



KPMG's response to the Department for Business, Energy & Industrial Strategy's consultation on Ethnicity Pay Reporting

January 2019



1 Introduction

- 1.1 At KPMG, we have been voluntarily reporting on our ethnicity pay gap since 2017. As an organisation committed to inclusion, diversity and social equality, it is critical that we constantly monitor and understand the ethnic demographic of our organisation, use this data to analyse gaps in progression and pay, and design interventions which seek to address any underlying disparities.

2 Key Points

- 2.1 We believe that other organisations and businesses, across all sectors, should follow our approach, so that employers and government have a better understanding of pay differences and are able to benchmark their performance against other organisations.
- 2.2 Equality of opportunity and fairer pay should be at the heart of the UK's Industrial Strategy and social and economic fabric. For this to happen effectively, government needs to play a crucial role in both providing greater support to organisations in better understanding what and how to collect ethnicity data, and acting as an independent arbiter of company data – ensuring individual confidentiality whilst simultaneously facilitating benchmarking opportunities.
- 2.3 Additionally, a consultation around ethnicity classifications is required to mirror the changes and evolution of the UK's ethnic make-up since the last Census and to future-proof for the current direction of travel. For example, individuals from mixed ethnic backgrounds form part of the fastest growing demographic in the UK; however the diversity of the Census ethnicity classifications used to describe these individuals only provides four options – with a significant diversity of ethnic mixes needing to sit under 'Any other Mixed/Multiple ethnic background'. It is surely time that ethnicity classifications are as diverse as our nation is becoming.
- 2.4 Ideally, this consultation and its outcomes would be placed in advance of mandatory ethnicity pay reporting being introduced, which we believe should only apply to organisations of 250+ staff, mirroring gender pay gap reporting stipulations.
- 2.5 Finally we need a debate around binary reporting. While the 'BAME' classification is widely understood, its generic nature under-represents the particular challenges faced by particular ethnic groups within the BAME categories, for example people of Black Heritage or Bangladeshi and Pakistani descent, as highlighted in the government's Race Disparity Audit.
- 2.6 This seminal report laid bare the acute social and economic differences experienced between ethnic groups. Any move towards mandatory ethnicity pay reporting should embrace these differences, so that interventions are focussed on understanding why these differences exist and supporting people most negatively impacted.

3 Ethnicity pay reporting

What are the main benefits for employers in reporting their ethnicity pay information?

- 3.1 Much like gender pay gap reporting, the primary benefit of reporting on ethnicity pay is to understand differences in pay between different groups of people, establish the reason why any gaps might exist and ensure accountability both at organisational and departmental levels for closing them. In a recent client survey¹ conducted by KPMG, the majority (90%) of respondents confirmed that they do not currently voluntarily disclose their ethnicity pay gap results.

What type of ethnicity pay information should be reported that would not place undue burdens on business but allow for meaningful action to be taken?

- 3.2 Many businesses are already likely to be collecting data on the ethnicity of their staff. However, many organisations collect this data anonymously and will therefore need to go out to their employees and conduct a personalised declaration campaign before they can undertake an

¹ The client survey was undertaken confidentially by KPMG for the purpose of supporting our consultation response. We had 20 responses from a range of SMEs and large organisations representing, amongst others, the services, manufacturing and technology sectors. We would be happy to discuss these issues further with the respondents and provide more detail with their permission, at a later date.

accurate pay analysis. There is also a concern that smaller organisations may not be collecting this data and/or may have too few employees in various categories to ensure anonymity.

