

Ethnicity Pay Gap Reporting

An Investor Briefing and Toolkit



About ShareAction

ShareAction is an NGO working globally to define the highest standards for responsible investment and drive change until these standards are adopted worldwide. We mobilise investors to take action to improve labour standards, tackle climate change and address pressing global health issues. Over 16 years, ShareAction has used its powerful toolkit of research, corporate campaigns, policy advocacy and public mobilisation to drive responsibility into the heart of mainstream investment. Our vision is a world where the financial system serves our planet and its people.

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Executive summary



Executive Summary

In the UK, gender pay gap reporting has been mandatory for companies with over 250 employees since 2017. Despite [evidence](#)¹ of vast discrepancies in pay that exist between ethnic minorities and White British workers, there is no equivalent legislation to monitor pay disparity for workers of different ethnicities.

The Ethnicity Pay Gap (EPG) shows the difference in the average pay between all ethnic minority staff in a workforce and all White staff. EPG disclosures are a critical step for identifying and tackling inequality in the workplace. The McGregor-Smith review found that *'if Black and minority ethnic talent is fully utilised, the economy could receive a £24 billion boost'* annually and 1.3% to GDP². Yet, only a tiny fraction of FTSE 100 companies are reporting their ethnicity pay gap. At ShareAction, we launched a campaign in July 2022 in partnership with minority-led groups including the Runnymede Trust and Reboot to address this.

ShareAction will be working with a coalition of investors to ensure that companies have procedures in place for robust EPG reporting. Once these are in place, companies can analyse the disparities that exist. This creates opportunities to identify the possible causes, and, by extension, solutions to address them.

With many people struggling to make ends meet in the face of rising costs³, it is more important than ever for investors to take responsibility for the impact of their investments on the issues of low pay and precarious work. **Minority ethnic workers are more likely to be paid below the real Living Wage and so disproportionately struggle to meet the rising prices of essential goods and services.**⁴ Moreover, Black and ethnic minority workers are disproportionately affected by insecure work⁵. Ethnic minority young adults are 47% more likely to be employed on a zero-hour contract than White adults⁶. Insecurity and low pay go hand-in-hand. According to the TUC, pay rates are substantially lower for many insecure workers, with the average worker on a zero-hours contract on an hourly rate a third lower than the average employee⁷.

Our research with a number of companies revealed challenges with the introduction of EPG reporting, such as low employee ethnicity disclosure rates, high ambitions around disclosure rates before going public, and reputation. Many wanted to increase representation of ethnic minority staff numbers before publishing their ethnicity pay gap report.

ShareAction has endorsed the Chartered Institute of Personnel & Development's (CIPD's) recommendation of aligning ethnicity pay gap reporting to gender pay gap reporting to facilitate widespread uptake. We also endorse CIPD's recommendation to include two additional statistics; the **proportion of an employer's total UK workforce from Black and other ethnic minority backgrounds** and the **proportion of employees who have disclosed their ethnicity**. We strongly endorse the recommendation to disaggregate the data according

to the Office of National Statistics ([ONS](#)) ethnicity categories. These recommendations are also supported by recent [government's guidelines](#)⁸ on ethnicity pay gap reporting.

There is a strong business case for EPG reporting, as companies with the most ethnically and culturally diverse executive teams are **36% more likely to financially outperform organisations that are of average diversity in their industry**⁹. It can also help attract talent, as reports show “*jobseekers value diversity information when considering potential employers.*”¹⁰

The [majority](#) of consumers now want to see their pensions invested responsibly¹¹, and Millennials¹² (born 1981 to 1996), Gen Z¹³ (born from 1997 to 2012) and women¹⁴ are driving the growth of responsible investment. EPG reporting is a vital part of delivering on the expectations of today's consumers.

ShareAction's ethnicity pay gap campaign is engaging with companies in the financial services and food sectors, based on an assessment of where we felt, together with investor allies, we could make the greatest difference. Financial services are critical to capital allocation which underpins the broader system, and the food sector has a particularly high number and proportion of low paid workers from an ethnic minority background.¹⁵ Most benefits from EPG reporting and challenges to EPG reporting apply to both sectors, however, our research showed particular differences within the food industry, which are detailed in this briefing.

The investment industry's drive to report the gender pay gap undoubtedly helped spearhead legislation to make it mandatory¹⁶. We believe voluntary ethnicity pay gap reporting will also lead to legislative change that will make reporting a legal requirement. Therefore, it is important to leverage the power of the investment industry to strengthen the case for mandatory reporting.

Purpose of this toolkit



Purpose of this toolkit

This toolkit is designed to help investors understand what the ethnicity pay gap is, why it matters, and what they can do to encourage more companies to report it. The primary audience is investors, but the toolkit can also be used by companies wishing to learn best practice examples on ethnicity pay gap reporting.

One of our key goals at ShareAction is for the investment system to support good workforce practices such as living wages, secure contracts, and diversity, equity and inclusion. We co-ordinate a Good Work Coalition of 47 investors with £3.7tn assets under management and advisory, who share our vision and engage with companies in their portfolio to ensure those companies improve the quality of work they provide.

Promoting transparency by reporting on the ethnicity pay gap is one of the most important steps an employer can take to support greater racial equality in the workplace. According to the Chartered Institute of Personnel & Development (CIPD), it helps businesses and their stakeholders assess *'if and where inequality based on ethnicity exists in their workforce'*.¹⁷

So far only 18 of the FTSE100 companies report on their ethnicity pay gap, but with public sentiment and broader stakeholder expectations shifting there is a distinct business case for the promotion of transparency and the demonstration of best practice in this area.

Given the UK Government has not yet mandated this reporting, we launched an [Ethnicity Pay Gap programme](#) in July 2022 calling on FTSE 100 companies to publish their ethnicity pay gap and a plan to reduce that gap. We convened a minority-led steering group with representation from Runnymede Trust, Reboot, #ethnicitypaygap, CIPD, 30% Club UK Investor Race Equity Group, and Living Wage Foundation. We have now included trade unions, such as GMB, Unison and IWGB. The TUC have also joined, as have Women in Hospitality and Leisure (WiHTL). The campaign was funded by the Friends Provident Foundation, Lankelly Chase, Trust for London and major donors from the Network for Social Change.

We began our work with the financial sector, and in 2023 have broadened out to food products and services, given their disproportionate number of minority workers on low wages, and subject to insecure work. Subsequently, 24 investors (from the Good Work investor coalition and other interested investors) worth over £2.7 trillion in assets under management and advisory signed company letters to 16 FTSE 350 food sector companies in 2023.

This guide differs to the government's own guidance on ethnicity pay gap reporting, published in April this year,¹⁸ which provides guidance to companies on how to collect employees' ethnicity data, how to consider data issues such as confidentiality, making ethnicity pay calculations and reporting the findings, further analysis to understand underlying causes of any disparities, and the importance of taking an evidence based approach towards actions.

ShareAction's approach is aligned with CIPD's stretching EPG reporting guidelines, which retains the measures on bonus pay and the **central importance of companies writing a narrative** to explain their figures and an **action plan** to combat any disparity. (The government guidance only states that companies may wish to consider those options – [please see further details below](#).)

The research conducted to support our conclusions used both a quantitative and qualitative approach; from desk based research, to focus group discussions, and one to ones with over 46 people from the financial services sector and food sectors, in partnership with various funders and an Advisory Committee. ShareAction held four Advisory Group meetings to help support and guide the campaign.

We directly engaged with 17 FTSE100 financial sector companies, which led to 15 engagement meetings across 2022 and 2023 with 30 individuals. We engaged with five food sector companies in early 2023, leading to two follow up meetings with six people.

The Runnymede Trust ran four focus group discussions, one was with the finance sector and three with hospitality. Across those, they spoke to 10 Executive Level/Senior managers in the financial services sector, from companies in global investments, retail banking and insurance.

The Runnymede Trust also spoke to four middle and senior managers in the food services sector, and separately, with five frontline employees. They conducted case study interviews with Sodexo and Compass Group and ShareAction conducted one on NatWest Group.

Understanding ethnicity pay gap reporting

2



Understanding the ethnicity pay gap

- ▶ Introduction
- ▶ What is the ethnicity pay gap?
- ▶ Why ethnicity pay gap reporting matters
- ▶ Statistics to report
- ▶ Challenges of ethnicity pay gap reporting
- ▶ Timeline of campaign for ethnicity pay gap reporting (mandatory and voluntary)
- ▶ Has gender pay gap reporting made a difference?

Introduction

The Runnymede Trust’s [‘Colour of Money’](#) report (April, 2020), revealed that despite minority ethnic groups making up 18.3% of the British population, the extent of economic and racial inequality in Britain is stark. It showed that **minority ethnic workers were far more likely to be in the lowest paid jobs, living in poverty and earning less** than White British employees¹⁹. The report demonstrated significant evidence of labour market discrimination and an ‘ethnic penalty’ in earnings even when controlling for qualifications and other factors. Since the report was published, the coronavirus pandemic has only exacerbated existing inequalities, with minority ethnic workers three times more likely than their White counterparts to have their hours reduced since the start of the pandemic ([TUC, 2021](#))²⁰.



Ethnic minority workers are also far more likely than White workers to be in insecure work²¹. Nearly one in six (15.7 per cent) ethnic minority men and 12.4 per cent of ethnic minority women are likely to be in insecure work. Meaning that the burden of insecurity, with its attendant impacts on income, mental health, debt and family life falls disproportionately on Black and minority ethnic workers.

Given this underlying inequality, minority ethnic workers are now disproportionately affected by the cost of living crisis. The Living Wage Foundation reported that minority

ethnic workers are more likely to be paid below the real Living Wage and so disproportionately struggle to meet the rising prices of essential goods and services²².

Given the rise in attention on racial inequalities since the murder of George Floyd and the Black Lives Matter movement, together with the disproportionate impact of the pandemic on the lives of ethnic minorities, investors are giving greater consideration to this issue. Investors can have a positive impact on racial inequalities through their ownership and influence over the companies they invest in.

Ethnicity Pay Gap (EPG) reporting follows the path set by gender pay gap reporting, which was made a mandatory reporting requirement for employers with more than 250 employees in 2017. Whilst EPG reporting is not yet a legislative requirement, employers can voluntarily compile ethnicity pay gap reports as part of their approach to improve inclusion and tackle racial inequality in the workplace. Publishing an ethnicity pay gap report is the **first step in understanding corporate performance on racial equality**.

It provides:

- investors, trade unions and other stakeholders with the necessary data to compare corporate performance.
- help to companies in assessing the effectiveness of their diversity, equity and inclusion strategies.
- a measure to see if corporate policies aimed at improving equity and inclusivity are working.

After consulting civil society organisations, ShareAction launched an Ethnicity Pay Gap campaign in July 2022, with the aim of working with the investment system to tackle racial inequality in the workplace, calling on companies to report on and address the pay gap between White and ethnic minority workers. In 2022, ShareAction directly engaged with 17 FTSE100 financial sector companies, 7 of which had reported their ethnicity pay gap (EPG). They **confirmed it was a manageable task**, as it is in line with the obligation to report the gender pay gap, and is part of a broader system of Equal Pay processes to achieve and maintain equal pay.

What is the ethnicity pay gap?

The ethnicity pay gap shows the difference in the average pay and bonus pay between ethnic minority colleagues and White colleagues across an organisation irrespective of role and seniority. **This is different to equal pay**, which is the legal requirement to pay the same to people who are doing work of equal value.

