

Change the Race Ratio - Executive Sponsor Forum

Time to shift the dial

The CBI's Change the Race Ratio (CtRR) has the bold ambition to accelerate racial diversity in business, starting by setting targets for greater racial and ethnic diversity at the Board, ExCo and ExCo minus one levels. This is not just a moral imperative; it is a profound commercial necessity as UK businesses grow into Global Britain and as we recover from COVID-19.

Without doubt, significant progress has been made in recent times. The murder of George Floyd in the US almost exactly a year ago - along with the deaths of several others - and the momentum and powerful profile of the Black Lives Matter movement that sprung up around it have galvanised a determination for societal change. Many businesses have made commitments to drive up their levels of racial diversity - some of them through the CtRR campaign - and, as the most recent update from the Parker Review shows, the representation of ethnic minority individuals on FTSE boards is rising.

However, the latest Parker Review analysis also shows that there are no people of black heritage currently in key board positions in the FTSE 100 - progress is too slow and is not happening broadly enough. How do we address this? At a recent event, hosted jointly by CtRR and KPMG, we brought together an audience of CEOs and senior executives to discuss how the momentum can be driven even harder in the quest for fairness, opportunity and equality for all.

Delegates heard updates from leading figures including event chair Richard Iferenta, Vice Chair and Partner at KPMG UK and Campaign Ambassador CtRR; Lord Bilimoria, President of the CBI and Campaign Chair CtRR; Bina Mehta, Chair at KPMG UK and Campaign Ambassador CtRR; and David Tyler, Co-Chair of the Parker Review and Campaign Ambassador CtRR.

Delegates also discussed three important areas in separate groups, reconvening to share key learnings and takeaways:



Ethnicity Pay Gap reporting

calculating it, publishing it, challenges and insights



Driving Targets

making them 'clear and stretching', building buy-in, accountability



Societal impact

CEOs driving wider impact in communities and taking bold action

As Richard Iferenta observed: 'The time is right for change. But for businesses, this is not just the right thing to do - it's profitable too. Study after study has shown that greater diversity on boards and down through the layers of a business improves productivity. Meanwhile, our talent pools are telling us that this is what they want. Regulators are also responding, such as the FCA increasing its focus on the issue in the financial services sector. Collectively, we need to deliver. This means CEOs taking responsibility to be the catalysts of change within their organisations.'



Lord Karan Bilimoria

President,
CBI and Chair,
Change the Race Ratio

A global and economic perspective

Lord Bilimoria opened the session by graphically underlining the impact of racial and social inequalities on a global scale. At the recent B7 CEO summit that the CBI chaired – which feeds into the G7 summit – it was observed that we will see a twin track recovery from Covid-19 because of global imbalances. Africa, which accounts for 17% of the world’s population, has just 0.15% of the world’s vaccine manufacturing capability. In some countries, not a single citizen has yet been vaccinated and governments have been able to provide little or no support to businesses or communities. The contrast with developed nations like the UK is stark, where the government has put around £400bn of support into the economy and bought some 400m vaccine doses.

Economically, greater diversity and inclusion has the potential to be a significant driver of growth. The CBI’s recently published strategy for the UK economy – Seize the moment – forecast that £700bn could be added to GDP over the next decade, with the unlocking of a more diverse talent base key to enabling it.

'More diverse workforces are more productive, creative and innovative,' Lord Bilimoria said. 'I saw it myself when we built Cobra Beer from scratch. There’s an incredible buzz to diverse environments. It works.'

Lord Bilimoria reflected that there is much further to go. 'We need to increase participation across business and meet the Parker Review targets. We need reporting and transparency. It shocks me that an ethnic pay gap exists, and in a big way: it can be 20% or more. I believe there should be compulsory ethnic pay gap reporting in the same way as for gender.'

'All of these factors just underline the importance of the CtRR campaign. We want to make it a global initiative, created in the UK.'





Bina Mehta

Chair,
KPMG in the UK

3 key steps to greater ethnic representation

Recently appointed Chair of KPMG UK, Bina Mehta is proud to lead a diverse board: 50% of the board are women, and 30% are from an ethnic minority background. 'We see the benefit of this every day,' she said. Bina believes that, both within the firm and amongst clients, there is now a heightened awareness of racial equality and more engagement to drive change than ever before.

She highlighted three areas that she believes have been key to KPMG's progress – whilst recognising that the job is far from done.

01

Have and hold yourself to targets – targets are embedded in the senior team's goals. They present challenges and can be hard but it's essential to have them to make change happen. Bina said it is critical to understand and capture not just the statistics but the 'lived experience' of ethnic minority staff through the organisation.

