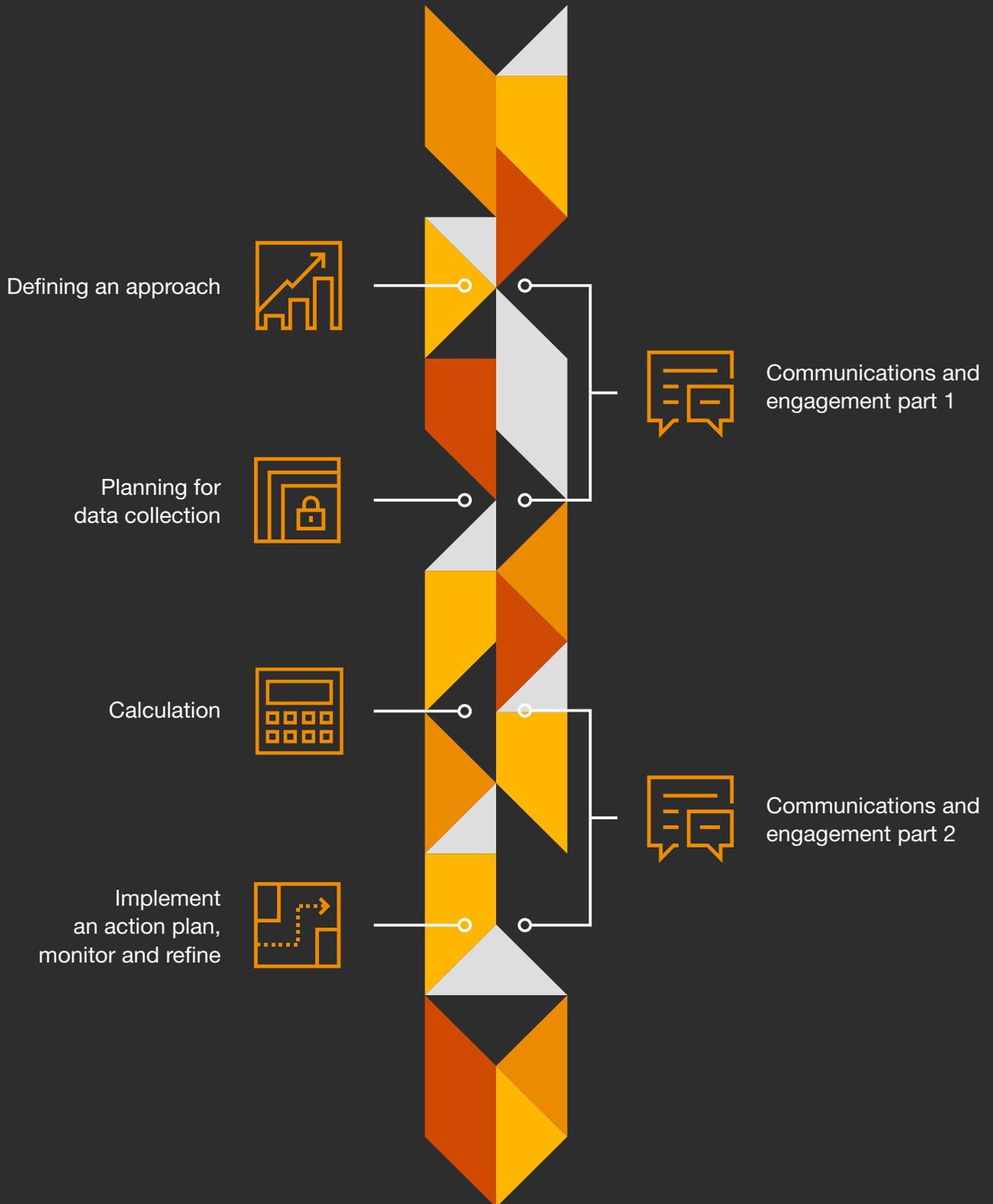Chief Inclusion, Community and Wellbeing Officer at PwC

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Whatever methodology employers use to calculate their ethnicity pay gap, there are a variety of factors that should be considered in their wider analysis, including contextual aspects such as geography, age and gender. This analysis may prove far more complicated than expected, so starting to think about this process and planning what analysis employers will need to complete now will help simplify the process when they are preparing to disclose.
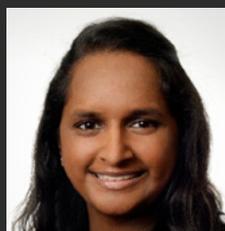
Gabriella Vigneswaran
Reward and Employment Manager at PwC

It must also be stressed that these elements should be considered as part of a unified process, with some areas such as communication and engagement running concurrently with others.

