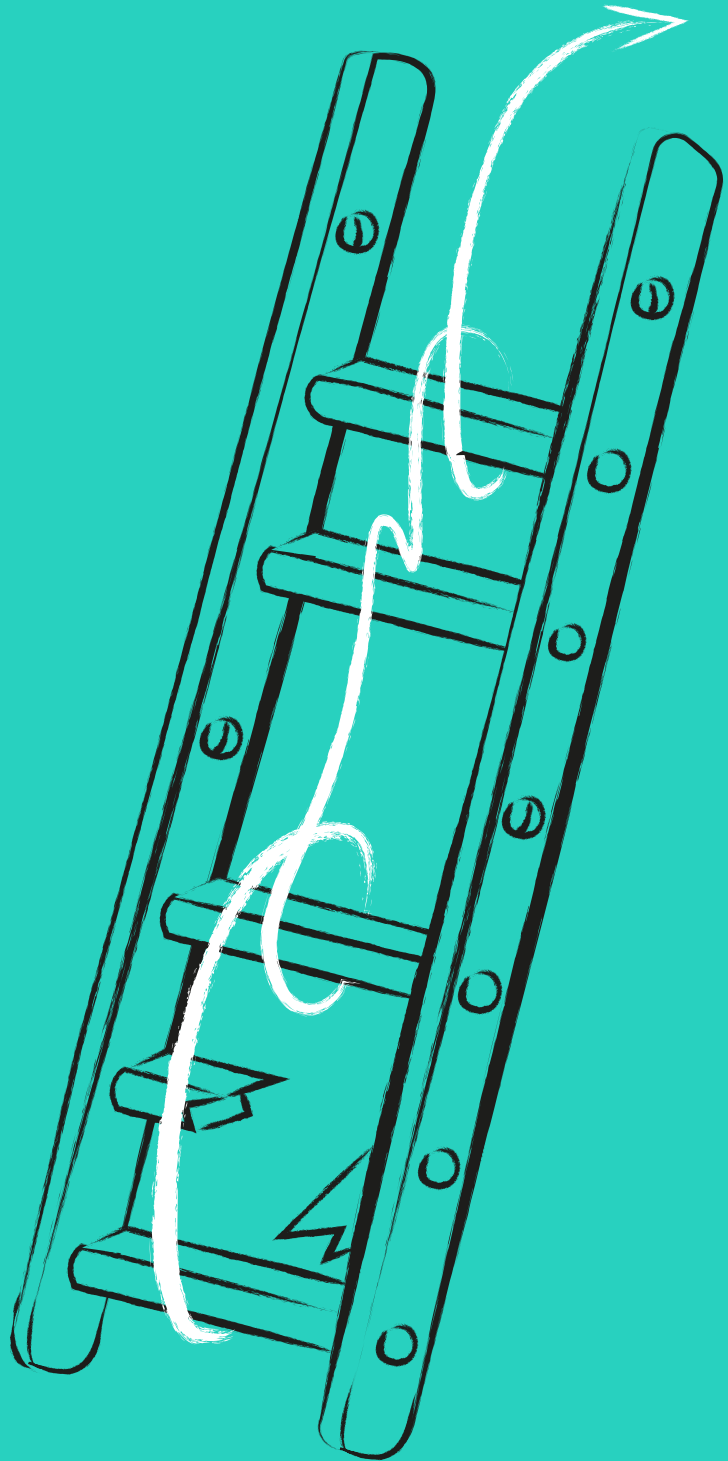


Inclusion and Diversity

What next for business?



BRUNSWICK merchantcantos

What next for business?

April 2018 was the first time UK companies were mandated to report their gender pay gaps. This brought the issue of inclusion and diversity in the workplace to boardrooms across the UK.

This note sets out the lessons learned from year one and what's next for UK business, beyond just gender pay.

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Introduction

The UK government's first year of mandatory gender pay gap reporting revealed an average median pay gap of 18% in favour of men in business across the UK.* The extent of the gap ignited a broad conversation around the issue of inclusion and diversity (I&D) in the workplace in Britain.

