



Breaking the Deadlock: accelerating towards a genuinely diverse workforce



About The 5% Club

The 5% Club is uniquely an employer-led not-for-profit organisation founded in 2013. It works with UK employers and key influencers to inspire, educate and retain a growing body of people into “earn and learn” placements in order to increase the number of apprentices, sponsored students and graduate trainees.

The goal of The Club is to increase the employment and career prospects of today’s youth and equip the UK with the skilled workforce it needs to compete globally. Members aspire to having at least 5% of their UK work force in “earn and learn” positions within 5 years of joining. Progress is measured annually and reported by the member in its Annual Report or equivalent.

In setting up The 5% Club, we wanted to encourage leading firms of all sizes to invest in a generation - to put their money where their mouth is and set a clear example for many more employers to follow. We believe that the aim should be to build a much broader way for people to enter the job market or reskill, moving away from the entrenched university focus and create a world-class vocational system in the UK that is on a par with, if not better than, systems such as that in Germany.

The 5% Club believes that employers are best placed to identify the skills that the economy will need in the future and best placed to drive high quality, relevant training which can be the bedrock to a long and fulfilling career. By joining The 5% Club, employers demonstrate to their customers, employees and potential recruits that they are a business committed to developing their workforce and building the skills the UK economy will need to thrive.



Director General, Penelope,
Viscountess Cobham CBE

Leo Quinn Foreword



The 5% Club exists to encourage employers to create as many earn-and-learn opportunities as possible – to ensure that everyone can acquire the skills to build a successful career. We all agree this is critical to both a strong society and a strong economy.

Why then are we still failing to remove “hidden” barriers to diversity, in our recruitment? When research proves that businesses with a diverse workforce consistently outperform those without¹, why are we not confident that our training opportunities are attracting and identifying candidates from every background?

As you would expect, when we appealed to our members for input, many came forward to share their experiences and insights on how to drive up levels of diversity faster.

As you’ll see in the detail of this report on those interviews, members of The 5% Club have no shortage of ideas of how to accelerate diversity. And much of this is about leadership:

- ensuring business heads demonstrate an unequivocal lead in their organisations - improving the collection of diversity data to enable the setting of targets and measurement of progress (an ethos at the very heart of by The 5% Club)

- ensuring that sectors co-ordinate their approach to maximise their impact
- and ensuring that Government deploys the right regulation to speed up the pace of change while ensuring a level playing field.

We believe that Government impact has potential in two key areas: careers advice and encouraging young people – especially girls – to study STEM subjects (too often regarded as male domains); and using their role as a major procurer of goods and services to encourage greater emphasis on diversity among their suppliers.

Above all, as an employer-led organisation, The 5% Club believes Britain’s job creators bear the final responsibility to boost diversity. And frankly, with current skills shortages across the economy set to worsen, we cannot afford to starve our talent pipeline in any way.

I would like to thank our members for their time in sharing their experience and expertise. We in The 5% Club all want the UK to build a skilled workforce which genuinely helps strengthen our society by offering sustainable careers to a larger and far more diversified cross-section of people.

Leo Quinn

Founder and Chairman

¹ <http://www.mckinsey.com/business-functions/organization/our-insights/why-diversity-matters>