Defining an approach

Planning for data collection

Calculation

Implement an action plan, monitor and refine

Communications and engagement part 1

Communications and engagement part 2

Defining an approach

Put in place a business case for reporting that incorporates the value of getting this right, versus the risk of getting it wrong. Establish important milestones and key performance indicators and agree the scope of the exercise. Engage all relevant stakeholders; to do this you will need to be able to articulate a clear narrative and vision for reporting that will be understood by all parties. This should be an organisation-wide approach, sponsored and endorsed at the very top by business leaders, through heads of departments and line-managers to HR, legal and PR. Ensure the plan focuses not only on the task of reporting, but on implementing change and improvement based upon the findings, with a clear communications and engagement approach.

Planning for data collection

Some organisations are already collecting data and this step will therefore be focused more on validating current approaches, their effectiveness and the quality of data they collect. However, the majority are starting from scratch and there is work to be done before even starting. Before beginning data collection; organisations must understand the legal and GDPR restrictions and issues; assess the effectiveness and functionality of HR systems; explore methodologies for data collection; draft questions and forms; and communicate the process to employees, along with planned outcomes.

Calculation

If the government's reporting criteria are not yet agreed or in place, decide the scope and parameters of the pays gaps you are going to analyse and report. It may be you choose to use gender pay gap reporting as a model. Run the initial calculations to establish the numbers for each criteria you are measuring. At this stage it is worth looking beyond the numbers and running additional analysis to understand underlying trends and the root causes of your gaps. Consideration and understanding of potential legal risks are also a critical part of this stage, so it's advisable to think this through carefully with legal. Prepare initial findings for internal review and to inform discussion about the best ways to address the issues raised.

Implement an action plan, monitor and refine

The numbers are not the end – they are just the beginning. You now need to create and roll out an action plan for addressing whatever situations the numbers have presented and consider how you will communicate this to your employees. This may form part of a wider inclusion strategy and action plan, or may sit alongside it. We've set out further detail on how you may do this below.

At the same time, you'll need to think about future reporting and how you will refine and improve your data collection, analysis and reporting over time.

Communications and engagement part 1

Communication and engagement is essential to all parts of this process. Before starting to collect the data, engaging stakeholders to agree how the reporting process will be positioned and how it can support other key people initiatives is critical. Carrying out engagement initiatives such as focus groups at this stage can help address or understand any gaps in the data and supplement the data collection process.

Communications and engagement part 2

Once the data has been gathered, communicating the findings will also be critical to driving change. Agree the format and the timing for how and when you disclose your numbers. Put in place a plan for communicating clearly and consistently both internally and externally, including the narrative you want to put in place around the numbers and importantly the way you intend to address them. Ensure you have clear messaging and responses in place to handle internal and external questions about your numbers. This is a great opportunity to build stronger relationships with colleagues, but poor communication can undo even the best intentions.

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There is no value in putting off ethnicity pay gap reporting. For employees, such reporting requires appropriate messaging and authentic engagement. The longer you leave it, the more complicated and costly it will become and the more corners you may end up cutting. Starting now with the necessary planning and honest communication will earn employee trust and confidence and could reduce the risk of regulatory or legal implications.

Mary Agbesanwa
Co-chair of the Multicultural Business Network at PwC

Driving change

Ethnicity pay reporting and any further future reporting requirements are fundamental steps in the journey to improve workplace equality. However, these must be considered in the context of wider diversity and inclusion strategies to really drive change.

Alongside some of the tactical preparations for reporting, organisations need to put in place a robust plan to address diversity and inclusion and make this a board-level issue. Our work with companies that are making the most progress highlights the importance of ensuring diversity and inclusion get the same direction, measurement and accountability that would be applied to any other strategic priority.

We've identified five foundations for impactful change.

Align diversity with business strategy
Diversity should be a business led issue. Articulate the business case for change and align priorities with business goals.

Drive accountability from the top
Executive teams set the tone for the organisation. To make sure change happens, it's important to assign accountability, starting right at the top of an organisation.

## Set realistic objectives and a plan to achieve them
It's important to identify the headline diversity and inclusion objectives that are most important and the shortcomings most in need of addressing. Translate these objectives into an action plan that sets out measurable goals aligned to your accountability framework.