“We need to rid ourselves of outdated stereotypes and accept that everyone brings his or her own experiences to bear in the workplace.”

Theresa May 3 April 2018

* April 2017, based on estimates from the Annual Survey of Hours and Earnings, Office for National Statistics

Beyond the pay data itself, gender pay gap reporting brought the broader issues of occupational segregation, gender balance and female seniority into the spotlight – shifting the debate from the gender pay gap to the gender opportunity gap.

As we look ahead, the question around equality of opportunity is where business is refocusing attention. Stakeholders look more closely at how organisations are addressing the structural issues underlying their pay gaps. From employees to government and media, there is increasing pressure on business to improve the representation of women in senior roles and take action to speed up change in their organisations.

Meanwhile, the conversation has started to move beyond gender, with government now focusing on ethnicity, disability and other groups, and more and more businesses starting to build the internal data they need to better understand the composition of their workforce.

Business is under the spotlight on I&D. There is increasing pressure for business to take meaningful action to advance diversity and drive inclusion as shown by our insight-led research interviewing stakeholders across the media, investment community and policymakers.

Businesses will need to determine their point of view on the issue of I&D beyond gender pay. Companies need to understand why they are committing to diversity and what the business rationale is beyond the regulations if they want to be credible and authentic. Political scrutiny, investor influence and pressure from prospective and current employees within companies mean the issue of I&D is very much here to stay.

UK Inclusion and Diversity Team

Beyond the gap

The 2018 gender pay gap reports showed that it is possible for an employer to be working hard to advance the interests of women within its ranks and still have a large gender pay gap. They also showed that small gaps do not necessarily equate to business having a strong policy and governance structures around remuneration.

78%

of organisations reported gender pay gaps in favour in men

To understand what went well in year one reporting and what stakeholders expect to come next, we conducted conversations with policy makers, journalists and investors to get their perspectives – see pages 4–5.

We also reviewed year one gender pay reports to identify strengths and weaknesses and how businesses reflected I&D within their strategic agendas.

What we found

The quality of reports varied widely in year one. The approaches to reporting ranged from compliance only to more proactive engagement, with targets and clear action plans for change.

Numbers are only part of the story

- It was recognised by both the government and commentators that pay gap numbers in isolation tell only part of the story.
- Publishing a clear, contextual narrative alongside the numbers meant companies were able explain their numbers, helping to build better understanding of their particular business challenges while demonstrating their commitment to change.
- Annual reporting means that there is the potential for companies' pay gaps to increase year on year, even if temporarily, before they begin to improve. For example, increasing representation in the talent pipeline requires starting at the junior end, at lower paid roles. It is therefore imperative to report progress independent of headline figures.

Support from leadership

- Leaderships who acknowledged the business case for I&D and showed support for the regulation set a positive tone around their reports and were well received by stakeholders.
- Leadership quotes within narratives were used to good effect by the press in their media coverage.

Transparency is everything

- Businesses that were upfront and completely transparent – often going beyond the pure legal requirements – tended to be looked at more favourably by commentators.
- Media were particularly sensitive to business that appeared to obfuscate their numbers or failed to adequately address key concerns.

Plans are a requirement

- The adage “what you measure you manage” rang true in the best reports. Businesses that put clear plans in place to support change and reduce the gap were recognised for that.
- The best reports recognised that delivering change would take time and often disclosed long-term plans for organisational change, with clear support from leadership and actions to incentivise change from the top.

Targets can help

- Publishing goals and targets, against which business can be measured, showed strong concrete commitment and those that set stretching targets received positive media coverage even in instances where the gap was wide.
- The BEIS Select Committee also recommended that companies publicise stretching targets to reduce their gender pay gap.

Broad-based support

- It was not just the government who was looking at how year one went. Investors, media and employees were all actively watching how business communicated.
- There was broad support for the initiative with most agreeing that it was time for corporate Britain to address the issue of diversity in the workplace.