Key points and recommendations

1. Although many employers have decided that increasing the diversity of their workforce is a priority, a significant number do not yet have strategies in place to help them do so.
2. Where strategies are in place, they can often demonstrate only a small improvement in diversity after several years. Employers should partner with expert diversity organisations and share best practice in order to develop the most effective strategies.
3. There is also only so much individual employers can achieve on their own. There are three levels at which change must happen: within each business; at sector level; and economy-wide.
4. Across many sectors, there are a range of different activities aimed at improving diversity, taking place in a piecemeal fashion. Each industry should come together to coordinate activity and drive change more effectively.
5. Traditional recruitment tools and strategies will not improve diversity. New recruitment tools, activities, platforms and channels should be considered to increase the likelihood of finding and recruiting candidates from a wider range of backgrounds.
6. Many employers do not measure the diversity of their workforce, from gender and disability to how many come from black and minority ethnic backgrounds, and therefore do not know with any accuracy how much of an improvement they need to make.
7. In those companies which have been most effective at improving diversity, responsibility for leading change has often been moved out of the HR function. It is owned by the executive team or the Board and made a priority for every employee.
8. The Government has three key roles: in regulating to drive change; via procurement of large projects such as HS2 which can act as catalysts; and in careers advice and the education system.
9. To support and encourage employers which are making significant efforts to improve diversity and inclusion, within their own workforce and within their supply chain, commissioning authorities must be more overt in including these requirements in the tendering criteria and more transparent about the weight they carry.
10. Our members welcome Gender Pay Reporting as a way of focusing attention and driving action but feel that all companies reporting their gender pay gap should also develop action plans to address those gaps. However, they do not consider that this should be mandatory as ensuring compliance would be too subjective, too onerous and require a level of understanding of the sector and company that would be unlikely to be achievable in a regulator.

“We don’t know how the things like Brexit that are going on are going to impact the labour force, but we do know that there are all these different pools of people that we are missing out on. We need to have a strategy.”

“Our workforce is ageing and given the number of people we need, relying on people who just have a link to the industry through family connections isn’t enough anymore. It also isn’t right. There are also reasons for diversifying, in terms of innovating and reflecting the communities we’re operating in. It’s just, how can we turn things around quickly enough? We have a lot of ground to make up.”

- 11.** Our members believe that the next step is likely to be a requirement that companies publish their ethnicity data by salary band. Such a development, which in principle supported by our members, would pose significantly more difficulty than the collection of data relating to gender pay, as not all companies have existing data on the ethnic backgrounds of their workforce. Furthermore, many people do not accurately declare their ethnicity, or whether they have a disability.
- 12.** We believe all school and university students would benefit from much more systematic exposure to the range of possible careers available and from an earlier age.
- 13.** We welcome the trials of careers activities in primary schools announced by the Government in December 2017 as part of the Careers Strategy. We encourage the Government to roll this out more widely as soon as possible, in a structured way backed up by funding. We commend our members who have been leading in this space.



Shaking up traditional recruitment processes



Discussions with our members on the issue of diversity and also inclusion have shown that traditional recruitment and retention strategies are no longer fit for purpose in delivering the skilled, diverse workforce businesses need now and in the future. How our members are responding to this takes a number of different forms, encompassing where they look for candidates, how they shortlist, the interview process and the retention and development of staff from diverse backgrounds. For example:

- “Blind CVs”, or the removal of details such as names, gender, age, education, and even sometimes the number of years of experience or the names of universities or other education providers, to remove bias in order to increase the diversity of candidates invited to interview.
- Reconsidering the requirements of the role before drafting the job description. For example, it has been standard practice in some companies to require a degree for all roles, even though a degree may not be necessary for the role. Stipulating unnecessary requirements can discriminate against people from certain backgrounds who are less likely to have a degree and risk the company missing out on a talented individual who would be well-suited to the role.
- Seeking out new ways of finding possible candidates and targeting those which are likely to help increase diversity, including specific social media, websites and career fairs they have not used before.
- Unconscious bias training, to ensure that hiring managers are aware of their own potential biases and are able to look beyond them and make decisions based on the suitability of the candidate for the role and the company, rather than on snap judgements informed by stereotypes and ingrained beliefs.
- Examining how interviews take place and challenging existing processes. For example, one company which has held graduate assessment days for many years, noticed a high level of female applicants either turn down the invitation to a graduate assessment day, or drop out beforehand, leading them to consider whether this is the best way of delivering a diverse workforce.
- Reciprocal mentoring, or the pairing of senior executives with either people younger than them, of a different gender or race for example, in order to give them a new perspective and deeper understanding of the challenges faced by these groups. This also helps build their networks and profiles with senior managers, increasing their access to promotion opportunities.