According to CIPD, all employers should publish annual ethnicity pay reports with three common components:

- a uniform set of eight commonly designed statistics (see below) to profile pay by ethnicity in their organisation
- a supporting narrative to explain the nature and causation of any pay differentials and gaps by ethnic group evident in their statistics
- an action plan of initiatives defined to reduce and remove any such gaps over time.

The ethnicity pay gap is ‘the difference between the median hourly earnings of the reference group (White or White British) and other ethnic groups as a proportion of average hourly earnings of the reference group.’ – Office for National Statistics

Why ethnicity pay gap reporting matters

Despite calls by Business in the Community (BITC) for companies to report their EPG dating back to 2018, as it stands in April 2023, only 18 of the FTSE100 companies currently do. Mass adoption has not yet taken place, **providing an opportunity for investors to use their stewardship** to nudge companies to report.

The potential for investors to drive change in company practices has been demonstrated by ShareAction’s Living Wage Campaign, amongst other initiatives. 53 FTSE 100 companies are now accredited with the Living Wage Foundation, up from just 2 when ShareAction started their engagement. Most recent estimates show that 1 in 8 employees now work for a Living Wage accredited employer.

Although ethnicity pay reporting alone does not reduce racial inequality in the workplace and the ethnicity pay gap, it is often the **first step** for companies to prioritise and focus attention on actions which do. *“We believe data is one of the best places to start,”* As Raj Jones, Sodexo’s Head of Diversity, Equity and Inclusion, explains *“It shows you where people sit in the business, what pay equity is like. It enables conversations internally and holds us to account externally.”*

As companies continue the journey to tackling racial inequality, we recommend that employers report on employee’s ethnicity, broken down into the most appropriate categories and quartile pay bands, in addition to the overall pay gap. A quartile pay band should provide the proportion of different ethnicities within each of the quartile pay bands, the average pay levels and any gaps within each quartile. This would address under representation in senior management and overrepresentation in low paid jobs²³.

Though ethnicity pay gap reporting is not yet a legal requirement in the UK or elsewhere, it is clear that a precedent for regulatory action has been set by gender pay gap reporting, which

is now mandatory. We expect that, over time, policy-makers will seek to extend regulation to also cover EPG reporting, so companies who agree to report now will be getting ahead of future regulation.

Statistics to report

An employer with more than 250 employees needs to calculate the six gender pay gap figures²⁵. ShareAction have adopted the CIPD’s recommendation of aligning ethnicity pay gap reporting to gender pay gap reporting as it will minimise additional work and bureaucracy for HR and payroll teams. However, ethnicity pay gaps are more complex than gender pay gaps given there are more than two prescribed categories (male and female). The population is roughly split 50/50 male and female, whereas racial demographics can vary widely according to regions. Therefore, we urge employers use CIPD’s recommendation to report the following **two additional statistics first:**

<p>The proportion of an employer’s total UK workforce from Black and minority ethnic backgrounds</p>	<p>Ideally presenting this in the context of external demographic data and the extent to which their workforce mirrors the ethnic diversity of their community. IES research found that demographic differences between urban and rural areas significantly impacts on recruitment from ethnic groups and ethnic minority pay. So, employers should consider including ONS/NRS working age population data for regions and nations, broken down into Government Statistical Services (GSS) harmonised ethnicity categories. They should then be able to use this data as contextual information for their narrative and action plans.</p>
<p>The proportion of employees who have disclosed their ethnicity</p>	<p>Low ethnicity disclosure rates is a key problem for employers and it is vital to profile the workforce and to address any ethnicity pay gaps accurately and for producing effective action plans. The remaining proportion of employees ought to be further broken down into those not known or not asked to provide their ethnicity, and those who have given a ‘prefer not to say’ response.</p>

Source: CIPD Ethnicity Pay Gap Reporting Guide for Employers

Once a company has established the picture, it can then provide the following six statistics:

<p>Quartile pay bands</p>	<p>The proportions of full-pay relevant employees from White and other ethnic backgrounds in the lower, lower-middle, upper-middle and upper quartile pay bands. Please note, the quartile pay bands must represent the whole of the workforce including those that do not disclose, otherwise the reporting would be skewed and impact the veracity of the data if it is only against those that disclosed. As well as the proportion of staff in each quartile who are from White compared with the proportion of those from other ethnic minority backgrounds, which is the same measure as required under the gender pay reporting regulations, we recommend that employers also publish their median ethnicity pay gaps for the staff in each quartile, as many employers chose to do voluntarily for gender.</p>
<p>Median ethnicity pay gap</p>	<p>The difference between the median hourly rate of pay of all White full-pay relevant employees and the median of full-pay relevant employees from other Black and minority ethnic backgrounds.</p>
<p>Mean ethnicity pay gap</p>	<p>The difference between the mean hourly rate of pay of all White full-pay relevant employees and that of full-pay relevant employees from other Black and minority ethnic backgrounds.</p>
<p>Median bonus gap</p>	<p>The difference between the median bonus pay paid to all White relevant employees and that paid to relevant employees from other ethnic minority backgrounds</p>
<p>Mean bonus gap</p>	<p>The difference between the mean bonus pay paid to White relevant employees and that paid to relevant employees from other ethnic backgrounds.</p>
<p>Bonus proportions</p>	<p>The proportions of relevant employees from White and other ethnic backgrounds who were paid bonus pay during the relevant period.</p>

This order of priority is aligned with the updated [government guidelines](#) on ethnicity pay gap reporting, which recommends ‘*employers present and consider a range of calculations*’, including:

- pay quarters that measure the representation of employees in different ethnic groups at different levels of pay in an organisation
- representation of ethnic groups across the organisation as a whole
- mean and median pay gaps that measure the difference between average earnings and bonuses in an organisation for different groups
- proportion of employees that did not disclose their ethnicity when asked by their employer – this is one measure of the level of engagement of employees

However, the CIPD guidance and this toolkit goes further than the government guidelines, where it is optional for companies to ‘consider’ a supportive narrative to explain the pay figures, and to ‘consider’ an action plan to address unfair pay gaps. In contrast, we would state that an action plan is a **key requirement**. As emerged from our research, the narrative and approach taken by a company to increase racial equality is often as important as the figures that are revealed.

Reporting ethnicity categories

ShareAction endorses CIPD’s recommendation to disaggregate the data according to the Office of National Statistics ([ONS](#)) ethnicity categories as follows:

Table 3: Survey ethnicity categories and structure

English/Weish/Scottish/Northern Irish/British	NET: White British	NET: White (combined)
Irish	NET: White other	
Gypsy or Irish Traveller Any other white background		
White and black Caribbean White and black African White and Asian Any other mixed/multiple ethnic background	NET: Mixed/multiple ethnic groups	NET: BAME
Indian Pakistani Bangladeshi Chinese Any other Asian background	NET: Asian/Asian British	
African Caribbean Any other black/African/Caribbean background	NET: Black/African/Caribbean/black British	
Arab Any other ethnic group	NET: Other ethnic group	

Breaking down ethnicity pay gap data into ethnicity categories should be the ultimate goal. However, this may come with some complexities. Ideally, when companies start reporting their ethnicity pay gap they will break down the data into the five broader ONS categories of White British, White other, Mixed, Asian, Black and Other. However, if that is not possible, we recommend they begin with a single binary figure of White and ethnic minority. In subsequent years, ShareAction would expect companies to break this down to the five categories.

Where possible, we recommend employers disaggregate their data even further according to the 18 ONS ethnicity categories, and gain deeper insights. This is important, as a broad category can mask vast discrepancies within it. For instance, in 2019, Chinese and Indian groups earned a higher hourly pay than White workers, whereas Pakistani and Bangladeshi workers earned 16% and 15% less than White workers respectively²⁴. An employer’s ability to provide such granulated data will be dependent on the makeup of their workforce, and the demographics of the area. If they have low representation levels of an ethnicity within

their workforce, they cannot break it down to the 18 categories as it would make individual employees identifiable and breach confidentiality. Following recently published government guidelines²⁵, we would expect employers to only publish where there is a minimum threshold of 50 staff members of that ethnicity.

Finally, each company should provide a narrative explaining the context, and their action plan to tackle any ethnicity pay gap found. Please see [Section 5: Overcoming challenges to Ethnicity Pay Gap reporting](#) for examples of good practice.



Challenges of Ethnicity Pay Gap Reporting



Self-Disclosure & Education

Our research with a number of companies reported challenges with the introduction of Ethnicity Pay Gap (EPG) reporting. Low availability of employee data on ethnicity (self-disclosure rates) was the main reason companies provided for not publishing their EPG. Without this data they felt they were unable to calculate their ethnicity pay gap.

Companies often lacked confidence in the whole EPG reporting process because their HR software and data collection procedures were limited or needed updating. Often, a lot of time needed to be spent allaying the fears and misconceptions of their staff, about why the data was being requested, or how it would be stored, used or analysed. One company said: *“We found that people were concerned that their line manager was going to be able to see things that maybe were not obvious or visible. I think people are quite concerned about the visibility of their data.”*

Some White people mistakenly felt that given they are not a minority, the survey didn't regard them, so they left the information blank.



High threshold

Disclosure rates were also an issue for the decision of when to finally go public. Of the companies in our research who had yet to publish, we met several with a 73%-75% disclosure rate, yet felt they could only commit to publishing their EPG report once they had achieved at least an 80% disclosure rate.

However, based on good practice suggested by other companies in our research, we suggest that waiting for a prescribed threshold can be unnecessary. For example, Aviva began reporting at 72% in 2021 and their disclosure rate is now over 85%. Their rate improved once they started reporting and were able to dispel some of those employee fears. This demonstrates that improvements are made over time, so it is important to begin the journey on ethnicity pay gap reporting.



Data Collection & Methodology

Another dilemma is choosing the number of ethnicity categories to report against. In the context of voluntary adoption, and a lack of legislative guidance from government (until the voluntary guidance was published in April 2023), companies were making their own choices. For some, a binary White/ethnic minority report made sense, at least as a starting point, with its similarities with Gender Pay Gap reporting. Others recognised, in the context of their business operations, the need to disaggregate the data and identify gaps and disadvantages for particular minority groups.

The picture is complicated yet again by the nature of global operations and the collection of ethnicity data in different geographical regions.

Our research confirms that final ethnicity pay gap figures are subject to volatility, which may be disconcerting for a sector deeply rooted in numbers. Reporting ethnicity pay gaps usually means comparing a very large sample size against a very small one. Depending on how the company structures and understands its operations, this will mean the final mean and median figures may not show linear progression against the actions the company has taken, and this may frustrate their sense of progress through their year on year comparisons. Or, the final figures may present in favour of ethnic minorities when, as they look around their businesses, those figures do not represent what they see. Those companies who were ahead in their EPG reporting practices urged others who are adopting EPG reporting not to fixate on the final figures, and to offer an account for it in the narrative analysis they arrive at each year, which is often more helpful than a single set of figures.



Government guidelines

A couple of companies explained they were waiting for the Department for Business, Energy & Industrial Strategy (BEIS) to produce its Voluntary Guidelines on EPG. This was due in the summer of 2022, but due to the political upheaval that year, it was put on the back burner. The guidelines were finally published in April 2023²⁶, therefore such companies no longer have to wait. Moreover, given several companies have managed to publish their EPG reports without the government guidance, companies are able to begin reporting and use the several guides already available (See [Appendix 1](#)).