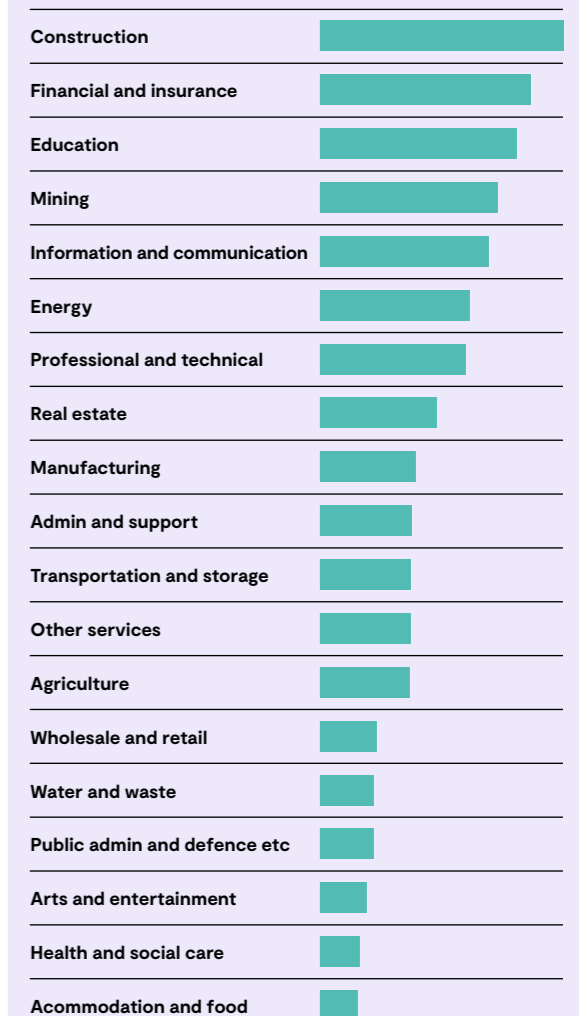
Employees voices are powerful

- Employees were an incredibly powerful voice throughout 2018 reporting. We saw key national newspapers call for employees to share their experiences. In certain sectors, including professional services, this forced further disclosure beyond the legal requirements.
- Businesses which supported their context and narrative with employee examples were able to show a genuine commitment to the issue. Case studies which brought action plans alive were also helpful.

Sectors under spotlight

Reporting highlighted certain sectors where the gender divide was more pronounced. For those sectors additional narrative was useful to explain some of the underlying structural issues effecting the composition of their workforce.

Average median hourly pay gap, by sector (%)



Source: House of Commons Scrutiny Unit, based on reported data, not ONS figures.

What did stakeholders tell us?

“Companies should have a deep understanding of their workforce – not just around gender, but sexuality, background and ethnicity. To take meaningful and relevant actions you’d expect companies would know this personal information about their workforce; you’d expect them to want to understand this regardless of the regulations.”

Policy maker

“Many companies provided narrative around the numbers which was important in telling us more and how seriously they are taking the issue...whether a company is really thinking about embedding initiatives within the business to close the gap over time. This is not just an HR issue but a strategic business issue.”

Investor community

“We are watching for signs that boards are becoming diverse and inclusive.... I don’t think there’s a winning strategy here, beyond minimising your pay gap relative to peer companies...but you can get it very wrong by suggesting to your staff that it’s not a priority, or not having a plan for improvement.”

Media organisation

“The gender pay gap has shone a light on the issue of diversity and inclusion in Britain’s workplaces. This is very much just the beginning and alongside ethnicity, you would expect to see the idea of what makes a workplace diverse to extend to other areas like socio-economic background and sexuality. Diversity is a broad concept.”

Policy maker

Diversity

“Companies chose to address it in very different ways... Straight-playing always comes out the best. People appreciated that they were being upfront and truthful. Companies that put out good explanations and set out actions to address the numbers fair well.”

Media organisation

“I expect just as much interest this year across the media – people want to see what companies have done, what actions have they taken to address the gap... Inevitably [it] cannot stop with gender... I expect voluntary reporting on ethnicity, disability and age.”