- Ensuring that company websites are accessible for visually impaired people seeking employment and that other facilities are offered to ensure that people from a range of backgrounds and with a variety of different needs are accommodated and supported in a way that enables them to carry out their jobs with a minimum of difficulty.
- Ensuring that the CEO and Board are responsible for the diversity and inclusion strategy, in order to give it a level of status within the business that shows how important it is. Similarly, encouraging senior managers (not just the HR Director) to “own” diversity, speaking about it publicly and rewarding behaviours which reflect the diversity and inclusion ethos.
- Promoting role models from a diverse range of backgrounds within the business in order to inspire people to apply to work there, and to embed culture change internally.
- Offering people from diverse backgrounds in middle management personal coaching, mentoring and structured, supported career development plans to increase the talent pool available to promote into senior roles.

In order to maintain diversity, it is essential to be authentically inclusive. Recruitment is of course only part of the equation: companies must also do better at retaining employees from diverse backgrounds. There must not be an assumption that the battle is won once someone is recruited. This, more than the recruitment stage, requires a focus on real cultural change in an organisation that may traditionally have been dominated by a workforce from a single background. It requires ongoing dialogue with employees and structured career development and learning to ensure that talented people are not tempted to explore alternative job opportunities.



“We are in the fifth year of a comprehensive five-year strategy. We’ve seen a modest increase in the number of women in the company - 3% - which we’re pleased with. But it is sobering in terms of how long it’s going to take to change things. It has made us look even more closely at everything for the next phase to see what it will take to make a real step change.”

The Government's role in driving and supporting change

Although businesses must of course take the lead in addressing their own cultural issues and in ensuring that their workplaces are welcoming to people from all backgrounds, they are unlikely to succeed in driving change at the pace that is required if they go it alone. For many industries, the issues they face in increasing diversity are closely linked with broader problems, for example, the difficulties in encouraging enough young women to study STEM subjects and then those that do, to stay in STEM careers, impacts the available talent pool for engineering roles.

Government has the power to act as a catalyst for change. Our members articulated three key roles the Government has in helping to increase the pace at which established industries become more diverse and inclusive:

- Regulating to drive change;
- Via its Departments and agencies in the procurement of large projects such as HS2;
- Careers advice and the education system.

“Gender pay reporting is going to be a box-ticking exercise for a lot of companies, but over time these things get people talking and it bit by bit begins to have an impact. It becomes part of the consciousness year-on-year. To that extent it will make a difference and is a positive thing.”

1. Regulating to drive change

The Government has a key role in using regulation effectively to speed up the pace of change. There is an existing legislation aimed at preventing discrimination and improving age, disability, race, religion, gender and sexual orientation among others, not least the hugely important Equality Act 2010.

Conversely, removing regulation can also have a significant impact, for example, the scrapping of the default retirement age in 2011 has resulted in around 9% of those over 70 continuing to work². This allows companies to take advantage of their knowledge and experience to plug skills gaps and mentor and train younger recruits although it may of course also have the impact of reducing staff.

Other recent legislative changes, such as requirements to offer shared parental leave and reporting on the gender pay gap will also, our members believe, help bring about incremental change although it is through setting objectives to narrow the gender pay gap that change will be delivered, rather than in the reporting itself. This is why our members recommend that companies reporting their gender pay gap should simultaneously develop action plans to address those gaps. However they do not consider that this should be mandatory as ensuring compliance would be too subjective, too onerous and require a level of understanding of the sector and company that would be unlikely to be achievable in a regulator.

Although employers are not generally in favour of additional regulation, in this area, there is broad support for the right regulation. Many of our members acknowledge that improving diversity should be about culture change rather than compliance with regulation. However, many of them feel that legislation has the power to help drive change more quickly, while still ensuring a level playing field. It must be achievable however, and it must not be overly onerous.

Even where new laws are brought in, it takes time for them to become part of the culture and to begin to make a difference. For example, shared parental leave, introduced by the Government in 2015, aimed at increasing flexibility in the workplace and equality between parents, has only been taken up by around 2% of couples who could have benefitted from it³. Legislation is therefore only the first, albeit important step. Companies need to embrace the spirit of the law in order to take advantage of its potential to drive change. In this case, of some of our members are beginning to incentivise more men to take up parental leave options in order to act as a catalyst for change.

