

ETHNICITY PAY REPORTING

Policy Briefing • September 2021



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WHAT IS ETHNICITY PAY REPORTING?

- Ethnicity pay reporting is the process of collecting personal data from employees on their ethnic identity in order to analyse and publish information on average pay in their organisations.
- The data may be used by the organisation to help identify and understand where it may face specific equity, diversity and inclusion challenges for different ethnic groups.
- Organisations need to build trust and communicate effectively with employees in order to gather information on ethnicity comprehensively.
- Because it is important that published ethnicity pay information does not identify individuals, organisations will use minimum thresholds. For some organisations, where the number of staff from diverse ethnic backgrounds is small, this will mean publishing on a 'binary basis' - looking at the gap between two combined groups.

WHAT IS THE ETHNICITY PAY GAP?

- The ethnicity pay gap shows the difference in the average pay between White employees as a group and a combined group of Black, Asian, Mixed and 'Other'¹ employees in a workforce.²
- A positive percentage means that the average pay of the White staff is higher than the average pay of the combined group of Black, Asian, Mixed and 'Other' staff.
- Some larger organisations are voluntarily publishing more detailed ethnicity pay reports, for example Lloyds Banking Group³ break down their data further to shine a light on the situation for their Black employees, Asian employees and 'minority ethnic' employees separately.
- Some, like CMI partner the University of Bristol, have started to include intersectional analysis in their reports - looking at two characteristics combined, for example gender and ethnicity.⁴
- At this moment in time, ethnicity pay gap reporting is voluntary for organisations, unlike gender pay gap reporting which is compulsory for certain organisations in the UK and elsewhere -

¹ Excluding the White minority ethnic groups

² There is an ongoing and important conversation about the right terms to use when considering ethnicity in the workplace and CMI is proud to be leading this conversation with our community. Progressive organisations are consulting with their employees on the language used and as a result may use 'minority ethnic', 'people of colour' or similar for this combined group. Most now agree that the term 'BAME' is inappropriate. [CMI \(2021\). After BAME](#)

³ [Lloyds Banking Group - Ethnicity pay gap report](#)

⁴ [University of Bristol, Ethnicity Pay Gap Report 2021](#)

- including many countries in Europe.
- Some countries, like the UK, also publish national statistics on the ethnicity pay gap and gaps between specific ethnic groups for comparative purposes. This information is presented on the UK Government's *Ethnicity Facts and Figures* website⁵ and detailed reports are published by the Office for National Statistics (ONS).⁶
- As CMI highlighted in *Moving the Dial on Race* in 2020, the overall pay gap between White and 'ethnic minority' groups is at its lowest level (2.3%) since 2012 (5.8%).
- Whilst this might sound like great progress, there is variation for specific ethnic groups. For example, the largest pay gap (+16%) is between the White British group and the Pakistani group. Whether an employee is born in the UK or not continues to be a key pay gap driver.

WHY DOES IT MATTER?

- Ensuring organisations are truly inclusive and representative of a rich, multicultural society is of course the right thing to do, but there are also key business benefits:
 - It boosts financial performance
 - It increases the ability to attract and retain talent
 - It enhances employee engagement, culture and trust
 - It brings firms closer to customers and boosts brand
 - It drivers better, innovative team decisions, raises ethics and reduces risk
- However, the leadership presence of diverse ethnic groups in most companies is still not as representative as it should be.
- 'Ethnic minority' women are almost invisible from positions of power across both private and public sectors. Just [6% of FTSE 100 CEOs](#) and 35% of civil servant permanent secretaries are women - but not a single one is a 'woman of colour'.
- In a recent CMI survey, **80% of managers agreed** that large organisations should be required to report their organisation's ethnicity pay gap.⁷
- CMI's [Delivering Diversity](#) report highlighted the lack of ethnic representation at senior levels. In reference to a CMI survey, the report noted that 54% of respondents said fewer than 5% of their team were Black, Asian, Mixed or 'minority ethnic' and 83% said fewer than 5% of their board represented diverse ethnic groups.⁸
- More recently, CMI's [Moving the Dial on Race](#) report showed that even today, with significant movements like 'Black Lives Matter', there exists a considerable action gap between what senior leaders say and the practical steps they take to close gaps.
- Ethnicity pay reporting drives change through transparency and accountability as well as by pressing organisations to collect the data they need to inform their decision making.
- Just like with gender pay gap recording, when the problem is clearly presented in numbers, it

⁵ [Work, Pay and Benefits](#)

⁶ [Ethnicity Pay Gap, 2019](#)

⁷ Managers Voice poll of 1,114 UK managers conducted between 22nd and 26th February 2021

⁸ CMI (2017), [Delivering Diversity](#), p.18, (CMI survey of 24 FTSE 100 HR and D&I leaders)

stays at the forefront of managers' thinking and the situation is then systematically addressed.