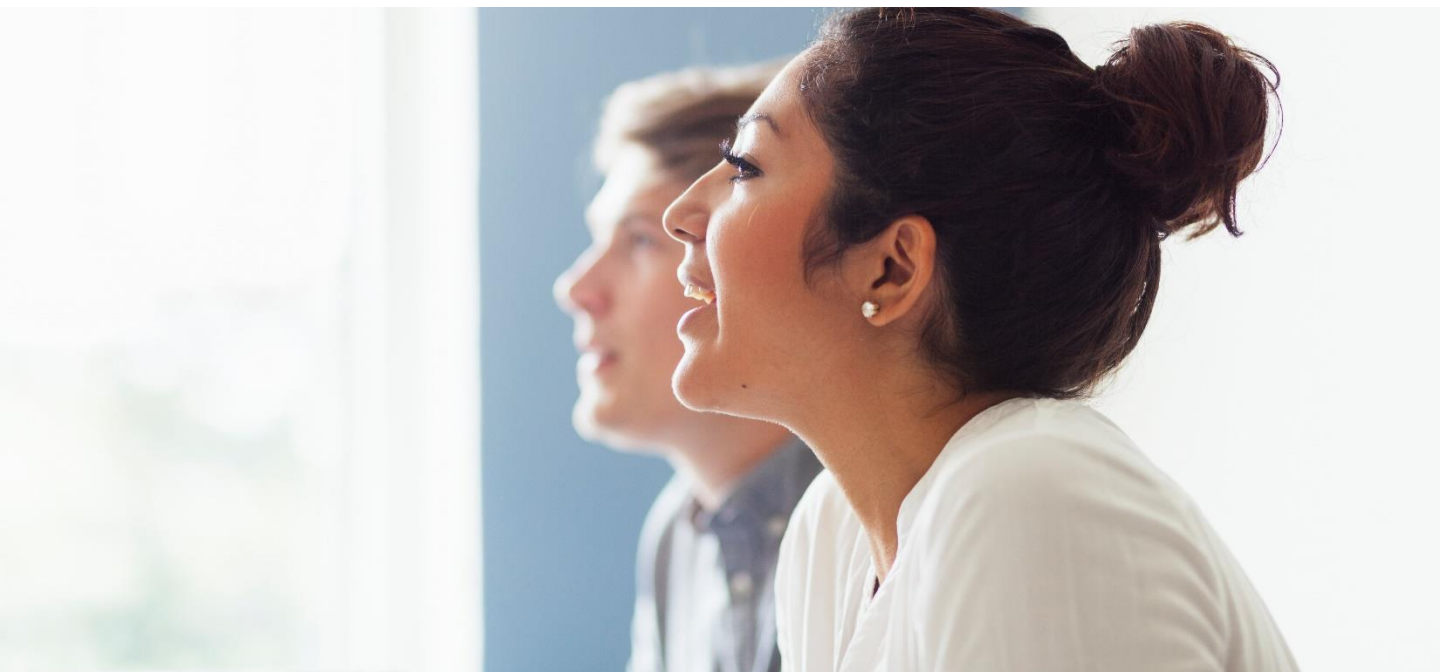
02

Don't treat ethnic minorities as a homogenous group – the experience and progression of different groups is varied, not uniform. You need to get specific insights so that you can take targeted action where it is needed most.

03

Get an external perspective too – Bina highlighted that KPMG has an Inclusive Leadership Board, on which prominent external figures such as John Amaechi and Tanni Grey-Thompson have sat. They provide challenge and an objective outside view.

'In my conversations with leaders and chairs, it's clear that everyone has the commitment,' Bina concluded. 'But the question I get asked most often is, how do we actually make it happen? We need to keep sharing best practice and insights to create a legacy where everyone can flourish.'





David Tyler

Co-Chair of the Parker Review & Chair at The White Company and Domestic & General

Change is accelerating but there's no room for complacency

The Parker Review was established in 2015 with the aim of encouraging greater ethnic diversity on boards and published its first report back in 2017. At that time, it found that only 47 of the FTSE 100 had a single ethnic minority director on any of its boards. It established the aim that every business in the FTSE 100 should have at least one director with an ethnic minority background by December 2021, with a slightly longer timeframe (December 2024) for the FTSE 250.

Progress was disappointing initially – the number only edged up to 52 in the FTSE 100 as at February 2020 – but, encouragingly, has now speeded up. According to its March 2021 update, 81 businesses now meet the threshold.

However, as David Tyler outlined, this relative progress masks some concerning disparities. When looking at the key positions of CEO, CFO and Chair in the FTSE 100, only 11 are held by ethnic minorities (5 CEOs, 4 CFOs, 2 Chairs). None of these individuals are of black heritage.

