



The Future of Business: harnessing diverse talent for success

Recommendations to government

October 2022

Foreword



Jonathan Geldart
Director General, IoD

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In the face of economic uncertainty, there is a risk of the task of fostering inclusive workplaces taking a back seat, and the progress of recent years being eroded.

Yet harnessing the full potential of the UK's diverse workforce has never been more important for the country's economic success. Inclusive organisations are more effective and creative and, as a result, more likely to be successful and resilient in difficult economic times.

Business simply cannot afford to miss out on talent, which is why the IoD launched this Commission to better understand current good practices and help develop best practice in embedding equity, diversity, and inclusion (ED&I) in organisations.

Through extensive research and engagement with business leaders and workplace equity, diversity, and inclusion experts across the UK, we have developed recommendations for government as to how they can support businesses to build working environments in which all talent can thrive and contribute to business success.

We are incredibly grateful to Lord Shinkwin for his expert chairing of this review and to all the Commissioners for their outstanding insights, which we hope that we have fully encapsulated in this report.



Lord Shinkwin
Commission Chair

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It has been an honour and a real pleasure to chair this Commission. I am extremely grateful to the stellar cast of my fellow Commissioners for being so generous with their time, despite their demanding diaries, and to the IoD for treating the issue of ED&I with the seriousness it deserves.

I would particularly like to thank Commission Chief of Staff, George Relph, and IoD Senior Policy Advisor, Alex Hall-Chen, without whose intellect and formidable work ethic this White Paper would not have been possible.

When I accepted the invitation to be Chair, I was convinced that business is a force for good; the work of the Commission leaves me even firmer in that belief. It also fills me with hope. I am excited by businesses' increasing appetite to harness diverse talent in the knowledge that their future success depends on it. Politicians of all parties should take note. Whatever the rhetoric, the reality is clear: dismissing ED&I as somehow part of the woke agenda is to turn your face against equality of opportunity. Businesses know that that is bad for business. The recommendations in this White Paper have been developed for business by business. They deserve to be supported.

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About the Commission

In March 2022, the IoD launched a Commission, ‘The Future of Business: harnessing diverse talent for success’, to examine the key barriers to the recruitment, retention, and progression of individuals from underrepresented groups, with specific reference to disability, ethnicity, gender, and sexual orientation¹.

The Commission has been chaired by Lord Shinkwin, who has made equality of opportunity his key focus since entering the House of Lords in 2015 and has lived experience of severe disability, and has been guided by a panel of eleven senior business leaders and experts in the field of ED&I. It has worked to identify and promote business best practice in overcoming these barriers and in creating working environments in which all talent can thrive and contribute to business bottom-line and growth.

The Commissioners would like to express their sincere thanks to Alexandra Hall-Chen, Senior Policy Adviser at the IoD, who authored this report on their behalf.

Commissioners

Dr Roger Barker

Director of Policy and Corporate Governance, IoD

I. Stephanie Boyce

Immediate Past President, the Law Society of England and Wales

Virginia Clegg

Senior Partner, DAC Beachcroft

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Chief Economist, UBS Global Wealth Management

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Former Global Managing Partner, Clifford Chance

Helena, Baroness Morrissey DBE

Chair, The Diversity Project

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¹ The Commission opted, for reasons of capacity and scope, to focus on four protected characteristic groups. If useful to our members, we envisage building on the Commission's work by extending the scope of the protected characteristics examined, particularly in researching the intersectionality between these characteristics and socioeconomic status.



Summary of recommendations

The Commission's research focussed on five cross-cutting themes: data, recruitment, progression, workplace culture, and senior leadership.

Data

1. Introduce mandatory ethnicity pay gap reporting for employers with 250 or more staff by the end of this Parliament.
2. Introduce mandatory disability workforce reporting for employers with 250 or more staff by the end of this Parliament.
3. Undertake research on the barriers to employers reporting on sexual orientation data and publish guidance to help employers to report on a voluntary basis.
4. Encourage employers to publish — either as part of their accounts or on their website — details of their inclusion strategy with specific requirements and objectives, along with an annual report on progress.
5. Support the development and promotion of best practice to establish a culture that promotes increased levels of voluntary self-identification by employees and the development of best practice in the analysis and reporting of data to promote greater inclusion.
6. Support small and medium-sized enterprises (SMEs) on the best use of data to inform ED&I strategies, for example through the provision of guidance and training on the most useful types of data to collect, methods of data collection, best practice in engaging with employees to encourage self-identification, and translating data into action plans.
7. Encourage regulators and relevant sector bodies to develop industry benchmarking schemes for larger employers to establish best practice for data analysis and to drive industry-wide engagement.