- However, small numerical ethnicity pay gaps can also be misleading, especially when the representation of multifarious ethnicities is low in number. As CMI has advocated for years, this is why action plans for addressing any disparities should also be compulsory.

KEY CHALLENGES AND SOLUTIONS

- The UK Government conducted a consultation on introducing mandatory employer-level ethnicity pay reporting in 2018-19. An official consultation response has not yet been published, but the Government has since indicated that it also ran an exercise to test voluntary reporting methodologies with a broad range of businesses to better understand the complexities outlined in the consultation using real payroll data.
- The suggestion is that this exercise raised genuine difficulties in designing a methodology that produces accurate figures and allows for interpretation and action from employers. At CMI we believe these difficulties can and should be overcome:

Challenge: Legal uncertainty around collecting ethnicity data from employees.

Solution: Introducing clear legislation alongside practical guidance and training for employers, will remove uncertainty for leaders of large organisations.

- ✓ The Government could also work with organisations like the CMI to provide clear legal guidance for organisations who wish to voluntarily report, drawing from the expertise of leaders who have already taken responsibility to overcome this challenge.
- ✓ Tamara Box CMgr CCMI, managing partner for Europe and the Middle East for law firm Reed Smith, sums it up: "We published our ethnicity pay gap report as well as our disability pay gap reporting this year...If we don't have some degree of accountability or expectation, then we're going to go on brushing it under the carpet."

Challenge: Low response (or 'declaration') rates from employees when organisations request the data.

Solution: Embrace this challenge as an opportunity. The response or declaration rate from employees provides an important metric for organisations, and should be considered an essential foundation to build on.

- ✓ EHRC [research](#) found that explaining to employees clearly how the data will be used was key and organisations can make adjustments to processes to make it easier to share, for example by building their ask into the recruitment and onboarding process, making it easier to share through digital tools, providing regular reminders and allowing 'prefer not to say' to help avoid people giving false declarations.
- ✓ CMI's work helps leaders to communicate effectively with their teams to build the [trust](#) required to drive up reporting rates. Leaders can consult with their teams and employees on how they might improve the reporting rate as a first problem for discussion when developing an action plan. The reporting rate provides an excellent metric to monitor.

Challenge: Ensuring anonymity of individual employees.

Solution: Making reporting mandatory will mean that companies as well as the government have

to ensure the creation of robust data collection systems and transparency in the process so that employees are aware exactly what their data is being used for. Legislation can set out minimum sample sizes for organisations alongside best practice for reporting. For example, not reporting average information based on the data from 5 or fewer individuals.

- ✓ Embrace the opportunity to ensure your organisation is compliant with data protection requirements, especially by providing training to staff. Organisations who collect ethnicity data need to take care to ensure the anonymity of those who provide it, whether for analysis or reporting purposes.
- ✓ Consider the problem as part of your narrative and action planning - for example why are the sample sizes low, is this an area for improvement? Benchmarking and sharing best practice with other leaders in your sector or geographical location may allow you to unlock the issue going forward.

Challenge: Masking differences when reporting the gap between two combined groups.

Solution: Introducing legislation for large employers to report at least a binary gap provides a minimum 'floor'. Combining this with a narrative including details of the declaration rate and a picture of representation across the organisation, allows organisations to clearly articulate their specific strengths and weaknesses.

- ✓ Ethnicity pay reporting between two combined groups may result in small percentage gaps, or positive gaps for some organisations. Publishing action plans alongside gap figures makes clear to stakeholders that employers are committed to addressing disparities - however small the figure or whichever way it might be skewed.
- ✓ Cindy Rampersaud CMgr CCMI, says that employee resource groups⁹ have been instrumental in getting granular data and raising practical issues that can be solved.

Challenge: Calculating robust average figures from a relatively small number of individuals, when reporting gaps between more detailed groups.¹⁰

Solution:

- ✓ Narratives allow organisations to share more detailed information without compelling them to publish the underlying data if based on small sample sizes. Whilst we would like to see more detailed reporting, which could be introduced for larger employers on a sliding scale, the requirement to report a binary gap will drive further voluntary action.
- ✓ Introducing legislation will provide the right framework for cooperation and competition between diverse organisations. For example, CMI joined forces with the Equality and Human Rights Commission (EHRC) to create [a practical toolkit](#) to support organisations to drive action in tackling their gender pay gap. [This resource](#) contains case studies, recommended actions and tried and tested 'how to' guides from the Behavioral Insights team, all to deliver change which can make organisations more competitive and employees more engaged.
- ✓ Ethnicity pay reporting requires a similar approach, as organisations uncover some challenges unique to them and some shared with others, for example in their region or sector. The Government can support this by working with influential organisations to

⁹ For advice on establishing and managing an employee resource group, see [CMI Race: Building a Support Network](#).