Media organisation

“Shareholders expect companies to select talent from the widest possible pool but at the same time they expect roles to be filled with the best candidates. At the end of the day they are output rather than input driven. Companies should nonetheless have a convincing narrative to describe what they are doing to address inclusion & diversity issues and the tone of their reporting is almost as important as the content.”

Investor community

“Some industries will face greater challenges than others in promoting a diverse workplace but the company needs to be able to demonstrate it is doing all it can to address these issues and furthermore that the measures taken to promote inclusion & diversity have the full support of senior management and the Board.”

Investor community

“From our perspective, we understand that the gender pay gap tends to be a reflection of a lack of women in senior positions, so in essence what we are looking for is an explanation as to why the gap exists, what steps are being taken to address this, and how these steps align with the company’s policies/statements on diversity and inclusion. What we are looking for is a positive trajectory, and I think the same is true for many of the London-based asset managers”

Investment community

The future of inclusion and diversity

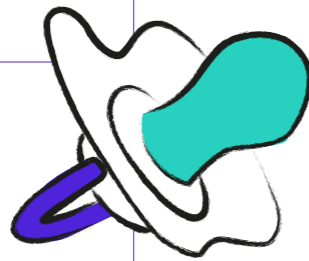
Point of view

Beyond gender pay, every business today needs to be fluent on the topic of I&D, and that starts with companies developing their own point of view on the issue. This position will provide a framework for how businesses take part in the diversity conversation and engage with stakeholders.

The point of view will be determined by a company's understanding of the issue and how it affects their own business and workforce, their maturity on the issue and the context they sit in: their peer group and their geographical footprint.

Companies need to understand why they are committing to diversity and what the business rationale is beyond the regulations if they want to be credible and authentic.

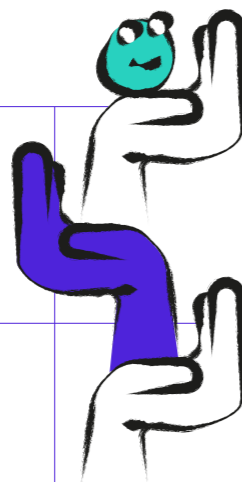
A company's point of view will guide all engagement on the topic. For some, it will simply provide a compelling narrative for regulatory compliance. For others, it will be the basis of reactive media handling or a means of enhancing their recruitment strategy. And others will still see opportunity to connect this into their efforts to demonstrate relevance and build reputation.



Parental Leave

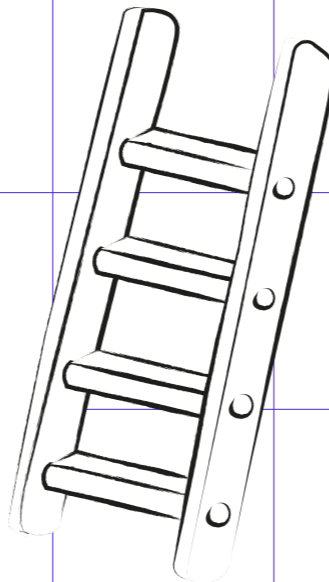
In the context of female progression, parental leave continues to come under the spotlight. Most recently Liberal Democrat MP, Jo Swinson, advocated for legislating for greater transparency on parental leave and pay policies.

Various companies and professional services firms have now agreed to make their parental leave policies public and media have started to take notice, most recently reporting that nearly two-thirds of FTSE 100 companies do not detail their parental leave policies on their external websites.



Track your performance (KPIs)

Stronger accountability around achieving greater equality in the workplace has long been recognised as a factor to encourage change. Some businesses have chosen to link executive remuneration to progress on reducing the gap.



Employee engagement

Employees and internal culture are core to I&D. Building employee trust and buy-in around initiatives and creating an environment where employees can be themselves will result in a happier, more fulfilled workforce producing its best work, and greater engagement levels. Firms that foster strong employee advocates from a wide variety of backgrounds create a stronger and more authentic voice around the issue.