Recruitment

1. Monitor the use of Artificial Intelligence (AI) in recruitment in the UK. If the Information Commissioner's Office's (ICO) investigation into the use of AI in recruitment finds evidence that its use is entrenching inequalities in the workplace, require companies to produce their own statement of AI governance.
2. Provide up-to-date guidance for business – tailored to businesses of different sizes and including how to implement fair AI systems for recruitment – on inclusive recruitment, using the insights presented in this Commission's white paper for businesses as a starting point.
3. Strengthen the Disability Confident Scheme by requiring members to report on workforce and pay gaps and on the steps they are taking to close the gaps, and requiring members at Disability Confident Levels 2 and 3 to meet minimum thresholds regarding the percentage of disabled people in their workforce.

Progression

1. Work with the IoD and other business representative organisations to develop best practice and the production of high-quality guidance on making access to progress equitable, tailored to businesses of different sizes.
2. Extend the Financial Conduct Authority's requirements for listed companies to report information and disclose against targets on the representation of women and ethnic minorities on their boards and executive management to large non-listed companies.
3. Introduce a public reporting process and targets on the representation of LGBTQ+ and disabled individuals on the boards of FTSE 350 companies, following the success of the Hampton Alexander and Parker reviews.

Workplace culture

1. Make the right to request flexible working a day one employment right.
2. Support the use of flexible working to create more equitable, inclusive, and productive workplaces.
3. Capture data on the economic value of flexible working, develop clear guidelines on how employers can measure the impact of flexible working, and prioritise the infrastructure — such as high-speed broadband — needed to facilitate it.
4. Reflecting the importance of language, review government publications, documentation, and web content to ensure it uses gender neutral language, including replacing the use of the word 'Chairman' with 'Chair' in the model articles of association provided by Companies House.

Senior leadership and accountability

1. Develop best practice on mentoring and reverse mentoring schemes, including cross-organisational schemes for SMEs.
2. Make equity of opportunity in the workplace a key policy priority. As part of this, add equity of opportunity in the workplace as a specific responsibility within an existing Ministerial portfolio in BEIS, with a requirement to report annually to Parliament on progress against KPIs.
3. Ensure that all future government economic and industrial strategies include consideration of the importance of fostering a diverse and fair economy with an effective workforce fit for the future, to drive future economic success. Such strategies should recognise the intersection of ED&I with other aspects of the changing economy, such as the ageing population and the influence of automation on workforce skills requirements.

Introduction

In the post-pandemic period, the UK's workforce is undergoing unprecedented change. The pace and scale of this change calls for leadership and collaboration from business and government if we are to seize the opportunity to ensure that diverse talent is effectively harnessed to meet the UK's skills needs and secure economic growth.

Diversity is good for business, and the business case for harnessing diverse talent has never been stronger; research has found that organisations in the top quartile for ethnic and cultural diversity were 36% more profitable than those in the bottom quartile². Diverse talent adds value and helps to give business the competitive edge in recruitment, retention, employee satisfaction, strategic decision making, productivity, and the customer/client/stakeholder interfaces. In a survey of IoD members in 2019, two thirds (64%) agreed that a diverse board is a strong driver of an effective business (as opposed to 11% who disagreed). Our members cited the benefits of diverse business leadership as cultural transformation in the company (60%), reduced groupthink (60%), and improved ability to innovate (58%). A lack of progress on ED&I is also increasingly a reputational risk for employers.

In recent years, business has made strides in developing inclusive and equitable workplaces, and our research shows that most business leaders want to see government stepping up to support this work; in a survey of IoD members in July 2022, over half of business leaders stated that the next Prime Minister should make equity of opportunity in the workplace a policy priority (Annexe: Figure 1).

This paper represents the culmination of evidence collected as part of the IoD's The future of inclusive business: harnessing diverse talent for success Commission, which was established in March 2022 to examine the key barriers to the recruitment, retention, and progression of individuals from underrepresented groups, with specific reference to disability, ethnicity, gender,

and sexual orientation. Data collection included a Call for Evidence, surveys of IoD members (full results available in the Annexe), focus groups of IoD members, 30 interviews with senior business leaders and experts in the field of ED&I in business, and five meetings of a group of eleven senior business leaders advising the Commission.

This paper presents insights and recommendations for government across five key themes: data, recruitment, progression, workplace culture, and senior leadership. It should be read alongside a parallel paper — The future of inclusive business: harnessing diverse talent for success. Practical guidance for employers — that provides recommendations as to how employers can create equitable, diverse, and inclusive workplaces.