Reputation

A few companies recalled the backlash the BBC faced after it published its gender pay gap, which dented their reputation. Companies were nervous about suffering the same consequences if they publish their EPG. For this reason, we advise that simply publishing an EPG isn't enough. As recommended by the CIPD, it's also important to provide a narrative explaining the context, and an accompanying action plan to tackle the gap. Progress can then be measured each year, which would not only protect the company, but could also bring significant benefits to the company, and attract talent ([See Section 3: The business case for ethnicity pay gap reporting](#)).

The transparency required to produce data and then publish pay gaps, far from being a reputational risk, provides existing and potential employees with crucial information about the company's interest and commitment to diversity, equity and inclusion. Employers should not be shy of publishing and publicising their pay gaps. An LSE study showed that female workers, in particular, exhibit a significant preference for low pay gap employers: that, on average, women looking for work would be willing to accept a 4.9% cut in salary to avoid an employer with a big gender pay gap²⁷. The author writes: *"making employers accountable for their pay gaps can result in significant changes to pay, with employers narrowing their pay gaps to attract and retain workers"*.

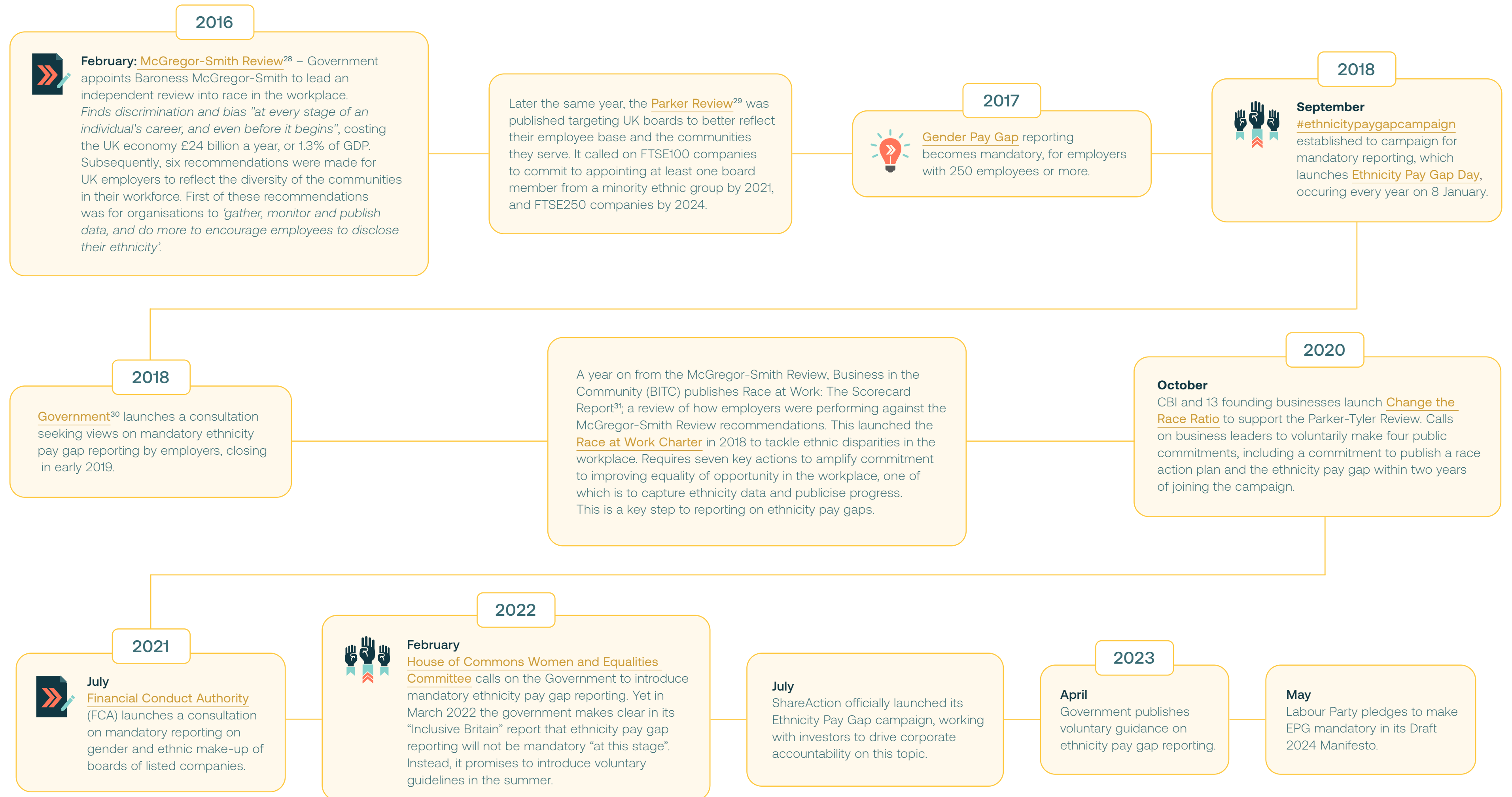


Representation

Many non reporting companies informed us that although there was no significant differences in pay, there was in representation. This was at all levels - not only at the senior management level. Therefore, they wanted to increase representation before publishing their ethnicity pay gap report as small numbers would distort the conversation and render the report meaningless.

In contrast, reporting companies mentioned that it's better to begin the journey and start reporting anyway. The process itself encourages accountability, the creation of an action plan and monitoring of progress. There are several methods to increase representation such as using tools for recruitment, retention, and promotion. After all, 'what gets measured gets done' so it may be more effective to publish than not. For examples of these methods, please see [Section 5: Toolkit for Investors](#).

Timeline of campaign for ethnicity pay gap reporting (mandatory and voluntary)



Has gender pay gap reporting made a difference?

Gender diversity and pay is one of the success stories of responsible investment. The investment industry backed gender diversity, albeit with focus on easy wins at boards rather than deep change, yet this can point to impact and change³².

In the last five years, employers' engagement with the gender pay gap reporting regulations in the UK has provided the groundwork for their more recent, and more emerging engagement with ethnicity pay gap reporting.

The ONS have tracked the declining gap between the average pay of men and women in the UK labour market since 1997. At October 2022³³ ONS figures put this gap at 8.3% for full time workers, from a starting point in 1997 of 17.4%. Although it is too early to be definitive about the impact of gender pay gap reporting, evidence suggests that it has narrowed the wage gap between women and men by **almost one fifth** (19%) on average³⁴.

It is possible to build on the success factor of the investment industry's drive in gender pay gap reporting and leverage it for ethnicity pay gap reporting.

The business case for ethnicity pay gap reporting

3



The business case for ethnicity pay gap reporting

Reporting on the ethnicity pay gap offers huge benefits to companies and to the UK economy. As found in the McGregor-Smith review, racial equality in the workplace could potentially boost the UK economy by £24bn annually and 1.3% to GDP³⁵. As previously mentioned, transparency is key to improving diversity, and ethnicity pay gap reporting is an important metric to help uncover and showcase how diverse a business is at different levels.

Metrics such as ethnicity pay gap reporting also makes it easier for shareholders, investors, and broader society to have a baseline of D&I in order to monitor progress and hold companies accountable. We recommend remuneration committees consider using the closure of ethnicity pay gaps as part of management long term incentive plans (LTIP).



‘Without corporate disclosure of key diversity and inclusion metrics, investors are unable to identify which companies “walk the talk” and which only have strong public relations teams.’³⁶ – Department for Business and Trade, 2017

Performance

McKinsey’s 2020 study, “Diversity Wins”, which encompassed 15 countries and more than 1,000 large companies, found that companies with the most ethnically and culturally diverse executive teams were the most financially successful. Such companies are 36% more likely to financially outperform organisations that are of average diversity in their industry³⁷. A global study in the Harvard Business Review found diverse teams also outperform homogenous ones because they are “smarter”; they focus more on facts, process those facts more carefully and are also more innovative.³⁸ A Boston Consulting Group study found that companies with more diverse management teams have 19% higher revenues due to innovation³⁹.

A 2022 study by As You Sow and Whistle Stop Capital analysed 277 publicly traded companies that have their EEO-1 reports (ethnicity data) and found that *“higher representation of Black, Indigenous, and people of color (BIPOC) employees in management has a positive relationship to higher cash flow, net profit, three- and five-year revenue, and five-year return on equity (ROE), and stock performance. It is also associated with lower volatility”*⁴⁰.

However, those gains are only apparent if diversity is linked with equity and inclusion⁴¹; that is, the participation of marginalised team members is boosted. *‘Increasing diversity does not, by itself, increase effectiveness; what matters is how an organization harnesses diversity, and whether it’s willing to reshape its power structure’*⁴². Deloitte supported this finding, as it found if employees feel included, they report better business performance in terms of ability to

innovate (by 83%) and team collaboration (by 42%)⁴³.

These benefits extend to investment companies themselves. Research by WTW, the insurance company, found that an investment team with a greater level of diversity, particularly ethnic diversity, leads to better investment outcomes⁴⁴.

Risks

McKinsey's study not only illustrated performance gains from diversity, but also a **performance penalty** for companies lagging behind on diversity and inclusion. Firms with the least ethnic and gender diversity were *'27% more likely to underperform on profitability than all other companies'*⁴⁵.

The study by As You Sow and Whistle Stop Capital also found that *'negative financial performance is associated with larger gaps between BIPOC representation in the broader employee base and BIPOC representation in the management team'*.⁴⁶

In fact, it found the five-year ROE has a slight negative association across all sectors *"when representation of White employees in management increases."*⁴⁷

Recruitment

Recent studies demonstrate that *"jobseekers value diversity information when considering potential employers"* ([SSRN 2022](#)). Monster's global Future of Work report found **86 per cent of employees** consider inclusion and diversity critically important. It is therefore within a company's interest to take the issue of diversity and inclusion, including ethnicity pay gap reporting, within its recruitment and retention processes.

Investor engagement

Global ESG fund assets reached about \$2.5 trillion at the end of 2022⁴⁸, and is likely to grow to \$33.9tn by 2026⁴⁹. Millennials⁵⁰, Gen Z⁵¹ and women⁵² are driving this growth; with a greater appetite to see social returns as well as financial returns from their investments; this is particularly the case in relation to racial equity outcomes.

- Morgan Stanley found that 50% of all investors and 75% of millennial investors *"have made or plan to make investment changes within 12 months in response to racial justice movements"*⁵³.
- Majority Action, a US based responsible investment charity, found a surge of support for racial equity in 2022⁵⁴. The majority of the 20 largest asset managers — those with more than \$1 trillion in assets under management — voted in favour of a majority of shareholder proposals on racial equity audits and board diversity. The report found that **racial equity audits** — a mechanism for management and oversight of risks associated with systemic

racism — saw increased support from shareholders in 2022, with average support increasing from 33% to 44%, and six receiving majority support. This demonstrates the considerable investor interest in the need to address racial equity.

- Amundi Asset Management, Northern Trust Investments, and PIMCO were leaders in supporting racial equity audits, voting in favour of 100 percent of proposals. Morgan Stanley, UBS, Legal & General Investment Management, and Capital Group supported between 88 and 95 percent of proposals⁵⁵.
- ShareAction’s own research found that the rise of racial equity audits is one of the big stories of the 2022 proxy voting season, with resolutions filed at more than 40 companies. The interest in these resolutions reflects a broader shift from talking about diversity and inclusion to racial justice and worker voice⁵⁶.
- Many pension holders have preferences related to their investments’ diversity and inclusion performance. Royal London, the insurance company, found that the majority of consumers now want to see their pensions invested responsibly⁵⁷. More specifically, PensionBee, the pension provider, found that 57% of its savers **expect companies in their pension to publish ethnicity pay gaps**⁵⁸.