¹⁰ Reporting at a more granular level risks results being skewed by particularly large or small pay values because of low numbers within certain ethnic groups - especially in geographical areas with low levels of ethnic diversity.

provide tailored support and by facilitating appropriate benchmarking.

NEXT STEPS?

FOR GOVERNMENT

- Despite the prolonged delay, the UK still has the opportunity to lead the world by introducing an effective and comprehensive pay reporting policy.
- We need to introduce mandatory ethnicity pay reporting for all large organisations (250+ employees) in the Employment Bill or earlier. This should include a headline pay gap figure comparing the average hourly earnings of 'ethnic minority' employees as a percentage of 'ethnic majority' employees as well as reporting by quartile to get a better understanding of representation throughout the organisation.
- A voluntary approach, as noted in the McGregor-Smith Review '[One Year On](#)' report, is not effective enough. There are progressive employers, like CMI, that choose to publish their ethnicity pay gap¹¹ but business can do better with a clear mandated framework.
- We have also seen this confirmed when the enforcement of gender pay gap reporting was paused in 2020. With GPG reporting not being enforced in 2020, accountability has been significantly impacted: CMI analysis of GPG reporting service data found that in 2019 just under 10,000 businesses reported their GPG before the deadline, in 2020 with enforcement removed at the 11th hour (24th March 2020) the number of businesses complying by the deadline dropped by 56%.
- We believe that, like gender pay gap reporting, setting a framework for ethnicity pay reporting will create the conditions for competition between businesses and will drive greater progress at a greater pace.
- We know this would help achieve evidence-based fairness without introducing a significant financial cost to business. As our Gender Pay Gap reporting briefing highlighted, the Government's [own economic impact assessment found](#) the annual cost of compliance to be just £484 in each large private sector organisation.
- The Government's 2018-19 consultation suggested that by introducing a standardised approach to classifications of ethnicity, some organisations may incur additional costs for changing HR systems - and asked employers what these might be. In its overdue response to the consultation, the Government should provide more information on estimated reporting costs to employers and the potential support it could offer.

FOR EMPLOYERS

- Organisations should not wait for legislation to start collecting data - it takes time to build trust.¹²
- We believe that all firms should have - and should publish - a diversity and inclusion policy. This needs to be followed up by a clear strategy and action plan for addressing

¹¹ [CMI 2021 Annual Report](#) (pages 14-15)

¹² EHRC (2018) [Measuring and reporting on disability and ethnicity pay gaps](#)

gaps.¹³ As a starting point, we would like to see larger firms (250+ employees) publish and report publicly on progress against these action plans on a regular basis and show how they plan to close their pay gaps. Action plans should include SMART targets for progress.¹⁴

- Training managers and leaders is key. They should be provided with the adequate skills to deliver a diverse, balanced and inclusive workplace.
- We also believe that linking leadership pay and performance evaluation to diversity and inclusion metrics can be an effective way of driving accountability and incentivising progress. For this to be successful organisations must make faster progress in collecting and monitoring data to support this process. Our 2020 [research](#) shows fewer than half (44%) of managers said their organisation collected data and set targets for race diversity.

FOR MANAGERS

- If your organisation has not yet committed to ethnicity pay reporting, show your support. Managers can join employee resource groups and champion the importance of better evidence-based decision making through better data.
- When the time comes, role-model the sharing of ethnicity data and communicate why it is important for others to share theirs too. Understand why people may 'prefer not to say' and ensure you are setting aside time for good conversations about race equity.
- If your organisation has committed to ethnicity pay reporting, understand what information is being collected, what issues are arising and what actions might best address these. Understand how you and your teams can be involved in the process, and ensure you are championing a better understanding of fairness.
- Ensure that you and your teams undertake training courses on diversity and inclusion.
- Ensure that you are transparent in your interactions with your team and make it clear what the data is being used for. This will also help to build up trust.

If you would like to engage further with CMI on this topic please contact raceequity@managers.org.uk

¹³ See [CMI Race research report](#) on 'action gaps' p.5

¹⁴ See [Race Commission response](#) 'recommendations' section