64%

of IoD members agreed that a diverse board is a strong driver of an effective business.

² Hunt, V., Yee, L., Prince, S., and Dixon-Fyle, S. (2018). Delivering Through Diversity. McKinsey and Company.



Data

The state of play

The importance of data for setting targets and monitoring progress against business goals is widely accepted across industry, but this view – that ‘what gets measured gets done’ – is not always applied to ED&I.

Gender pay gap reporting has been mandatory for UK businesses with more than 250 employees since 2017. Research which analysed changes in the gender pay gap between organisations that were just below and just above the 250-employee cut-off point for reporting found that employers affected by the legislation have narrowed the wage gap between women and men by almost one fifth (19%) on average³. Furthermore, in April 2022 the Financial Conduct Authority finalised rules requiring listed companies to disclose against targets on the representation of women and ethnic minorities on their boards and executive management teams⁴.

The UK government consulted on ethnicity pay gap reporting in 2018 but has yet to formally respond to the submission, and in early 2022 the House of Commons Women and Equalities Committee called on the government to introduce mandatory ethnicity pay gap reporting for large companies⁵. In March 2022, the government confirmed – via its response to the report of the Commission on Race and Ethnic Disparities – that it has no immediate plans to legislate for the introduction of mandatory ethnicity pay gap reporting for large businesses, citing a desire “to avoid imposing new reporting burdens on businesses as they recover from the pandemic”⁶.

There has also been growth in recent years in the number of employers voluntarily capturing ethnicity pay gap ratio data, from 11% in 2018 to 19% in 2021⁷. However, in the absence of a regulatory level playing field on which businesses can compete for diverse talent through publishing on consistent workforce data, pay gaps remain stubbornly high.

Insights from our research

A recurring theme in the interviews and focus groups conducted with IoD members was the importance of data as a starting point to taking effective action.

Respondents also emphasised the importance of transparency, specifically that employers should make anonymised data on ED&I strategies and progress available to all employees. They also highlighted the challenges that employers face in implementing data-led ED&I strategies, such as in ensuring GDPR compliance, encouraging employee disclosure, the weight of bureaucracy, and data in many cases not providing useful insight in small companies.



Nobody’s got time to waste, so having accurate data and then being able to make sound decisions on the basis of that data will help you to prioritise and make the biggest difference in the shortest period of time.”

Kerry Chown, Director, Cobalt HR and IoD Wales member

³ Blundell, J. (2021). Wage responses to gender pay gap reporting requirements. Centre for Economic Performance Discussion Paper: Number 1750

⁴ <https://www.fca.org.uk/news/press-releases/fca-finalises-proposals-boost-disclosure-diversity-listed-company-boards-executive-committees>

⁵ <https://publications.parliament.uk/pa/cm5802/cmselect/cmwomeq/998/report.html>

⁶ <https://www.gov.uk/government/publications/inclusive-britain-action-plan-government-response-to-the-commission-on-race-and-ethnic-disparities/inclusive-britain-government-response-to-the-commission-on-race-and-ethnic-disparities>

⁷ Business in the Community (2021). Race at Work 2021: McGregor-Smith Review Four Years On. London: Business in the Community, p.13.

Ethnicity pay gap reporting

A survey of IoD members in December 2021 found that, while around a third (31%) of business leaders reported that they would view ethnicity pay gap reporting for large companies as not serving a useful purpose, a significant proportion (28%) would welcome such a change (Annexe: Figure 2). Most of the remaining respondents raised concerns around employee anonymity (18%) and the burden that reporting would place on business (only 15%), rather than the principle of mandatory reporting itself.

The qualitative responses to the question included concerns that difficulties in defining ethnicity – in contrast to gender – would undermine the validity of any statistical insights, scepticism around the efficacy of pay gap reporting in effecting change in business behaviour, that data collected by employers operating in regions of the UK with relatively low levels of ethnic diversity would not be insightful, and frustration at the increasing number of reporting requirements being placed on employers. However, other responses highlighted the potential of such a policy to emulate the success of gender pay gap reporting in focusing business attention on the issue of ethnicity pay gaps.

Disability workforce reporting

A poll of IoD members in January 2022 found that, while 55% of members from large companies were most likely to agree that large employers should be required to report on the proportion of employees identifying as having disabilities, across the business population as a whole, leaders were divided on the topic: 42% of members agreed, 45% disagreed, and 13% were unsure (Annexe: Figure 3).