- 3.3 Ensuring uniformity in the use of ethnicity classifications across various businesses is a consideration that needs to be taken into account to ensure proper inter-organisational comparisons.
- 3.4 Additionally, the government has a role in supporting those who do not collect this information by recommending a standardised approach for all businesses. For example, replication of the guidance for Gender Pay Gap reporting produced by ACAS, for Ethnicity Pay Reporting, would be beneficial.
- 3.5 A simple way to report on ethnicity pay information would be to mirror the binary requirements for gender pay gap reporting - comparing pay information of White and BAME staff. For example, KPMG already voluntarily reports on its ethnicity pay gap, using the following indicators:
 - Basic pay – difference in average pay between White and BAME staff (excluding Partners)
 - Pay quartiles – which set out the ethnicity distribution across KPMG (excluding Partners)
 - Bonuses – difference in average bonus paid between White and BAME who received a bonus (excluding Partners)
 - We also share this data inclusive of Partner pay, (going further than what is required by statute for gender pay gap reporting), when reporting on both gender and ethnicity pay.
- 3.6 Binary ethnicity reporting can provide helpful, high-level insights into disparities between White and BAME staff in organisations. Our own binary reports published over the past two years have helped us define the pay gaps which exist between our White and Non-White employees. We would recommend a binary approach to mandatory reporting be applied in the first instance.
- 3.7 However there are limitations to binary reporting as it can mask the discrepancies faced by individual groups. As such, a strong case exists for a more nuanced approach to be applied, (voluntarily for those who can in the first instance), in the long-term.
- 3.8 Grouping of all non-White staff under the same classification runs the risk of under-representing gaps which may exist between White employees and specific ethnicity groups. Meaningful interventions designed to address ethnicity pay gaps may be broad at best.
- 3.9 In responses to our recent client survey, 50% of respondents (the size of organisations surveyed varied from SME to large corporations) felt binary reporting was too simplistic. In response to a separate question looking at the type of pay reporting preferred, opinion was split. 37% of respondents preferred giving pay information by quartile, 21% preferred reporting just one figure comparing White with Non-white employees and 37% of respondents simply suggested “something else” should be reported.
- 3.10 With this in mind, many organisations, including KPMG, would benefit from a consultation on ethnicity classifications and, following an agreed approach, a broad discussion on non-binary reporting to both ensure the experiences of all ethnicity groups are effectively captured and reported, and a uniform approach is agreed. We believe government should facilitate both of these debates so to ensure cross-business and cross-sector agreement.

What supporting or contextual data (if any) should be disclosed to help ensure ethnicity reporting provides a true and fair picture?

- 3.11 In reporting ethnicity pay information, context is imperative. If an organisation fails to, or isn't provided the opportunity to frame their ethnicity data, then this information could easily be misconstrued. Context such as where they operate, the nature of their work and the wider sector they operate within is critical in this respect.
- 3.12 At KPMG, while we voluntarily report on ethnicity pay at an organisational level, we also internally share pay data by grade and have recently started sharing departmental data– for both gender and ethnicity – as we understand the diversity that exists across our various departments and regions requires tailored/localised actions plans.
- 3.13 Just over 50% of respondents to our recent client survey thought that employers should be required to produce a narrative to accompany the ethnicity pay gap figures.

Should an employer that identifies disparities in their ethnicity pay in their workforce be required to publish an action plan for addressing these disparities?

- 3.14 Action plans are important, however gaining consensus from leadership to implement and own them is of greater concern than whether they should be published or not. Action plans are an indication of a direction of travel, allowing organisations to go beyond simply understanding pay differences, to collecting evidence on the impact of activities and sharing of best practice.
- 3.15 At KPMG, we take pride in inclusion, diversity and social equality being at the heart of what we do. Therefore it is important for us to report to the wider world the diversity challenges we face and the gains we are making so that we can attract the best people from the broadest talent pools.
- 3.16 While understanding pay gaps is integral, it is equally important that we take action on and report on how we are increasing recruitment, ensuring retention and facilitating progression. In our 2018 pay gap report, we reported on our updated gender and ethnicity pay gap figures, but also shared examples of programmes we have introduced to support our leadership and culture, recruitment, retention and progression.
- 3.17 For example, our 'ITs Her Future' campaign has been designed to increase female representation in technology jobs, while our Black Heritage reverse mentoring programme, gives leaders insights and understanding about background, experiences and day-to-day life at KPMG of our more junior Black Heritage employees. This simultaneously exposes these individuals to senior employees, who provide mentorship and coaching. This not only impacts organisational culture, but also supports the retention and progression of the Black Heritage employees.

4 Ethnicity data and classifications

Do you currently collect data on ethnicity at your workplace? Should a standardised approach to classifications of ethnicity be used? What would be the costs to your organisation?