² Department for Work and Pensions, October 2017

³ Department for Business, Energy and Industrial Strategy, 2018

“We aren’t generally big fans of more legislation, but it is a bit of a no-brainer in terms of diversity when you think that one of the challenges with gender balance for example is having children. Making companies provide better maternity provision and protecting jobs has changed things. The move towards shared parental leave is also really positive. Although it’s a bit of a slow burner, over time it will be quite advantageous, like access to flexible working for everyone. So we’re in favour of legislative shifts which give more equality. The culture needs to be broken down and legislation is the only way.”

Our members believe that the next regulatory step is likely to be a requirement that companies publish their ethnicity data by salary band in a similar way, as recommended in *Race in the Workplace*⁴, which was published as part of the McGregor Smith Review. Such a development, which in principle is supported by our members, would pose more difficulty than the collection of data relating to the gender pay gap, as not all companies have data on the ethnic backgrounds of their workforce. Furthermore, many people do not accurately declare their ethnicity, or whether they have a disability. Getting to the point where they have that data would, in those cases, be a significant undertaking.

Indeed, the whole issue of reporting on ethnicity and indeed on other areas such as disability, sexuality and socio-economic background, is complex as self-declaration, teamed with perceived or real advantages or disadvantages associated with being of a certain background can unhelpfully skew the data. We are not suggesting that the self-declaration element be removed, but are sounding a note of caution about the accuracy of the data in such a situation. Those who may face the biggest disadvantage due to their background or orientation could fear that they stand to lose the most by being forced to declare it and may therefore be reluctant to do so.

Furthermore, given that the Office for National Statistics (ONS) groups individuals into 19 ethnic groups, the number of calculations involved in ethnicity pay reporting would be significantly more complicated than for Gender Pay Reporting, which is based on the reporting of the difference between only two variable figures. The resulting data would consequently be less useful in terms of shining a light on the issue, which is where Gender Pay Reporting has added such value.

Even breaking the declarations down only into the five “main ethnic groups” the ONS identifies: white, Asian, black, mixed and “other”, would produce too much data to make meaningful comparisons, while at the same time removing other important factors, such as nationality, which can have a significant impact on how people are viewed, treated and rewarded in the workplace and in how they view themselves and wish to self-declare. Pay reporting may therefore not be the best solution for driving change in all circumstances.

“Gender pay reporting has generated a good and healthy debate in our sector about why it is what it is and what we need to do to change it. The transparency and benchmarking are really important. Race equality is next.”

⁴ Mitie Ruby McGregor Smith, February 2017



2. Procurement of large projects

The Government has recognised that it wields real power to use the public purse as a lever to deliver social objectives including improving the diversity of the workforce in sectors delivering public contracts. However there is more that can be done in this area to make that change happen and to make it happen more quickly. For example, while many public bodies stress the importance of their suppliers becoming more diverse and inclusive, this is often not rewarded in a meaningful way via the tender process – nor are those companies that do not demonstrate how they support these objectives less successful in winning work.

Where diversity and other societal objectives are required as part of a bid, commissioning authorities are often not clear whether or how delivery of the commitments made as part of the tendering process will be monitored, or whether there will be a penalty for failing to meet them.

Procurement very often, in our members' experience, continues to reward lowest price bidders, in spite of the Public Services (Social Value) Act (2012), which encourages commissioning authorities to take the delivery of broader objectives into account.

To support and encourage companies which are making significant efforts to improve diversity and inclusion, to use a diverse range of suppliers and to demand the same of their own supply chains, commissioning authorities must be more overt in including these requirements in the tendering criteria and more transparent about the weight they carry.

HS2 Ltd for example, has calculated that the difference between winning a contract and coming second place is around 3% of the total score⁵. They have been clear with those bidding to deliver work for them that diversity is a priority and that it is scored at 3%. This kind of bold action, teamed with transparency, is an effective way to drive change.