The qualitative responses to the question varied, but included concerns from some around the additional bureaucratic burden that such a reporting requirement would represent, a belief that such a requirement would engender a tick-box exercise rather than serve as an agent of meaningful change,

confusion around how disability could be identified in a way that produced data of a high enough quality to enable valid comparisons between companies, and a view that the role of government in this space should be to encourage and support the employment of disabled persons rather than to regulate it. However, some respondents expressed the view that such a reporting requirement could help to initiate dialogue between employees and employers about reasonable adjustments in the workplace, and that the resulting data could enable useful comparisons between companies and provide a baseline against which progress could be measured.

How can data be used to effect real and lasting change?

A recurring theme in interviews conducted as part of this Commission was that while data collection is a necessary first step to transformational change and tangible progress on ED&I, it needs to be complemented by further action.

Action plans and improvement metrics — taking into account the demographics of the region/s in which an organisation operates — are essential to ensuring impactful change. Employers are in many cases reluctant to make non-mandatory disclosures for fear of reputational damage, but when transparency is complemented by action plans, the risk to reputation is substantially reduced.

Insights from Commissioners

The power of data

Commissioners emphasised the importance of high-quality data collection in identifying trends in order to develop effective action plans to close gaps, the potential of data to aid employers in identifying workplace adjustments to remove barriers to engagement and productivity, and the importance of ED&I data being linked to organisations' wider goals and growth strategies. If done in the right way, data collection and progress engender a virtuous circle at every part

of the employee ‘life cycle’, from recruitment to progression to leadership. Many employers are already undertaking reporting beyond mandatory requirements and seeing the benefits it can have for business growth, benefits which could be extended more widely if there was a consistent mandatory framework in place.

Data collection is not an end in itself with regards to ED&I; it can only unearth the symptoms of an issue and does not in itself address the root causes of inequality. It can, however, serve as a powerful starting point for implementing and targeting policies to address inequalities, and as a benchmark for measuring progress over time.

Collecting the right data

Data collection is often exclusively focused on quantitative data but qualitative data — for example, employee engagement surveys, management reviews, and employee interviews on topics such as promotion, harassment, and bullying — is essential to identifying the nuances of workplace inequalities.

In addition to workforce representation and pay gap data, employers should collect and publish data on representation at senior levels. Employers should also collect data on a range of protected characteristics, to ensure that their ED&I strategies are holistic.

The role of mandatory reporting

A risk of mandating reporting on certain protected characteristics is that — given that employers inevitably have finite resources to allocate to ED&I initiatives — it will have a distortionary effect on the allocation of resources between protected characteristic groups in employers’ ED&I strategies.

The effectiveness of mandatory reporting is also liable to be undermined by the varying degrees of visibility evident in protected characteristic groups. Sexual orientation, for instance, universally requires self-identification, meaning that underreporting is likely to be a significant barrier to drawing meaningful inferences from

workforce reporting data. More government engagement with business and LGBTQ+ groups is needed to understand the barriers to reporting and how they might be overcome. However, given the potential of reporting to promote equity in the workplace, the ultimate goal should be for reporting across disability, ethnicity, gender, and sexual orientation to be equalised.

Transparency with employees around the data collected is powerful; where employers do not communicate their findings, employees tend to believe that gaps are worse than they are, and employees need to have trust that data will be used securely and confidentially to inform meaningful change. Data should also be linked to public action plans where possible. These steps can also help to create a workplace culture in which employees feel comfortable sharing their data, thus increasing the validity of the data collected.

The experience since the introduction of mandatory gender pay reporting shows that reporting requirements drive change by focussing senior leadership attention on ED&I, providing a useful baseline for comparisons between companies and for progress to be meaningfully measured, and often leading to the introduction of KPIs related to ED&I and measurable progress towards closing pay gaps.

Although reporting requirements currently only apply to larger companies, the case should be clearly and publicly made that smaller employers can voluntarily collect and publish data in a way that minimises the burdens while having the potential to drive greater commercial success. Larger companies can play a powerful role in leveraging their position in supply chains to require suppliers to meet data collection and transparency measures.

Key recommendations for government

1. Introduce mandatory ethnicity pay gap reporting for employers with 250 or more staff by the end of this Parliament.
2. Introduce mandatory disability workforce reporting for employers with 250 or more staff by the end of this Parliament.
3. Undertake research on the barriers to employers reporting on sexual orientation data and publish guidance to help employers to report on a voluntary basis.
4. Encourage employers to publish — either as part of their accounts or on their website — details of their inclusion strategy with specific requirements and objectives, along with an annual report on progress.
5. Support the development and promotion of best practice to establish a culture that promotes increased levels of voluntary self-identification by employees and the development of best practice in the analysis and reporting of data to promote greater inclusion.
6. Support small and medium-sized enterprises (SMEs) on the best use of data to inform ED&I strategies, for example through the provision of guidance and training on the most useful types of data to collect, methods of data collection, best practice in engaging with employees to encourage self-identification, and translating data into action plans.
7. Encourage regulators and relevant sector bodies to develop industry benchmarking schemes for larger employers to establish best practice for data analysis and to drive industry-wide engagement.