Addressing inequality

Institutional investors, particularly pension funds, are uniquely positioned to think about the long-term material benefits for their beneficiaries of mitigating systemic risks like inequality, a threat to social stability⁵⁹. Business leaders like Alan Jope, the CEO of Unilever, have identified tackling inequality as a priority for both moral and economic reasons⁶⁰. A [report by the Business Commission to Tackle Inequality](#) explains that inequality is a systemic risk and demands urgent action. It undermines social cohesion, erodes trust in institutions and fuels unrest⁶¹.

Since 1980, the share of income earned by the top 1% in the UK has generally been rising⁶² and disposable income inequality has increased from 34.4% in 2021, to 35.7% in 2022⁶³. 1 in 5 people or **20% of the UK population live below the poverty line**,⁶⁴ and Black and minority ethnic people are much more likely to be in deep poverty than White people⁶⁵.

Diversified investors have an interest in tackling income inequality as various studies demonstrate the link between high levels of income inequality and economic instability, financial crisis and inflation⁶⁶. According to the PRI, income inequality can negatively:

- impact long-term investment performance;
- change the risks and opportunities that affect the universe of investment opportunities; and
- destabilise the financial system within which investors operate, threatening portfolios and bottom lines⁶⁷.

In supporting the overall health and resilience of the economy, these investors must consider racial inequality and the consequences of investing in racially homogenous companies. Ethnicity Pay Gap reporting can play a vital role in assessing how diverse a company is, and so is of critical importance.

Regulatory risk

The UK government stated, in its “[Inclusive Britain](#)” policy paper published in March, 2022, that ethnicity pay gap reporting will not be mandatory for employers “at this stage.” It explained one of the reasons for this is that it wants to ‘*avoid imposing new reporting burdens on businesses as they recover from the pandemic*’. However, with some large companies now leading the way by voluntarily reporting their ethnicity pay gap, it demonstrates the benefits of reporting and challenges narratives around ‘burdens’; weakening the argument against legislation. ShareAction expect and hope to see new legislation on ethnicity pay gap reporting in the coming years, as was the case for gender gap reporting. There is therefore an incentive for companies to start collecting and reporting such data in anticipation of regulatory change.

In a tight labour market, where staff retention and nurturing talent are of critical importance in sectors across the UK economy, the question really is **can businesses afford not to engage in this process?** This sentiment is echoed by HR Data Hub: A data led approach to addressing ethnicity pay gaps (Feb 2021):



‘A useful perspective to start from is “What is the risk to our business for failing to measure/disclose the ethnicity pay gap?” Not only do you risk hurting your company’s reputation and or/brand, but your license to operate could be at stake. Not reporting on inequality gaps and not being transparent about them will undoubtedly have a negative impact on the sustainability of your business in the long term, especially your company’s ability to attract and retain staff. Attracting and retaining particularly millennials and younger generations who highly value diversity and inclusion will become a problem.’⁶⁸ – HR Data Hub

Industry priorities

4



Industry priorities

ShareAction's ethnicity pay gap campaign is focussing efforts on the financial services and food sectors. This was based on an assessment of where we felt the campaign, and investor coalition could have greatest impact. Below, this toolkit goes into each sector in more detail, why they are a key focus and what the opportunities and challenges are. The benefits from EPG reporting and challenges to EPG reporting apply to both sectors, however, our research showed particular differences within the food industry, which are detailed below.

Part 1. Financial Services

Why the financial sector?

Financial Services companies are an important starting point due to the dual role they have within the economy – not only are they corporate entities, but they are also critical to capital allocation which underpins the broader system. As a result, change within companies in the financial services sector can influence the practice of businesses across the economy as a whole through their capital allocation. The financial services sector encompasses a variety of firms such as banks, investment houses, lenders, and insurance companies. The sector, therefore, plays a key role in driving change in business practice across other sectors.

Diversity in Financial Services

Given the power of the sector on the wider economy, racial inequality within these companies could have an outsized impact on society as a whole. One study found that funds managed by White-dominant teams allocate larger portfolio weights to firms led by White CEOs compared to funds managed by minority-dominant teams⁶⁹. A diverse workforce can *'help managers understand and address the needs of a demographically diverse customer base'*⁷⁰.

However, according to [Reboot's Race to Equality: UK Financial Services Report 2022](#), seven in ten people from ethnic minority backgrounds experience discrimination; a quarter of respondents say racial jokes are still tolerated where they work; one in three (32%) say they don't have the same opportunities as their White peers; and a fifth (22%) of White peers feel uncomfortable talking about race in the workplace.

Using investor stewardship as a lever to drive increased ethnicity pay gap reporting within the financial industry and FTSE100 companies would kick start a movement for EPG disclosure and help tackle some of the underlying issues. This will encourage a more diverse workforce within the financial industry, which in turn could impact on capital allocations made, thus promoting a positive impact on the real economy⁷¹.

Benefits to the financial sector of EPG reporting



“Companies and investors have moved on from actually questioning the merit of doing reporting. They understand the fact that if you put these gaps out there, they help to bring attention to the issue.” – Financial sector official

In the absence of mandatory EPG reporting, we have seen the growth of voluntary reporting, where UK employers are increasingly choosing to engage in the process to determine their ethnicity pay gaps, and publishing the results. According to the latest figures available, 19% of UK employers have adopted and published - up from 11% in 2018 - with the finance and investment sector at the vanguard of this movement⁷². The process is increasingly recognised as a powerful tool to engage in Diversity, Equity and Inclusion (DE&I).

Our focus group discussions revealed that the business case for adopting and publishing ethnicity pay gaps within the financial sector is multi-layered, and the push for adoption is coming from a number of sources. For these companies, the business case for adopting EPG reporting falls under three key benefits:

- A greater understanding of current position and how they compare to others in the sector;
- A better ability to attract and retain diverse employees;
- A better ability to attract and retain clients with an interest and focus on diversity

Specific Challenges to the financial sector on EPG reporting

Representation and self-disclosure rates

Given the nature of the financial industry, and its relatively high rates of pay, companies have not historically prioritised issues around low-pay and pay disparities within their workforce, such as the ethnicity pay gap. This meant there was less of an incentive for some companies to collect employees ethnicity data, or for staff to disclose their ethnicity. Also, given that it is traditionally a mostly White industry, and at senior levels it remains predominantly White, ethnicity pay gap reporting has not been prioritised. This meant collecting ethnicity data was not prioritised. This is supported by the findings of Reboot, which found *‘those from ethnic minority backgrounds were far more likely to support greater transparency than their White counterparts: 74 per cent and 47 per cent respectively. Only 38 per cent of White people aged 55 and over agreed to this’*⁷³. It is important to acknowledge a shift in recent years, with many companies in the sector now taking active steps to improve representation at senior level and to disclosing their ethnicity pay gaps. In the long-term, it is important that companies embed these commitments within their policies and culture to deliver meaningful change.

Reputation

Some companies with global operations have expressed hesitancy in reporting ethnicity pay gaps due to differing legislation within the countries they operate in. In certain jurisdictions it is illegal to collect ethnicity data (e.g. France, Germany, Belgium), therefore they are prohibited from publishing an ethnicity pay gap report. A few companies therefore felt unable to report the ethnicity pay gap in the UK as it did not fit with their global brand. However, most companies have committed to collate and report data where possible, starting in the UK and US, whilst exploring ways to overcome these challenges in other jurisdictions.

Part 2: Food Sector

Why the food sector?

The food sector is a hugely varied, and dynamic part of the UK economy, encompassing tiny catering companies right through to global FTSE 100 corporations. Some businesses service their customers in direct contact with members of the public. Others are business-to-business services focussed on clients, contracts and/or managing retail brands. Others are government-centred contracts, operating within particular regulatory frameworks.

The ONS have tracked the volume of low paid workers by sector since 2008 and found that the food sector has a particularly high number and proportion of low paid workers.⁷⁴ In addition, ONS aggregated figures for 2016–2019 and found Black and minority ethnic workers were distributed primarily in Food Retailing, Food Wholesale and Food and Drink Manufacturing, making the food sector a good focus for EPG reporting.⁷⁵

Benefits to the food sector of EPG reporting

Our research paints a picture of a sector undergoing a huge process of review, an almost reshaping of the whole sector, with many businesses fighting for survival. This follows the severe impact of Brexit, Covid-19 pandemic, energy prices and the cost of living crisis. Where lower levels of pay and higher levels of staff turnover was the norm for this sector, now businesses are turning their thinking into ways of retaining staff, building in career progression and making the sector more attractive for longer term career growth. One of the managers in our research noted, for many food services businesses, “*the workforce is literally the business model*”, as it is the staff who deliver value directly to the customers. Embracing diversity and inclusion has become part of this deep process of review, and staff wellbeing, staff retention and career development has come under scrutiny as a way of reducing costs and disruption to day to day operations.



“Inclusion is about everyone, not just about under-represented groups. Everyone has a basic need to feel that they belong.” – Sodexo, Global catering and facilities company

Specific Challenges to the food sector on EPG reporting

Data Collection & Methodology

During our research, and in contrast to the financial services sector, we encountered food services businesses very much at the earliest stages of data collection, and just starting to grapple with the requirements of introducing EPG reporting. One company, in their second year of data collection, had decided they had “tried to be too clever“ in their first year, and were now collecting data segmented by fewer categories. After a year of data collection, one company had come to the decision to use ONS categories so that they could benchmark themselves in future years. One company had yet to gain buy-in, leadership and support from their senior and executive management team, and the push for change in their company is currently being sustained by their middle managers.

Self-Disclosure & Education

Our focus group discussions revealed that food and hospitality workplaces are defined by shift work, high staff turnover, staff shortages, short term and casual contracts, zero hours contracts and a constant churn of staff. The introduction of EPG reporting into these workplaces needs time and careful consideration. Taking time to engage and educate all staff members is already a key theme of a good EPG reporting process, but this is more so when an introduction could lead to misunderstandings, misinterpretation and division. One front of house worker said: *“Some people would not feel very comfortable disclosing that information... it would probably cause a commotion, or a little bit of a division. I think it would be quite difficult to initiate this sort of thing without any controversy in the workplace.”*

Currently, not enough food companies are assessing or reporting their Ethnicity pay gap, and some are struggling due to low ethnicity disclosure rates. Ethnicity disclosure rates within the food sector varied widely between companies included in our research, with one company, in its second year, having built up to 66%, still not ready to publish, and one company on the brink of publication for the first time, with a disclosure rate of over 90%.

One company acknowledged the need for companies to understand the “fear of sharing”, and noted, in this sector, it was often older workers who were reluctant to engage. The D&I lead in this company makes a powerful point: **“...it is about trying to understand people’s lived experiences and fear around disclosure. It’s slow, and you’re not going to come out with one sweeping statement that’s going to convince everybody at the same time that disclosure is good, but it’s about keeping that conversation going, because you will pick up people along the way.”**

Toolkit for Investors

5



Toolkit for Investors

- ▶ **Overcoming challenges to EPG reporting**
- ▶ **Effective actions to reduce the pay gap**
- ▶ **Actions for investors**

Overcoming challenges to EPG reporting

This section captures our learning on the various methods reporter and non-reporter companies used to increase self-disclosure rates and representation. Almost all mentioned it is a long term project, requiring organisational wide cultural change. Achieving such a change requires a combination of several interventions, from focussed data disclosure campaigns, to targets on increased representation.