“We should use the procurement processes much more deliberately and actively require diversity improvements. Where we did that, our supply chain took it really seriously. But you have one chance to get that right. You have to build it in, monitor it, feedback. And you have to be transparent and give suppliers the confidence that you are serious.”

⁵ HS2 Overview: Inclusive Procurement, Mark Lomas, Head of Equality Diversity & Inclusion, PowerPoint presentation

“Some of our customers have started making noises about how important diversity is to them. That has made our senior team sit up and start thinking about how to make sure that what they are doing is not biased, how they can make sure their adverts are gender neutral, whether the website is accessible to disabled users – previously they would just have let HR get on with it, but now people are really engaging with it.”

“We have embedded diversity as part of our culture – it costs us money to do that in terms of staff, resource and so on. Our competitors haven’t, but they’re still on the same projects as we are. We have seen other rewards – we are growing with our clients. We’re being brought to the next project and the one after that. But we do need to see that everyone does it and clients need to set targets around which companies are delivering and leaving a legacy.”





3. Careers advice and the education system

One of the points The 5% Club's members raise most frequently is careers advice in schools and the important role of the education system in ensuring the talented, skilled workforce employers need to drive economic growth.

“There are a lot of businesses, charities and other organisations doing similar things in the same space, diluting the overall impact and we don't know whether any of them are making a difference. If there was a more coordinated approach, that would be better. We need someone to take a lead.”

As exemplars of employers who are committed to investing in skills and training, the majority of our members develop partnerships with local schools and other education and outreach providers to inform and inspire the next generation about the various exciting career options. However, many of our members expressed concern over the lack of coordination in relation to such outreach activity, and the lack of knowledge many teachers have – through no fault of their own – of the different options. In some cases, in areas which have a large number of businesses, schools complain of “outreach fatigue” and our members may find it difficult to build relationships with these schools in order to showcase the careers on offer in a particular industry. In other areas, often those with a socio-economic make up which might benefit from such outreach, there can be very little of it. This uneven coverage is felt by our members to be unhelpful.

The UK Department for Education Careers Strategy aims that by 2020 every student in years 7-13 will have seven employer interactions. There is clear evidence that this will have a positive impact on their future employability. We also believe all students would benefit from much more systematic exposure to the range of possible careers available and to bust myths about who can do these careers. This should happen as early as possible and on an ongoing basis – children's career aspirations, often based on ingrained stereotypes and understandings of their opportunities relating to their socio-economic background, gender and disability for example, can be ingrained by the age of 7⁶.

We welcome the trials of careers activities in primary schools announced by the Government in December 2017 as part of the Careers Strategy as a way of raising aspirations and informing children about the range of careers on offer. We encourage the Government to roll this out more widely as soon as possible, in a structured way backed up by adequate funding. This is a hugely important area and should be given the focus it deserves.

“It's going to take time to make this industry more diverse. We need companies to go in and talk to school kids and open their eyes to what they could achieve here. But everyone needs to do it. We don't want to do too much if other companies aren't doing it because we'll be getting them interested in the sector only for them to go and work for a competitor. We don't mind a bit of that happening, but if everyone was doing outreach we'd be happier to do more.”

⁶ Drawing the Future, a survey of 20,000 primary school children, Education and Employers, 2018

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Conclusion

For many employers, operating in a range of different industries, there are no quick fixes for creating a more diverse, representative talent pipeline. It will take time. But given the skills gaps which exist across the economy, and with uncertainty around the labour market impacts of key changes such as Brexit and immigration policy, it is time that we do not have.

Businesses acknowledge that they must do more to ensure that they have robust strategies in place to make their own workforces more diverse. They must collect better data, think outside the box in how they recruit their employees, and ensure that their workplaces and business cultures are inclusive and welcoming to people from a range of different backgrounds. But there must also be greater coordination across sectors, to drive change more quickly. Finally, the Government must also play its part, using the levers it has available to it.

We must do better at pulling together to tackle this issue in a more strategic, coordinated way in order to deliver the step change needed.





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