'What we see is that the great majority of ethnic representation on boards is in a NED capacity,' David said. 'We need to achieve more. It's great to have role models on FTSE boards now but the key work must be in developing a pipeline through organisations to establish a real change in culture. Boards must be the champions of this.'










Richard Iferenta

Tax Partner and Vice
Chair, KPMG UK

How can we actually shift the dial?

Richard Iferenta had a very clear message for CEOs: 'You have the power to drive the change. No one else is going to do it. If the CEO, the Board and ExCo are aligned in their commitment, that's when change will happen. They should create a waterfall effect down through the organisation. And make no mistake about it, change must be bold and ambitious. Otherwise, there's a real danger that over time we will slip backwards again.'

In his assessment of how to make this change a reality, Richard identified a number of critical factors:

-  **CEO sponsorship** – a commitment from the top is key to driving change but it also has to be very personal. Leaders need to get out of the 'ivory tower' and see for themselves what things are really like on the ground. Richard recommended personally sponsoring an individual of talent on a leadership development programme. 'That will send a really powerful message around the organisation.'
-  **Networking** – the fact is that many CEOs don't mix with people from ethnic minority backgrounds in their social circles. Leaders should look to broaden their networking opportunities.
-  **Recruiters and headhunters** – too often, ethnic minority professionals just aren't approached about senior opportunities and board positions. 'Be clear and lay down challenging targets to your recruiters. Measure and monitor it regularly. Introduce a ratcheting scheme to the fees payable to incentivise better results.'
-  **Allyship** – it is crucial to have a wide network of allies throughout the firm who support others, stand up and speak out when things aren't right. For example, allies should speak up where ethnic minorities are being left behind or not championed during promotion panels – it is all about having a fair and equitable process. KPMG has developed an allyship toolkit with the Business in the Community (BiTC) which they have used to drive change. All black heritage employees are entitled to have an ally at partner or director level who has the responsibility to coach, mentor or sponsor them as appropriate.
-  **Data** – you've got to have the right data to understand the status quo and to develop an appropriate strategy for change. Data needs to be granular – by grade, by different ethnic heritages. Once you have strong data, you can set much more effective targets.

As an example of the impact of target setting, Richard gave a powerful illustration of this at KPMG. 'As part of our Black Lives Action Plan, we set ourselves the target of doubling our black heritage partners and directors within a two year timeframe. We're already 60-70% of the way there just one year on. That's no coincidence.'

Richard also underlined that all forms of diversity must be encouraged. 'Whether it's race, religion, gender or any other factor, we need a holistic approach and a fair and equal environment if the full potential of our talent, and indeed our businesses, is to be unleashed. Our people are asking for it, as are our clients, investors and stakeholders. As leaders, we should identify where there is injustice in our business and take action to remedy it.'

Breakout Sessions – A focus on...

Ethnicity Pay Gap (EPG)

Of the five organisations represented in this session, four had calculated their EPG (and also their Disability Pay Gap). Only one business has published it however. All of the organisations recognise the importance of establishing the nature of the pay gap so as to take measures to address it, but a number of common issues present challenges.

One of these is disclosure. All of the senior leaders in the session cited that while self-reporting of ethnicity is generally good (around 85% in some cases), it nevertheless leaves a significant minority who do not disclose. This is generally not because individuals don't want to but because they simply don't get round to it. Definitions of ethnicity can be a challenge too, as they vary on an international basis. Finding the right categories when asking the questions can therefore be an issue, one delegate said.

With people moving around the organisation, and new joiners every year, there can also be volatility in the size of the EPG. One delegate observed that 'you can be punished for doing the right thing' given that their focus in addressing diversity is to get a wider ethnic talent pool into the business at entry level. As their pay is lower, this skews the EPG – something that will take time to work out as individuals move up through the business over time.

Having the systems to obtain reliable data is another hurdle. For businesses with an international footprint but no common HR system across the organisation – perhaps because they are a portfolio company with different entities within the group for example – this can be a particular issue. As one delegate observed, 'even getting the data is a herculean effort.' Many of these businesses are still at the gender pay gap data stage, and haven't been able to tackle the EPG yet.

Additionally, there needs to be a recognition that some sectors are historically less diverse than others and it will take time and concerted outreach to address this. Certain parts of the UK are less diverse than others too so this can affect an organisation's EPG if they have a heavy presence in a low diversity area, meaning relatively few ethnic minority staff who may tend to be on lower pay.

Despite the challenges, as one delegate said: 'Sunlight is the best disinfectant.' It is not easy to quantify your EPG but it's a vital piece in the journey towards greater diversity and equity. Having your EPG enables you to set targets and mobilise change.



Breakout Sessions – A focus on...

Driving Targets

Clearly, targets are essential in focusing efforts and providing a clear destination in the journey. Encouragingly, every senior leader in this session said that their organisation's ethnicity targets are owned by the CEO.