Given that ShareAction has only begun engaging with food sector companies in 2023, the learning below is mostly from the financial sector which is clearly a different type of sector. Nevertheless, we think many of these learnings are transferable to other sectors.

Increasing self-disclosure rates

Reporting to the Executive Committee

Five **reporting** companies we spoke to (Aviva, Barclays, Lloyds Banking Group, M&G, and NatWest) found that D&I responsibility at senior level was critical. Senior leaders taking action, and **being seen to take action**, alongside other DE&I initiatives, greatly helped to increase self-disclosure rates. The lead staff member for ethnicity pay gap reporting at each of these companies directly reported to an Executive Committee member (e.g. Chief People Officer, Group HR Director, Chief Sustainability Officer), which meant there was oversight at the most senior levels. They recognised racial equality was an institutional issue, so the entire system needed improvement – and not simply target the behaviour of certain individuals.

Some companies had a **Race Taskforce** or **Race Advisory Boards**, or Diversity Steering Committees/Councils, to better understand the issues faced by Black and minority ethnic colleagues and what action to take to tackle these issues. A few also examined broader issues and included challenges faced by their Black and minority ethnic customers and communities.

Every single member of Aviva's Group Executive committee has responsibility for inclusion and report quarterly on DE&I actions. Their Chief Executive had ultimate responsibility on DE&I and sits on the Board. This greatly increased their self-disclosure rate.

Lloyds Banking Group has an Inclusion & Diversity Forum consisting of managing directors from every division that meet monthly and make decisions in real time.

M&G report to an executive committee quarterly and the Board of Directors twice a year.

In 2020, a colleague-led Taskforce established by CEO Alison Rose, NatWest, led on a report on racial equality for their customers, colleagues and communities. The report, *Banking on Racial Equality: A Roadmap for Positive Change*, set out ten commitments from NatWest designed to make meaningful, positive change.

Many **non-reporting** companies also had a Group Executive Sponsor for D&I, which increased self-disclosure rates. Often, the sponsor was the CEO (e.g. Legal & General, Phoenix Group, Standard Chartered, St James Place). This top down oversight on self-disclosure rates included following up with team leaders regularly. One company said that *'a leader-led conversation, explaining why we need data and what we will use it for, is really powerful. It increased our rate from 50% to 75%'*.

Schroders report the ethnic representation of their UK workforce compared to UK population statistics to their Board.

At Standard Chartered, the Global Diversity & Inclusion Committee is accountable to the Culture and Sustainability Board Committee, which comprises many of their most senior leaders and Board members.

The Executive Sponsor of ABRDN's Ethnicity Action Plan meets quarterly. *"This demonstrates an active interest"*.

Legal & General has a Global D&I Council which comprises senior executive members and formally reports to the Board.

Effective communication around EPG

Almost all the companies we spoke to ran targeted data disclosure campaigns, explaining the importance of collecting ethnicity data. They clarified why they wanted the data, what it would be used for and how they would use it, to encourage people to take part. *‘You need to tell people what you’re doing and why you’re doing it, as well as enlist engagement and support’*. One company found that the reason given for not disclosing was because people were not confident about how the data was being used. Therefore, they refreshed their language *‘We reclarify and restate what we do with their data’*.

Lloyds Banking Group sent email reminders if it wasn’t completed to encourage reporting.

At Standard Chartered, employees across different grades and markets promoted the “Count Me In” campaign, explaining why it is important to them to share their ethnicity data and what it means for the community.

M&G explained that with better data, their HR strategy is better informed. They stated that *‘personal data is as important as an emergency contact’*. They particularly encouraged senior staff members to self-disclose as many hadn’t when they joined. As a result, they’ve seen an improvement.



“It is important that audiences understand the difference between equal pay and a pay gap, and how reporting pay gaps fits within an organisation’s wider strategy”. – London Stock Exchange Group

Townhall sessions

Several companies held Townhall sessions to listen to and address people’s concerns. One company explained it was to inform their strategy and efforts. They asked people who didn’t share data why they hadn’t, to learn the reasons why. This made a difference in creating a sense of openness and transparency.

Another also held bespoke sessions, led by divisional or unit teams, explaining why it’s important to the firm and why it’s important to the individual (similar to Standard Chartered). Yet they heard time and time again that there were privacy concerns so they explained what it was to be used for, and how their data would be protected.

Trust & Safety

To develop trust, one company simply asked staff why they did not wish to disclose and the answer was because they didn't feel safe. The company then explored how to drive up psychological safety, which, after two years, increased the self-disclosure rate by over 30%. They worked with staff and leaders to have open conversations to drive up safety. Similarly, several companies mentioned that uncomfortable, challenging conversations needed to be embraced.



“Talk openly, and be transparent about what the data is used for and who has access to it. Ensure that you create a sense of inclusion and belonging”.
– Schroders

Another company built trust by ensuring that everyone from all different characteristics and groups understood the value of sharing this data. Many companies created safe spaces for staff to share their concerns after the murder of George Floyd and had visible role models from diverse groups to build trust.

However, on its own, as with all of these interventions, this is not enough; it needs to be part of a **broader cultural change** within the company. Several interventions create a sense of trust, as it can be seen that they are taking action and it's *'not just a PR exercise'*. Each company must build trust thinking contextually on what might work within their specific working environment.



“It took a lot of work to get the self-disclosure rate up to 88%. If we just ran a data disclosure activity, it wouldn't work. Colleagues need to trust data, and understand that the company is careful with who has access to data”.
– Lloyds Banking Group

Holistic Data Collection

The majority of companies that we spoke to that had successfully increased their self-disclosure rate collected **holistic data**, where the focus was not narrowed to just ethnicity and gender, but was broader and included, for example, caring responsibilities, age, faith, disability, LGBTIQQ/sexual orientation, menopause, nationality (for global companies operating in countries where it is illegal to track ethnicity) etc. As it is a more inclusive method of data collection, a greater number of staff feel they are being represented by the questionnaire. These companies understood the 'what's in it for me?' question when people are asked to complete such surveys, and responded as such.

Setting appropriate targets

Lloyds Banking Group found that the single most impactful intervention was to set a **public goal**, as this gave *‘forensic attention to the issue and progress was monitored’*. They have scorecards and treat DE&I like a business. *‘If milestones are put in place, then there is accountability’*. So although the targets were to drive representation ([see below](#)), it also drove up the self-disclosure rate.

Training

To build an inclusive culture, companies held mandatory anti-racism training or Inclusive Culture Training. In addition to mandatory training, NatWest developed an ethnicity allyship programme in partnership with [Purpose Union. Investing in Ethnicity](#) held sessions to support colleagues in becoming effective allies. Legal & General carried out inclusivity training including how to hire inclusively. *“Improving line management capability is critical to building an inclusive culture”*.



“Talking about any kind of difference can often be uncomfortable and difficult, we want to support leaders (and the wider organisation) to be more confident discussing topics such as ethnicity in the workplace”. – London Stock Exchange Group

“All leaders are competent and capable, specifically around race. This is from the board right through to all our seventy-two thousand staff including contingent workers”. – Lloyds Banking Group

Several companies have also established **reverse mentoring schemes**, or ‘School for CEOs’. This enabled senior leaders to learn from junior colleagues and to be in touch with the experiences of diverse communities within their workforce.

Software

It is important to make it simple for staff to give you their data, and provide several opportunities throughout the HR lifecycle.



“People are prompted to complete their diversity profile before selecting their benefits package. Employees may skip through and go directly to the page where they choose their preferred benefits. The purpose of incorporating diversity profile questions into the benefits portal is to create an annual touchpoint to encourage employees to share their data, making the experience as easy as possible from a user perspective (given they are already logged on to the system)”. – Schroders

Rather than using clunky technology, invest in your HR capability. One company used [Workday](#) – a human capital management software system for the banking and capital markets industry. A few companies created **bespoke apps**, and found they helped increase self disclosure rates. However, the challenge is, as its not in their own HR systems, they cannot track the progress of staff members. Therefore, their ambition is to have the data embedded into their own HR system.

It is also important for leaders to be fluent in explaining the data – they need to understand what its saying.

Employee Led Networks

Working with employee led networks, or employee resource groups (ERGs) is essential, as they can promote and raise awareness of the importance of reporting – how it can help colleagues and the organisation as a whole.



“Peer to peer recommendations to report your data are often more likely to be trusted than requests from a senior leader. We held focus group discussions to understand what was stopping colleagues from sharing their data to help us design more impactful messages”. – Abrdn.

Lloyds Banking Group have a range of panels from different communities; their Black Heritage and Asian, Ethnic Minority Race Advisory Panel provide advice and support to their Inclusion & Diversity Forum on specific issues and guides future work.

The majority of companies emphasised a combined **grassroots and top down** approach, or a cascade approach. Actions starting from an executive committee through to employee led networks.

Many respondents benefited from participating in corporate led initiatives to work on DE&I issues collectively. Please see [Appendix 1](#) for a list of resources and external partners mentioned.



Implementation Advice

Getting Started

- While EPG is still voluntary, EPG reporting is an iterative process, and the important thing is to start and improve as you go along.
- Senior leadership must have overall accountability, so that the issue gets the right level of profiling, and messaging comes from the top.
- Review existing D & I policies and procedures, and, if necessary, update, or put in place new ones.

Culture

- Take time to understand lived experience, including barriers to progression and the aspirations of staff from diverse backgrounds.
- Recognise that the attitudes of supervisors, duty managers and general managers are crucial to fostering an atmosphere of inclusion, and make this an indicator of their performance.

Self-disclosure

- Take time to help staff understand why this disclosure is helpful, with particular focus on middle managers where understanding of EPG may sometimes be lacking.
- Make it easy for colleagues to disclose their data. Consider making it part of your onboarding process.
- Collect holistic data with a broad range of categories e.g. caring responsibilities, age, faith, disability, LGBTIQQ, menopause, etc, not just gender and ethnicity.

Methodology

- Choose a consistent methodology using the measures recommended in Section 2 ([Statistics to report](#)). This will enable future benchmarking within and between companies, in anticipation of mandatory EPG reporting.

Action Plan

- Focus on what the narrative is telling you, and use that to inform action.
- Spend time putting an action plan in place. Consider consulting with all levels and corners of your business operations.
- Focus on the long term view, as this is change measured in years and over the longer term. **Action taken is more important than numbers** (but the number is the first step to action).
- Develop clear procedures to support frontline ethnic minority staff who are involved in incidents where race and ethnicity are a factor.
- Take time to educate your whole workforce on how to interpret the figures, on why a particular narrative has been drawn around those figures, and the relevance of EPG reporting to everyone in the business.
- Do not look for tangible impacts in year one or year two. Decisions taken now will impact ten years from now, and although those conversations may seem small now, the point is to have them and to start to engage with EPG reporting.
- The action plan, action taken and the cycle of reviewing action taken is far more important than the clamour, and glamour, of publishing pay gaps. EPG reporting sparks all sorts of conversations within a business, and it is here that expertise in this process is acquired.

Effective actions to reduce the pay gap

Setting Targets

Almost every reporting company stated their pay gap was due to underrepresentation, as they had fewer ethnic minority staff in senior positions, particularly Black staff, and more in junior positions, with less hourly and bonus pay. Subsequently, they set targets to increase the representation of staff from an ethnic minority background, which were included in their business plans. Several set two targets to drive representation; one on the proportion of senior leadership with a Black, Asian & minority ethnic background, and another specifically with a Black background.