Use data: what gets measured gets done
Employee data should be used at every part of the process. Use analytics to diagnose key areas that require change, assess the impact and success of interventions and develop targets and goals to drive accountability. Data can also be used to create management information and dashboards that bring together quantitative measurement of diversity and qualitative assessments of inclusion.

Be honest: tell it as it is
Effective communication can have a positive impact on brand reputation – even when there is still work to do. Report honestly on how the organisation is addressing the challenges in improving diversity and inclusion and how it is progressing over time. Don't simply publish initiatives or promote stand out strengths.
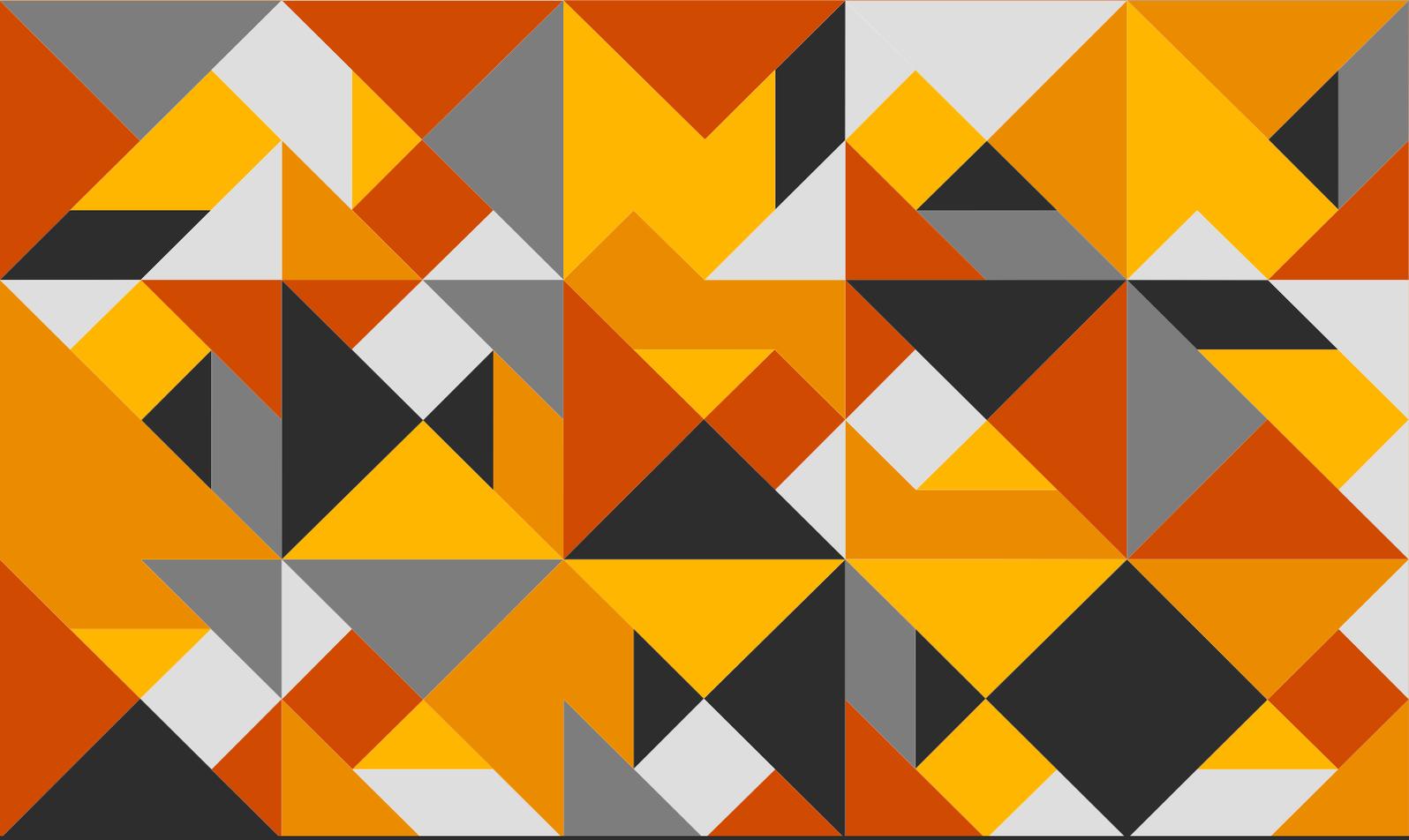
Get in touch

We have specialists across HR, legal, compliance and communications who are available to help. To discuss ethnicity pay gap reporting or any related issues, please get in touch.

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