In many cases, these targets are stretching too. One delegate said there was a target for 15% of partners to be from ethnically diverse backgrounds by 2025, which is roughly in line with Census demographic information. However, there was also recognition that this is a 'moving target' – new Census information will be published shortly – while for others it is challenging to set global targets given that it is not possible to track data everywhere due to legal constraints in some countries.

There was recognition too that regional variations have to be taken into account. There is much greater diversity in London, for example, so targets should reflect that. Targets also need to be bold. 'If we accept that low level change is enough, it won't be sufficient in the long term,' one delegate observed.

While progress at the top levels of Board, ExCo and ExCo minus one is critically important, it was also perceived that graduate level is crucial too. 'If we get the entry level right, we can create powerful career paths,' one leader said. It then becomes a case of effective talent management in the middle layers.

As in the EPG session, another important factor is obtaining the right data. This is partly about persistence – going back year after year and asking staff to self-disclose – and also about 'building trust and showing that we are using the data for the right reasons.' As another delegate put it, it's about 'following through with purpose' and 'telling the story as to why this will help.'

Other key factors in speeding momentum towards targets were seen to be sponsorship, coaching, mentoring, reverse mentoring, work allocation that drives career development, impact days and events to send powerful messages about diversity and inclusion, and tackling instances of micro-aggression in a culture of zero tolerance.



Breakout Sessions – A focus on...

How can CEOs impact society more widely?

As leaders, CEOs can be highly impactful torch-bearers for driving greater ethnic minority representation and stronger levels of diversity in general - a core message that came through strongly in this session.

As one delegate outlined, an essential role of the CEO is to model and communicate firmly and clearly that driving racial and minority ethnic inclusion in leadership teams and the business is not just a moral duty but is strongly linked to the realisation of purpose and execution of strategy in supporting commercial success.

In modelling this, CEOs need to communicate inclusively, to very strongly state that ethnic diversity is not a “zero-sum” game, that by giving priority in the right way to under-represented employee groups at this point in time is to the benefit of all – within the companies they lead and in UK society more widely. It is essential that CEOs lead boldly on this to prevent a backlash in response to the initiatives being taken, which may also trigger “what about me” responses.

Others noted that the powerful upswell of the Black Lives Matter movement had created a new and additional momentum that they had harnessed. One leader, of a housing association group, said it had prompted discussions across their network, involving meetings with both groups of staff and the association’s residents.

Another delegate from the asset management sector spoke of the commitment to creating positive external impacts by improving the ESG screening of companies particularly through an ethnic diversity lens. As diverse businesses tend to be more profitable and productive, there is a clear incentive for asset managers to engage with company boards to change their ratios.

One theme that came out clearly from several leaders is the need to sponsor schemes that give ethnic minority talent greater exposure to the top levels. One CEO has created a 'rotating non exec position' for a junior staff member – often someone of colour – to sit in on the board. Another has created a 'Board observer' role in a similar mold.

At the housing association, a new initiative, 'Black on Board', enables colleagues from black heritage backgrounds to shadow board members and develop their own skillsets and experience – with the aim, in time, of getting them to board positions.

There was agreement that CEOs need to use both their 'hard' and 'soft' power to effect change. Hard power might include setting very purposeful targets for recruiters and headhunters. Soft power is making diversity 'part of the DNA' of the organisation, leading by example and 'normalising diversity.' For example, one leader explained how there is no separate 'diversity committee' in their organisation – it's a board agenda item that is always discussed, with regular input from LGBTQ+ and ethnic minority staff.

Overall, there was a strong sense that ethnic diversity has risen decisively up the agenda. In the past, gender diversity perhaps dominated, but now racial diversity is coming into powerful focus too. CEOs are actively looking for ways to build pipelines and create impacts that reflect the communities their businesses serve, and this means setting targets for senior leadership teams to improve racial and ethnic minority representation. This also means raised expectations of leaders themselves. They may feel the pressure of becoming more personally accountable - it's important that they receive the right support and training to equip them too.



Call To Action

A wide-ranging and thought-provoking session concluded with Richard Iferenta stressing the need for tangible actions to keep the agenda moving. It is not enough to talk about diversity – it has to be translated into concrete actions to bring about real change.

Some of the clear messages to come out of the session included:

01

CEOs need to take personal ownership of the race ratio agenda

02

Create clear targets against which to benchmark progress

03

Ensure you have the granular data needed to give you the real picture

04

Calculate your EPG; work towards obtaining the data if you don't have it now

05

Think about recruitment targets for headhunters; mentoring and reverse mentoring programmes; board shadowing for emerging ethnic talent; allyship and network support; creating pathways for progression at every level of the business

06

Lead by example – normalise and champion diversity in all its forms

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