‘Being transparent about the underrepresentation of certain ethnic groups in senior roles, and the pay gaps that result, is important. It helps us track where we are in the pursuit of our goals, and helps us understand what tangible actions we can take to improve representation over time’. – Barclays

- Barclays, for instance, has a target to increase representation of underrepresented groups by 25% by 2025. Their second target was to double the number of Black managing directors by the end of 2022, which they have already achieved and have now set a new ambition to increase the population of managing directors from underrepresented ethnicities by at least 50% by the end of 2025.
- Lloyds Banking Group acknowledged that although they particularly needed a greater number of ethnic minority staff in higher paid roles, the gap was due to ethnic representation at **various** levels. Once they took action to address this, they noticed the gap reduced. To reach their Group goals (increasing representation of Black colleagues in senior roles to 3% by 2025, and increase overall senior Black, Asian and Minority Ethnic representation to 13% by 2025), **each division has a target** to meet the aggregate goal. They are accountable to the CEO and must provide future plans if they have not reached a target. *‘...staff do not want to fail at meeting targets or explain why they have failed to meet a target, therefore this drives action - for example, being more innovative around recruitment’.* (Lloyds Banking Group)

Reflecting DE&I objectives in Executive Incentives

Several companies have reward structures that go beyond just financial performance. Aviva, for instance, provides senior executives a 5% reward on meeting DE&I targets. Company share schemes or group executive stock schemes were also tied to DE&I. Hiscox found that their

global benefits and compensation scheme drove gender pay gap reporting, so are exploring having a similar scheme on ethnicity. We would urge remuneration committees to consider using the closure of ethnicity pay gaps as part of management long term incentive plans (LTIP).

Policies & Procedures

Companies reviewed their policies and procedures to ensure unintended barriers did not exist. This was particularly seen in recruitment (see below).

Creating and delivering an effective action plan

A few companies found that a dedicated ethnicity action plan (or Race Action Plan) helped move the company forward, underlining the CIPD's recommendation for every company to develop an action plan to tackle their ethnicity pay gap, a narrative explaining the context, and the steps they will take to reduce the gap. Standard Chartered's ethnicity action plan has been co-created with their Origins, Nationality and Ethnicity ERGs and representatives of African talent. The plan has been strengthened by employee listening, with the community having played an integral role, providing a collective voice and fostering constructive challenge.

The research Runnymede conducted for this Toolkit also found that it is the action on ethnicity pay gaps, rather than the figures, which brings change. Lloyds Banking Group has set a goal for each of its divisions to increase representation to support their Race Action Plan.

Prioritising Recruitment and Retention

Most companies have updated their recruitment policies, to ensure it is free from bias and have greater Black representation. They use a broad range of recruitment methods to widen the talent pool. The ones we came across were:

- **Ambassadors:** Two companies (NatWest and ABRDN) have diverse interview ambassadors, who volunteer to take part in an interview panel.
- **Employee Resource Groups (ERGs)** – are a useful tool in recruitment, and a few have job boards. They have also helped some companies with retention.
- **Partners:** Several companies work with partners to reach into communities they would not otherwise reach. This particularly works well in the early career space and lateral hiring (see [list of recruitment partners](#) under 'External expertise' below).
- **Behavioural Scientist/Anthropologist:** we spoke to two companies who hired Behavioural scientists (or anthropologists) to examine all the parts of the HR life cycle. They helped to "de-bias the hiring process and provide an end to end review of recruitment processes". This uncovered the blocks in recruiting minority ethnic staff and the blocks in progression.

They examined who were getting the best performance ratings and whether there was any correlation between how a person was rewarded and their race. They developed a roadmap for end to end talent management practices. One company also looked at what behavioural nudges could be added to improve results.

- **Early Careers Opportunities:** The majority have apprenticeship programmes and graduate programmes, with a focus on all backgrounds.
- **Positive Action** (as permitted by the Equalities Act 2010) measures to support both attraction, training, development and progression into senior positions.
- **Mentoring** – Many provided one to one mentoring, and one also provided ‘speed mentoring’ where staff had the opportunity to spend 20 minutes with an executive on each table. This introduced colleagues to senior leaders so a more informal mentoring could grow into a broader relationship.
- **Relocation** – one company is considering how it can offer opportunities to work at a different office, to increase representation at different locations.

Developing Advancement Programmes

Several companies have ‘talent identification programmes’ or ‘leadership programmes’ which provide support to a group of capable individuals to develop their careers. They receive personal coaching sessions, and advice on their CVs and interviews, so as to create a more level playing field.

“We had noticed that far too many of our Black colleagues had been in the same position for several years so we understood there was an organisational problem...” (Financial sector company)

- The list of people on the Lloyds Banking Group Talent Programme is discussed with the Chief of Staff and the Chief of People & Places Officer every month. Therefore, it is prioritised at the most senior levels to support progressions and increase representation, as they understand that they ‘...*have to be on it all the time*’.
- M&G opened their leadership programme to all, with a specific focus on ethnic minority staff members. *“87% of the cohort identified as belonging to an ethnic minority community, and over 80% went onto full time roles”*. They track their entire talent pipeline, and all aspects of the talent management life cycle.
- NatWest has the Ignite progression and advancement programme focused at **middle managers**, to increase advancement and retention within the organisation.

Measuring impact

Monitoring and evaluation is essential in determining whether or not your chosen initiatives have been successful.

“It’s important to be data led analysing findings across the employee lifecycle to more successfully remove any barriers to inclusion within organisations”. (London Stock Exchange Group)

- **Monitoring of interventions** – Lloyds Banking Group has a monthly breakdown on each lever they use to achieve their targets, such as on recruitment and promotion, and measures progress. It is disaggregated by population as far as possible and they aim to disaggregate it further.
- **Equality impact assessment in all HR processes** – Robust review of pay and performance decisions takes place annually at Barclays and is guided by their global Equal Pay Commitment. They also work with Unite the union to evaluate the fairness of performance management and pay decisions for union-recognised employees and conduct assurance of their performance and pay outcomes through a diversity lens to ensure that these remain fair and free from bias.
- **Non-disclosure** – Legal & General forensically examine the pockets of non-disclosure in specific teams. This is tracked by their Global D&I council, chaired by the CEO of L&G Capital.
- **Employee engagement surveys:**
 - NatWest and Legal & General runs employee engagement surveys twice a year and NatWest runs monthly deep dive pulse surveys. This helps to monitor how inclusive its culture is. “*We champion belonging, helping colleagues thrive.*” (NatWest).
 - Legal & General invested in dashboard capacity with standardised metrics, which can be examined at a divisional level.
 - M&G uses an inclusion index and an employee opinion survey to know if their “*DE&I work is being felt*” by their employees. They report on the results annually, to hold themselves accountable. M&G see themselves as an employer of choice, therefore they measure how their DE&I initiative is improving their brand.
 - Additionally, the Board of Standard Chartered holds regular listening sessions with colleagues as they want to hear directly from individuals and not simply rely on employee surveys.



“Get feedback from colleagues; it’s not only powerful to hear from them directly, but it enables teams to learn more about localised issues as well as the organisation as a whole”. – London Stock Exchange Group

Actions for investors

Investors should be engaging companies on EPG reporting not only because it is morally the right thing to do, but also because it makes business sense. As highlighted in [Section 3](#), it is a tool that can be used to improve financial performance, attract talent, and decrease risks such as performance penalties, loss of talent, and the greater economic risks from perpetuating and increasing income inequality. A more diverse labour force is more creative and better at identifying risks, making a company more resilient. Diversity does not just mean a deeper pool of talent, but also collectively a higher quality one. Moreover, there is growing interest from shareholders and pension holders on racial equity, and there is also the regulatory risk that it will be made mandatory, similar to gender pay gap reporting.

We believe that investors ought to ask **all** companies to report their ethnicity pay gap, but would urge investors to focus on the sectors where ethnicity pay gap is the biggest and potential for change is greatest. Prioritising low wage sectors with disproportionate numbers of ethnic minority staff is a particular priority during the cost of living crisis. Within the low wage sectors, our research shows that the hospitality, catering, food processing and food manufacturing sectors have the greatest proportion of ethnic minority workers with poor conditions and wages.

We would also urge investors to ensure financial institutions also ‘get their own house in order’ given their significant influence on the real economy and their ability to influence investee companies.

Below are ways investors can engage with companies on EPG reporting.

Stewardship & Engagement

Asset Managers

In addition to reporting their own ethnicity pay gap, asset managers should incorporate ethnicity pay gap reporting in their stewardship and engagement strategy, policies and practices. This should include considering ethnicity, diversity and inclusion at all stages of the investment lifecycle.

Investors should plan and begin to engage with companies as follows:

- 1 Ask for disclosure of ethnicity pay gap reporting and define the metrics to be disclosed. Ask for forward looking targets for ethnicity pay gap and strategies to deliver those targets. If companies raise objections, refer to this toolkit or come to ShareAction or one of the external experts mentioned in [Appendix 1](#) for support.

- 2 Investors should then assess disclosure and targets against their own framework for appropriate ethnicity pay gap levels including reference to peers. **Convey that assessment to the company** and set expectations for ethnicity pay gap performance over time.
- 3 Set out consequences for those expectations not being met.
- 4 Monitor their progress against the standards set.

One size does not fit all so each company will need to create bespoke solutions. Pointing them to the various guides available to help companies report their ethnicity pay gap, including this toolkit, may also be appropriate. ([See list below](#)).

An assessment of a company's ethnicity pay gap and performance on DE&I more generally should also be incorporated into decisions about which companies to invest in, and indeed, which to exit from. Once disclosure is available and expectations set, then the response function ought to go through an escalation process, from:

- 1 Meetings and letters (from private to public, bilateral to collaborative, management to board).
- 2 AGM questions, filing resolutions, voting against management.
- 3 Reduced weighting (through to full divestment) – and of course the opposite if the company does respond to engagement and escalation.

Another option available is **collective engagement** which can have greater impact than engaging individually. ShareAction's Good Work initiative facilitates this kind of collective engagement on EPG reporting, as well as other good work issues like Living Wage. Investors are encouraged to contact ShareAction for further support and engagement.

Assets Owners

Asset owners can often have greatest impact by engaging with their asset managers and encouraging them to prioritise this issue. Owners can specify this in the investment mandates, and place requirement on their managers to report back on both their own EPG, and the work they are doing to enhance DE&I through their investment practices.

Beyond engaging and encouraging the prioritisation of ethnicity pay gap reporting in your portfolio companies, it is also worth considering setting targets for your asset managers, such as the number of companies engaged on ethnicity pay gap reporting, and aggregate reporting of ethnicity pay gap data at portfolio level.

Asset owners are also encouraged to sign onto the [Asset Owners Diversity Charter](#). This is a set of commitments to help asset owners improve diversity across the investment industry, in all forms. One of the key tools it uses is the Asset Manager Diversity and Inclusion Questionnaire which aims to standardise diversity metrics to improve on disclosures. The

questionnaire helps to inform engagement on improving diversity and inclusion. [The Asset Owner Charter Toolkit](#) is a document to support the implementation of the Charter and includes topics such as manager monitoring and selection.

Living Wage Accreditation

One of the main actions a company can take to reduce the ethnicity pay gap is to become Living Wage accredited. *“Becoming an accredited Living Wage Employer is the best possible way of guaranteeing that all staff members – including third-party staff – are paid a wage that allows them to meet everyday living costs”*⁷⁶.