Moving beyond gender

Ethnicity

The conversation around diversity has naturally extended beyond gender to broader issues of occupational segregation, bias and inequality. The government has opened a public consultation on mandatory ethnic pay reporting. The consultation, which runs to 11 January 2019, invites views around on a number of areas, including:

- what information should be published to allow for meaningful and proportionate action to be taken on ethnic diversity
- which companies should report without undue cost to business.

Currently, employees are under no obligation to declare their ethnicity; consequently, companies might not have requisite data to comply with any ethnicity reporting obligations. Careful internal communications campaigns will be needed to obtain this information from staff, particularly as ethnic classifications are complex.

Age groups and disability

The government has also been consulting privately on best practice and practical approaches to retain, retrain and recruit older workers, workers aged between 18-24, people with disabilities and those with longterm health conditions. This work forms part of the government's attempt to "build more inclusive and diverse workplaces". In line with this, on 22 November 2018 the government announced a new voluntary framework for large companies (with 250 or more employees) to disclose the number of disabled people they employ in their workplace.

The new framework created in partnership with employers and charities, calls on business to record and report information on disability, mental health and wellbeing in their workplace,

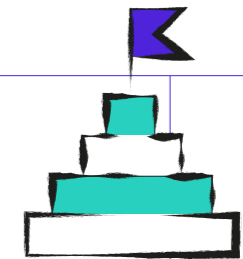
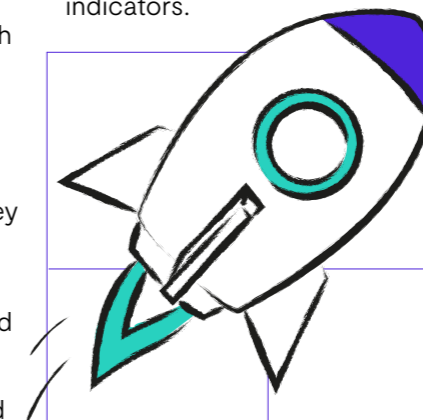
including how they recruit and retain disabled people and how they are currently supporting their disabled employees.

Politicians and campaigners are determined to ensure that the government makes more and faster progress on this agenda. The BEIS select committee, for example, has recommended that public consultation on mandatory reporting is extended to cover disability. This pressure on government is only going to grow – and businesses should anticipate further interest and perhaps intervention around these issues. For example, the #valuable is a campaign calling on businesses to recognise the value of people with disability across the supply chain and tabling it on the board agenda.

Social mobility

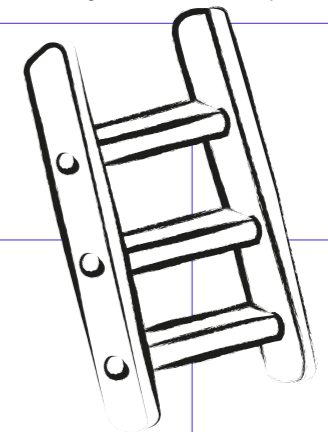
Following proposed changes to the Corporate Governance Code around ethnic and social diversity in executive pipelines, there is an expectation that socio-economic diversity, as indicated by educational backgrounds of staff, will be another area where business will need to disclose their position in the future. Socio-economic background is also where most businesses do not have clear data.

As companies start to think about how they collect information on ethnicity from staff, they may also want to consider building processes to further encompass socio-economic and disability indicators.



Diversity at the top

Lack of diversity in boardrooms, at executive level and in their respective pipelines continues to lead conversation. Hampton-Alexander published its report on 13 November and while progress has been made, the lack of female representation in Chief Executive and Chairman roles among the FTSE350 came under the spotlight. Targets such as the Review's recommendation for 33% female representation on boards and leadership teams, as well as the Corporate Governance Code reforms are indicative of the aim to drive diversity in succession planning.



Call to action

The increase in transparency this year will see businesses being judged less on the numbers and more on how they have progressed in relation to the plans laid out in their previous narrative. With the numbers now published it is important to continue to communicate the context of the gap. While no-one expects big decreases this year, it is essential that if increases occur, the reasons are carefully explained.