- 4.1 At KPMG, we do collect data on ethnicity. We presently use Census defined indicators when collecting ethnicity data. However, we strongly believe that the government, in driving this agenda, should clearly indicate a set of commonly agreed identifications (be them Census based or not), so that when organisations start to report on ethnicity pay information, we are all using standardised classifications, making it easier to understand and benchmark organisation-level information.
- 4.2 Ensuring a standardised approach to classifications would bear minimal monetary cost to our organisation. If it were vastly different to the approach we currently use, then the cost would relate to time and resource, in terms of changing our diversity monitoring response options, communicating these changes to our employees and ensuring high-levels of declaration.
- 4.3 However, we understand that not all employers currently collect ethnicity data. Our recent client survey indicated that amongst the respondents, there was a 50/50 split in those who do and those who do not collect ethnicity data. Of the respondents who do collect ethnicity data, the disclosure rates vary from a less than 20% to a more than 80% disclosure rate.

What do you think are the most effective approaches for employers to improve employee self-reporting or declaration rates?

- 4.4 In our experience, clearly articulating why we are requesting employee data, how it will be used, who will have access to it and how it will be stored is of primary importance. Our employees are asked for a number of details about themselves through the diversity monitoring exercise – from their gender to their parents' occupation (to establish socio-economic background).
- 4.5 Ensuring that we, as a large organisation, are open and honest about why we are collecting this data and the importance of doing so has been critical. Last year, we ran a campaign called: 'Count me in', aimed at sharing personal stories of diverse employees from across our organisation.
- 4.6 The key aim of the campaign was to help other employees understand why it is important for the organisation to have clarity on its make-up to ensure that we are monitoring the effectiveness of our people policies, processes and practices. This has had some success in increasing employee

self-reporting, but employees continue to question why certain information is being asked of them, which can have an effect on self-declaration rates.

How should self-reporting or non-disclosure rates be reflected in the information reported by employers? Please outline steps that should be taken to preserve confidentiality of individuals?

- 4.7 It should be made clear when reporting that information reflects the nature of self-declaration of employees, and is therefore a fair representation of an organisation's workforce but depends on how employees choose to self-declare.
- 4.8 For example, in our 2018 Annual Review, we footnoted under our diversity data that: The reporting of representation in our organisation is based on the collection of diversity data from employees who choose to declare as part of the diversity monitoring exercise.
- 4.9 This serves, at a high-level, as an indication of an organisation responsibly using its diversity data. Additionally, we believe that the legislation around confidentiality is explicit, but perhaps not widely known to those outside of the legal and diversity field. The fear of personal sensitive information being used without permission or misused, is a common concern of individuals when reporting on their diversity. Therefore organisations need to be clear about their intentions of use, and uphold these statements at all times.

5 Next steps and government support for employers

What size of employer (or employee threshold) should be within scope for mandatory ethnicity pay reporting?

- 5.1 It is harder for smaller organisations to effectively, and confidentially, report on ethnicity and therefore ethnicity pay gaps. Additionally, differences in location (an issue not addressed within this consultation, but of great significance) and sector also raise challenges that must be taken into account. Given these nuances, a simple blanket policy will not suffice and whilst there will be universal elements, specific and localised challenges need to be taken into consideration, with employee confidentiality remaining at the heart of any decision.
- 5.2 The majority of respondents to our recent client survey said that any ethnicity pay reporting requirements should mirror the gender pay gap reporting requirements in terms of who should be under an obligation to respond (i.e. employing entities with 250 or more employees in Great Britain).
- 5.3 We agree broadly with this view, however feel that smaller organisation cannot be expected to provide information on a granular/non-binary basis. We also feel that organisations should be given time to collect data on an individual basis, based on specified, published government guidance, before mandatory Ethnicity Pay reporting be introduced.

What support measures do you think would be useful for employers?

- 5.4 Our recommendations for government's next steps are to:
 - Proactively own the narrative around ethnicity pay reporting and present the business case for doing so.
 - Launch a consultation on ethnicity classifications to mirror the changing demographics of our society – the upcoming Census provides an opportunity to apply more accurate classifications, and report more accurately on the ethnic make-up of the UK.
 - Host a debate on binary BAME reporting, its effectiveness, and whether we should move towards specific ethnic group reporting.
 - Provide clarity of information to businesses on best practice on collecting ethnicity data and then support them in moving towards effectively analysing and publishing ethnicity pay information, while acting as an independent arbiter of this information for all businesses.

Contact us

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