Companies who accredit as a Living Wage Employer commit to providing a decent wage floor above the National Living Wage for all of their workers. As demonstrated, Black and ethnic minority workers are more likely to be paid below the real Living Wage and unable to meet the cost of living. Therefore companies making this commitment will disproportionately benefit these workers and is a significant step to addressing ethnicity pay gaps.

Visibility

We highly encourage signing up to one of the initiatives mentioned in [Appendix 1](#), such as the Race at Work Charter, or Change the Race Ratio, which is designed to support investors and companies. Visibility is encouraged both in advocating investee companies to adopt these as well as the financial institution itself.

It is important to emphasise their logos on your website and marketing materials, as well as making your own Race Action plan and Ethnicity Pay Gap report more visible and easy to find. Mention, and link, your ethnicity pay gap in your **annual report**, and ask others to do so too.

Policy

Companies have been engaging with the FCA to add regulations on ethnicity pay gap reporting in the financial services sector. ShareAction would encourage investors to join this action, either individually or collaboratively, for example with ShareAction, or with other initiatives such as Reboot.

Appendices



Appendices

Appendix 1: Resources

This investor toolkit has followed the CIPD guide, although there are various other practical guides to choose from, including the government's own Guidance⁷⁷. Below are the main examples.

Government Guide

This provides very detailed guidance on making and reporting ethnicity pay calculations. It includes:

- Step 1: Collecting Ethnicity Data
 - Who counts as an employee
 - Complying with GDPR rules
- Step 2: Gathering Payroll data
- Step 3: Making your ethnicity pay calculations
 - Ethnicity pay figures recommended
 - Ethnicity Groups
 - Ensuring employees are not identifiable
 - Calculations per category

Other Guidelines

#ethnicitypaygapcampaign

This site contains various resources to help you with your ethnicity pay gap journey.

- List of Companies reporting their Ethnicity Pay Gap
- How to Have an Ethnicity Pay Gap Conversation
- Ethnicity Pay Gap Holistic Model

CFA Institute

The CFA Institute is launching its Diversity, Equity, and Inclusion Code in September 2023 'designed to enable accelerated change in investment organisations of any size'. It lists actions it looks for in signatories and how they will approach a lack of any progress. It emphasises cultural change, yet recognises that 'compliance is a helpful tool for level-setting'. The CFA will offer extensive support and engagement for signatories unable to show any progress after two years, and then a process of escalation measures. This guide is to help signatories conduct a

DE&I self-assessment on five principles: leadership, pipeline, talent acquisition, promotion and retention, influence and measurement. Please check their [website](#) for more information.

CIPD

This includes

- The rationale: Why ethnicity pay reporting is essential
- The statistics: What ethnicity pay data to report
- The process: How to report and act on ethnicity pay

CBI

A practical guide exclusively for members of the Confederation of British Industry (CBI). Using real case studies from firms of varying sizes in different sectors and regions, this practical guide explores how members can take action across the following three areas:

- How to increase disclosure of ethnicity
- How to build a pipeline of talent
- How to improve Black and minority ethnic inclusion

Diversity Project

This video provides a masterclass in Ethnicity Pay Gap analysis and gain an insight into the framework and tools you can apply to your unique situation.

HR Data Hub

This guide explains six steps to ethnicity pay gap reporting for employers:

- STEP 1: Creating The Business Case
- STEP 2: Building Trust
- STEP 3: Define What Data To Collect
- STEP 4: Data Collection
- STEP 5: Data Analysis & Benchmarking
- STEP 6: Setting Targets
- STEP 7: Creating An Action Plan
- STEP 8: Tracking Progress

- STEP 9: Sharing The Results: The Successes & Challenges

They have recently been awarded a government grant to conduct a pilot with a number of companies to collect further evidence on the link between racial diversity and company profit. HR Data Hub are the data partner for CBI.

Mind the Gap

They undertook a study to understand methodologies and outcomes of ethnicity pay gap reporting in their companies, and have compiled their learnings in the link above.

New Financials

New Financials launched a research series to create a diversity toolkit for investors with the 30% Club Investor Steering Group. Their first paper introduces why more corporate diversity reporting is not yet leading to informed decisions. To access the report, please contact them on the above link.

Global Diversity, Equity & Inclusion Benchmarks

A tool to help support culture change is the (free) [Global Diversity, Equity & Inclusion Benchmarks](#) toolkit.

It is a Guidebook with a supporting Suite of Tools that allows organisations to assess its current state of DE&I in their organisation, determine short term and long term goals, measure progress and helps benchmark itself against others in the field. The report is organized into 15 categories identifying levels of achievement and individual benchmarks *“there are a total of 198 in the desired levels 3, 4, and 5, which range from inactive to best practices, and is paired with useful tools to make it a living/working document for users”*.

External expertise

Many respondents in [Section 5](#) benefited from participating in corporate led initiatives to work on DE&I issues collectively. The partners mentioned were:

- Business in the Community’s [Race at Work Charter](#) – asks businesses to make a public commitment to improving equality of opportunity in the workplace and provides toolkits and fact sheets to help achieve the commitments. In particular, see ‘Let’s Talk about Race: <https://www.bitc.org.uk/toolkit/lets-talk-about-race/>)
- CBI’s [Change the Race Ratio](#) – businesses work together as a peer group to make progress in transparency, inclusion, action and accountability. They have created a guide on Ethnicity Pay Gap reporting using case studies.

- CIPD – CIPD produces several toolkits and guides to support racial equality at work. See <https://www.cipd.co.uk/knowledge/fundamentals/relations/diversity/conversations-race-work#gref>.
- **City Hive** – a think tank and advocacy group working in partnership with companies and grassroots to build an inclusive investment management industry and an equitable and sustainable society. Provides ‘*a pipeline of diverse talent from the schoolroom to the boardrooms of the Investment Management Industry*’. Collaborates with employers to challenge a range of conscious and unconscious biases to improve recruitment, retention and remuneration practices.
- **Coqual** – a think tank and advisory group to address bias and uncover barriers to advancement for underrepresented groups in the workplace.
- **Corporate Call to Action** – Coalition for Equity & Opportunity is a corporate activism initiative launched in the US in 2020 to address racial economic disparities over the next five years. Companies engaged in the CCA working group represent \$26 trillion in assets under management. One of its commitments is to provide mid-career professionals with the skills needed to launch a high-growth career in financial services.
- **Diversity Project** – a cross-company initiative championing a ‘truly diverse, equitable and inclusive UK investment and savings industry’.
- The **Centre for Global Inclusion** – the leading global inclusion nonprofit that has knowledge and resources across the world, working in the field of education and research in its quest to address diversity, equity and inclusive (DE&I) practices. One of their main offerings is the **Global Diversity, Equity & Inclusion Benchmarks**, which is available for free. “The GDE&IB provides a means of measurement, a strategic planning tool, and a set of actions that may be taken at an organizational and individual level, to do good diversity work”.
- **Investing in Ethnicity** – runs various programmes with organisations to create “*a welcoming and diverse*” environment, and for people to “*thrive regardless of their background*”. They supported NatWest to develop an Allyship programme.
- **Marriot Statistical Consulting** – provides consultancy, training and expert advice to help measure, interpret and close ethnicity pay gaps. Many training materials are available on their website, and they run a one day training course ‘Introduction to Pay Gap Analytics’.
- **Mind the Gap** – A group of 12 companies – Auto Trader, Aveva, British Land, BT, ITV, LandSec, Lloyds of London, M&G, National Grid, Natwest & Shell – have come together to share their experiences of ethnicity pay gap reporting, encourage other businesses to do the same; and lobby the government to make ethnicity pay gap reporting a regulatory requirement.
- **Purpose Union** – A social purpose strategy firm that helps business leaders navigate complex social issues through high profile campaigns and engaging brand narratives.

Data Partners

- [HR DataHub](#) – Provides tools and knowledge to cover diversity & inclusion, reward, employee engagement, employee relations, and talent acquisition. Helps companies to benchmark their HR performance with in depth and industry specific data. We came across two companies who recommended them (Imperial Brands and Phoenix Group Holdings). It also provides an intersectional view of diversity to senior leaders.
- [Spktral](#) – they are pay gap specialists, *“giving companies the tools to make better people decisions with their data”*.
- [Qualtrics](#) – global employee experience benchmark insight and data. *“Our software gives you the tools to ask the right questions, listen to what people need, and respond with the right actions”*.

Recruitment Partners

These are the ones mentioned to us, although we are sure there are plenty more! Please do some research in your area.

- [10,000 Black Interns](#) – offers paid internship opportunities across more than 25 sectors, in addition to training and development opportunities.
- [Aleto Foundation](#) – a social mobility charity that identifies and develops *‘the next generation of leaders from communities who have historically found it challenging to access jobs due to their backgrounds’*. One company we spoke to worked with Aleto to develop a mentoring and leadership programme for disadvantaged Black people, aged 19-25.
- [Black Professionals Scotland](#) – empowers Scotland-based Black ethnic minority professionals with skills and information for career development, and supports organisations in meeting their inclusion and diversity ambitions.
- [Bright Network](#) – connects the next generation with the opportunities, insights and advice to succeed as the workforce of tomorrow.
- [Sutton Trust](#) – champions social mobility through programmes, research and policy influence.

Appendix 2: CASE STUDIES

Sodexo UK

Why Report Ethnicity Pay Gaps?

“We can tell just by looking around the room, that we do not have the diversity that we want”.

Sodexo has been at the forefront of adopting ethnicity pay gap reporting in the integrated facilities management sector, in alignment with its values. Now in its third year of publishing, it says *“...transparency helps drive action. And so the more we can be transparent and the more we can hold the mirror up to ourselves, and help encourage others to do so, the more we can collectively drive change.”* It understands the concerns companies may have about publishing this data, and the potential for ethnicity pay gap statistics to be confusing or ambiguous. To mitigate its own apprehensions, Sodexo spent a lot of time working on understanding and explaining its data internally first. For Sodexo, the key has been to spend the time listening and consulting with its people, a process measured in months and years.

Sodexo is aware that data collection and publishing pay gaps is just part of a process of confronting the discomfort, ambiguity or paradoxes caused by discussions about race and ethnicity. The narrative and action plan is the most important part of the reporting process, and it has worked to embed this work at all levels in the company. At board level it has a designated Executive Lead, a ‘Culture and Origins’ programme, a project reviewing its HR processes and practices, a Taskforce acting as a ‘critical friend’ and a staff employee network dedicated to promoting and celebrating all cultures and heritage in the company. Diversity & Inclusion targets are now part of its business plan for the UK and Ireland region.

“Even if it is a small sample, data is still insightful.”

Sodexo reported an overall ethnicity pay gap of 5% in 2020 and 8.2% in 2021 and is very clear about the need to not get too “fixated” on the final figures. *“There are going to be fluctuations in ethnicity pay reports with the data we’ve got. So our focus is on the representational targets and lived experience, because if you get better representation, that is going to improve your pay gap.”* Right from the beginning, Sodexo decided to mirror the six measures of gender pay gap reporting, as it was the company’s best guess as to the methodology the UK government is likely to adopt once mandatory ethnicity pay gap reporting is settled. Given its data collection processes were already set up for gender, it was a simple step using the same framework for ethnicity.