What does this mean for you?

As businesses start to recognise that I&D is a business critical issue and start preparing for reporting, the first question you will want to ask is:

✓ How does I&D fit within your broader business agenda? What is your point of view?

Once the business can answer the broader question around what I&D means to them, it will be in a stronger position to take meaningful action and communicate authentically to all stakeholders, from employees to investors and indeed, policymakers.

Further questions to ask around reporting:

- ✓ When will you report your gender pay numbers?
- ✓ How have you fared against the action plans you set last year?
- ✓ Will you be setting any new targets?
- ✓ Will you be going beyond the pay gap requirements to include disability, ethnicity, socio-economic background, partners, parental leave or other areas recommended by MPs, including the BEIS select committee?
- ✓ Does the voice of your employees come through and support your messaging?
- ✓ Have you started thinking about how you will gather relevant data around your employee base so that you are ready for any potential changes to regulation?
- ✓ Has the leadership team considered how it will feed into the report?

BEIS SELECT COMMITTEE RECOMMENDATIONS*

- Salary reporting by quartiles to be updated to deciles
- Publish data by part-time and full-time
- Publish bonus figures and clearly define this as pro-rata bonus disclosure
- Reduce the reporting threshold to 50 employees
- Include partner data in the disclosure
- Move to include pay gap by disability and ethnicity from 2020
- Set targets and link delivery to remuneration committee actions
- Support FRC revisions to Corporate Governance Code and improvements in Annual Report disclosures

Hampton-Alexander Review – FTSE350 targets:

33% representation of women on

- FTSE350 Boards and
- FTSE350 Executive Committee and the Direct Reports to Executive Committee

by the end of 2020

REVISED UK CORPORATE GOVERNANCE CODE – RELEVANT PROVISIONS**

Provisions

- 17 *Board nomination committee process for Appointments that ensures development of a diverse pipeline.*
- 18 *All directors subject to annual re-election focusing on their contribution to long-term success.*
- 19 *The chair should not remain in post beyond nine years from the date of their first appointment to the board.*
- 20 *Open advertising and/or an external search consultancy should generally be used for the appointment of the chair and non-executive directors.*
- 21 *There should be a formal and rigorous annual evaluation of the performance of the board, its committees, the chair and individual directors. Ideally externally facilitated.*
- 22 *The chair should act on the results of the evaluation by recognising the strengths and addressing any weaknesses of the board.*
- 23 *The annual report should more fully describe the work of the nomination committee.*

Due to come into force on 1 January 2019.

* The Government announced that the BEIS select committee recommendations not be implemented for at least five years from 2018 to allow business time to adjust to the new regulations on gender pay before making further changes.