Sodexo also made the choice to publish measures for the semi-disaggregated categories of Black, Asian, Mixed and Other, as it determined there could be disparities between ethnic groups in the company. Its disclosure rate has remained relatively high, in and around 75% as

the collection of this data is embedded in its onboarding process. This year it is putting efforts into a fresh employee survey to try to push its disclosure rate towards 100%, whilst still offering a “prefer not to say” option. Sodexo employs a large number of seasonal, temporary or casual workers, who come in and out of the business, mirroring the ebb and flow of the needs of its clients and contracts, but these are excluded from their calculations.

“Our people are our greatest asset”.

Sodexo understands the need for businesses in the food and hospitality services sector to embrace the rigour of the data collection, analysis, reporting and action required of this process. It is aware of the need to work sector-wide to improve career progression routes for its staff and wants to be part of a new era of showcasing the industry as a place where employees can find a long term career path and job satisfaction. Talent, and the retention of talent, is a particular focus for the company, as it wants to minimise the disruption of high turnover of staff to its business. It wants to move away from transient workers, and find answers to the question: how do we make the industry an exciting and attractive place to work? It is particularly aware of the need to support its Black talent, to make working for the organisation a positive experience, and is working on a series of programmes and initiatives, with particular attention to its operational management level, which eventually provides the progression into senior management and executive level.

Compass Group UK & Ireland

“The majority of investors want companies to do more in this area, but some say ...’Oh, this is a ‘bolt on’, and it’s a cost’ ... and all the rest of it, (but) why wouldn’t you want to reflect your customer base? Why wouldn’t you want to understand what your customer base want, need and value? Why wouldn’t you develop your products to be attractive to your customer? This is good economic sense.” – Jim McNally, Group Reward Director, Compass Group PLC

Compass Group’s origins date back to the second world war and the development of factory canteens providing nutritious meals. Compass Group is particularly aware of a tendency for businesses to see DE&I as something which is done on the margins of a company. For them, DE&I sits at the centre of their business model, embedding them in the communities they serve, through constant dialogue with their local communities, and informing how they conduct their business. *“...DE&I is not only the right thing to do, there is also a business imperative. We are a client driven organisation and our clients expect it of us, demand it of us. They want to ensure the integrity of their supply chain, and we are part of that. So, it is fundamental to our business and our offer to clients, and we just would not get those clients if we did not have a good foundation and a good offer across the whole ESG agenda.” – Amanda Scott, Talent, Learning & D&I Director, Compass UK & Ireland*

In 2023, Compass Group UK & Ireland published their ethnicity pay gap report for the first time.

It was the culmination of a process which started in 2018-2019, but which was interrupted by the Covid-19 pandemic and the ensuing impacts on the food services sector. The company has been engaged with issues of race, ethnicity, diversity and inclusion for over twenty years, and they confidently describe themselves as one of the most inclusive organisations to work for in their sector, placing a high value on being transparent and “doing the right thing”.

“The data drives discussions, and drives understanding. It is not the full picture by any stretch of the imagination at all, but it drives some really good conversations, and then those conversations lead to actions.” – James King, Head of Rewards, Compass Group UK & Ireland

For their first year publishing an ethnicity pay gap report, Compass Group have deliberately chosen to keep it simple, as for them, it has been the best way to facilitate explanations and conversations within the company, with their staff, and externally with their clients and other audiences. They have chosen to report measures using binary White/Ethnic Minority categories and have also followed the six measures given by gender pay gap reporting. Through the data collection required for their ethnicity pay gap report, they achieved a disclosure rate of over 90% in their first year of publication. This year, they will see a negative overall median figure in favour of their ethnic minority staff. This is a result of work locations and a deliberate decision to uplift wages in Healthcare and Senior Living sections of their business operations where there is an over-representation of employees from ethnic minority backgrounds. Rather than seeing publication as a major threshold they are crossing, this first year of publication represents a continuation of the work they have already been doing for years on DE&I. They have been focussed on staff development and career progression for a while now, and also acknowledge and embrace the unique position food services businesses have in the UK economy, given the very high number of entry level positions available in the sector.

“Inclusion is global, but diversity is very localised.” – Sabina Khanom, Group Head of Diversity, Equity & Inclusion, Compass Group PLC

Compass Group is very conscious that data is collected within a particular market, which has a particular context and means specific things to that place and region. As a result, they have counted over 100 different ways that they collect ethnicity data, including through their employee engagement surveys. They say: “You have to be very sensitive to data that has been collected within a particular local market. We do not aggregate, and create a global picture as each dataset tells us different things. How that data was created has a context, and we try to operate under the principle of subsidiarity, where we just speak principles and philosophies, and require local management and initiatives to be consistent with that philosophy.”

NatWest Group

NatWest Group is a British banking group, whose holding company, NatWest Group plc is based in Scotland. The group operates a wide variety of banking brands through its retail banking, private banking and commercial and institutional banking businesses. The company is doing well financially. Their operating profit for 2022 of £5.1bn increased from £3.8bn the year before, and their global workforce grew to 61,400. Of those, 41,200 are employed in the UK.

NatWest Group signed up to the Race at Work Charter in 2018, which demonstrated the criticality of the multicultural agenda at RBS. In June 2020, their CEO established a Racial Equality Taskforce led by the co-chairs of their Multicultural Employee Led Network, to help better understand the issues faced by Black, Asian and Minority Ethnic colleagues, customers and communities. In October 2020, the taskforce set out 10 commitments and actions to tackle inequality, (see [Banking on Racial Equality](#)). In February 2019, they published their first [ethnicity pay gap report](#) and have published every year since.

Why report ethnicity pay gaps?

Pay gap reporting is a critical part of NatWest's **fair pay charter** with regard to transparency. Since publishing their first ethnicity pay gap report in 2019, they have gradually improved their pay gap disclosures. Pay gap data forms part of a range of data and insights used to inform their [DE&I plans](#) and guide future focus on the interventions that'll make the most difference; they regularly benchmark [on progress](#) on [their plans](#) and approach with external partners and through reviewing best practice. Gender pay gap reporting had become 'business as usual' so ethnicity pay gap reporting was the natural next step on their agenda for transparency.

In absence of any guidance, NatWest decided to use the same methodology used for gender pay gap reporting. They reported the mean and median ethnicity pay gaps, mean and median ethnicity bonus gaps, proportion of White/Black, Asian and Minority Ethnic colleagues who: got a bonus; were in each quartile band. In 2022 they added data on ethnic minority colleagues by pay quartile and in 2023 they broke down their ethnicity pay gap data into four groups – Asian, Black, mixed/multiple, and other ethnic minority colleagues compared to White colleagues in Great Britain. This was a natural progression that had already been agreed internally, at the same time ShareAction raised the question at their AGM with [a follow up](#) engagement meeting in 2022 and continued support internally to progress the transparency agenda.

In 2021 NatWest published an update on the Banking on Racial Equality report and published a second [update](#) in 2022.

NatWest believe that pay gaps are one of [many indicators](#) of an organisation's progress on diversity, equity and inclusion. Communicating pay gap data effectively provides an opportunity to highlight disparities in representation and to further engage colleagues with their DE&I plans.

In future they are considering looking at pay gaps in their overseas operations. In the meantime, their focus is to ensure that *'there is a real understanding of the numbers and the narrative'*, and that colleagues understand *'there is a clear delineation between pay gaps and equal pay'*. Their education/awareness raising agenda on pay gap reporting included delivering podcasts in 2022, and this focus on education and embedding the understanding on what the pay gaps mean will continue.

Glossary



Glossary

Ethnicity pay gap	<p>This is calculated as the difference between the median (or mean) hourly earnings of the reference group (your white employees) and the median among your other ethnic groups/BAME employees, expressed as a proportion of average hourly earnings of the reference group. For example, a positive 5% ethnic pay gap between white British and employees from other minority ethnic groups would show that the median hourly earnings for employees in the latter category are 5% less than median hourly earnings of white employees. Conversely, a negative 5% pay gap would denote that they earn 5% more, on average, than white British employees.</p>
Employees	<p>The definition used for ethnicity pay reporting ideally should be aligned with your annual gender pay report, which is the employer's population of 'relevant full-pay employees', that is, those employed on the 'snapshot date' and receiving their full basic pay or piecework pay in the pay period. This excludes anybody not receiving their full pay in the relevant period, for example people on long-term sickness absence. Agency staff are included as employees of the agency and so should not be included in an employer's calculations. Nor should a firm's partners and directors if they are not employees. Where possible, though, the CIPD would encourage employers to include these people in a separate analysis in their accompanying narrative.</p>
Pay	<p>Pay is defined as hourly gross ordinary pay, including basic pay, piecework pay, shift premiums, paid leave pay and allowances, and so on.</p>
Bonus pay	<p>Bonus pay includes all variable payments, such as individual and team bonuses, profitsharing, gainsharing payments, and so on.</p>
Hourly pay	<p>Hourly pay is calculated based on earnings and hours worked in the relevant pay period (pay period including the snapshot date, for example the month for monthly paid employees); bonus calculations are based on cash payments received in the 12 months leading up to the snapshot date (the CIPD's Gender Pay Gap Reporting Guide contains some illustrative examples on pages 32–33).</p>

Snapshot date	The pay calculations are based on a 'snapshot date' of 31 March for public sector organisations, and 5 April for the private and voluntary sectors – again, we recommend the same date is used for ethnicity pay reporting.
The median	If you rank all of your people by their hourly pay, and then compare what the person in the middle of your ethnic minority population pay range received with what the person in the middle of your white population pay range received, and multiply by 100, you get the median ethnicity pay gap expressed as a percentage of the white employee pay. This is the preferred measure of the ethnicity pay gap, according to the ONS.
The mean	To calculate the mean ethnicity pay gap, add together all the hourly pay rates that people from an ethnic minority group earn, divided by the number of people from an ethnic minority group in the workforce, and then compare that with the same calculation for white people. Again, multiplying by 100 gives you the percentage difference. While the ONS statistically prefers the median as its primary measure, some argue that for employers the mean better captures significant differences at the top and bottom of the income distribution.
Proportions and percentages	A proportion is a number which is read in comparison with other numbers, in this case white and ethnic minority groups' pay levels. It can be expressed as a numerical value (25 out of 100 ethnic minority employees received a bonus payment compared with 20 white employees), a fraction (a quarter of the ethnic minority people we employ received a bonus payment), or a percentage (25% received a bonus payment). The gender pay regulations require percentages, but it is worthwhile remembering that in some circumstances a numerical value may be a more effective way of communicating your findings.
Quartiles	A pay quartile represents a quarter, or 25%, of your total workforce, ranked by pay. The pay quartiles then need to be broken down by ethnicity. For example, the top pay quartile would be the highest 25% of earners of all full-pay-relevant employees of all ethnicities, including white employees. Then for those top 25% you would work out and report the proportions that were white employees and the proportion that were other ethnicities/BAME. So, if you had a business with 800 employees in total, 200 employees would be in the top quartile. If 150 of them were white employees and 50 from other ethnic minorities, you would report an ethnicity mix in that quartile of 75% white employees and 25% BAME employees. And you would then repeat the calculation for the other three quartiles. Examples of these calculations are shown in the CIPD's Gender Pay Gap Reporting Guide.

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ShareAction is a NGO working globally to define the highest standards for responsible investment and drive change until these standards are adopted worldwide. We mobilise investors to take action to improve labour standards, tackle climate change and address pressing global health issues. Over 15 years, ShareAction has used its powerful toolkit of research, corporate campaigns, policy advocacy and public mobilisation to drive responsibility into the heart of mainstream investment. Our vision is a world where the financial system serves our planet and its people.

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