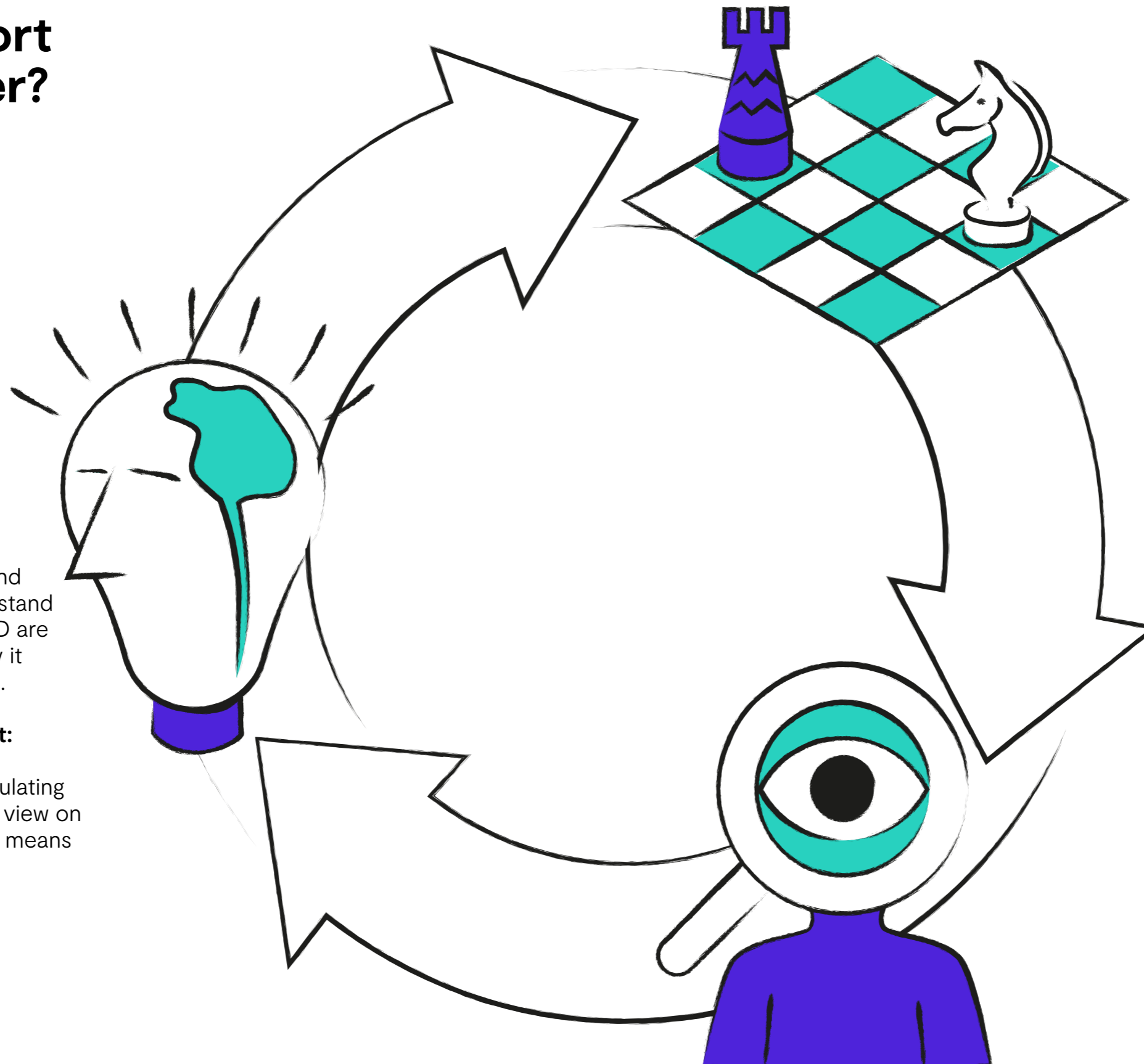
** Read more about the Code on the FRC website.

What support can we offer?

1

Narrative

- **Due diligence:** Working with C-Suite and internal teams to understand which issues around I&D are most pertinent and why it matters to the business.
- **Narrative development:** Develop a consistent, compelling way of articulating the company's point of view on I&D, including what I&D means for stakeholders.



2

Employee campaigns

- **I&D data-led engagement:** Preparing thoughtful communications campaigns to gather data to meet reporting obligations and to support the publication of results.
- **I&D programmes:** Helping companies prepare internal campaigns so that their I&D programmes have the maximum impact and reach among employees.

3

Regulatory

- **Gender pay legislation:** Working with companies to articulate their gender pay as part of their annual reporting obligations and supporting all stakeholder outreach.
- **Engagement:** Communicating action plans and preparing for changes to disclosure obligations, including working with clients to engage with key external stakeholders including investors and policy makers.

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Key dates

1 January 2019

Revised UK Corporate Governance Code due to come into force

11 January 2019

Ethnicity pay reporting consultation deadline

8 March 2019

International Women's Day

4 April 2019

Deadline for business to submit gender pay reports

“More action is needed to ensure businesses know how they can make use of their best talent and make their gender pay gaps a thing of the past.”

Penny Mordaunt Minister for Women and Equalities