Collection and analysis of ED&I data has been a powerful catalyst in driving progress in our Inclusion campaign at Clifford Chance. It has allowed us to provide greater transparency, to set strategic targets and deliver regular reporting — but of equal impact are the insights that the data provides at a granular level in all vital areas from progression and development to work opportunities and promotion and remuneration. We can track where we are on course to deliver on our goals and where we need to apply new interventions for our people.

Data provides a critical mirror through which to view the firm. Essential to our commitment to challenge and develop clear practical steps to continually improve our processes and practices at a firmwide and at group and regional levels.”

Matthew Layton, former Global Managing Partner, Clifford Chance



-+2
 $\frac{10-5}{5} = 100\%$
 $\frac{10-5}{10} = 50\%$



Recruitment

The state of play

Recent years have seen an increasing use of strategies designed to ensure equal opportunities in recruitment, such as requiring anonymous CVs, using gender-neutral language in job advertisements, and offering workplace policies — such as flexible working — which are more likely to attract diverse candidates.

Notwithstanding this progress, there is consistent evidence of bias against candidates from protected characteristic groups in the recruitment process in UK companies.

A 2021 study by recruitment company Michael Page randomly selected 5,000 adverts from five UK recruitment firms across ten different sectors. The study found that over half (52%) contained wording biased towards men, and only 16% of the advertisements contained an even balance of masculine and feminine gendered language⁸. Media and marketing, financial services, and tech were found to be the sectors with the largest bias towards ‘masculine’ words.

A 2019 University of Oxford study found compelling evidence of racial discrimination in recruitment⁹. The researchers made fictitious applications to nearly 3,200 real jobs, both manual and non-manual. Applicants’ skills and qualifications were designed to be appropriate for each type of job, but their ethnic background was varied according to a random pattern. The findings revealed that black Britons and those of south Asian origin were heavily penalised. On average, applicants from minority ethnic backgrounds had to send 60% more applications to get a positive response from an employer than white British candidates.

Research by Drydakis (2014) studied the experiences of 144 LGBTQ+ jobseekers and their correspondence with 5,549 firms in the UK. Their minority sexual orientations, as indicated by participation in gay and lesbian university student unions, negatively affected their workplace prospects. The probability of gay or lesbian applicants receiving an invitation for an interview was 5.1% lower than that for heterosexual male or female applicants.

A study of disability in the legal profession found that only 9% of solicitors and paralegals felt confident enough to be open about their disability when applying for training contracts and other positions¹⁰. Given that securing reasonable adjustments during the application process and beyond into the job is dependent on disclosure, this lack of confidence is a significant barrier to applicants and employees reaching their full potential.

AI is increasingly being used by companies to increase the efficiency of the candidate screening process, including candidate sourcing and engagement, candidate tracking, CV screening, pre-employment assessments, and interviewing. A growing body of research on the use of AI in recruitment demonstrates a record of inaccurate results as well as inherent disadvantages for women and people of colour¹¹, as well as for neurodivergent people¹².

As a result, there is a growing trend towards examining and regulating the use of AI in hiring, promotional, and other employment decisions. New York, for example, is introducing a law which will prohibit employers from using AI in making employment decisions unless the tool has been subject to a recent

⁸ <https://hrnews.co.uk/half-of-job-adverts-unconsciously-biased-towards-male-applicants/>

⁹ http://csi.nuff.ox.ac.uk/wp-content/uploads/2019/01/Are-employers-in-Britain-discriminating-against-ethnic-minorities_final.pdf

¹⁰ Foster, D. and Hirst, N. Legally disabled? The career experiences of disabled people working in the legal profession. Cardiff: Cardiff Business School.

¹¹ Broussard, 2018; Noble, 2018; O’Neil 2017

¹² <https://www.bbc.co.uk/bbcthree/article/c62bcab6-db6f-4026-90bb-7f508705a65b>

¹³ <https://legistar.council.nyc.gov/LegislationDetail.aspx?ID=4344524&GUID=B051915D-A9AC-451E-81F8-6596032FA3F9>

¹⁴ <https://ico.org.uk/about-the-ico/what-we-do/grants-programme/research-into-fairness-in-employment-ai-decisions-institute-for-the-future-of-work/>



bias audit and a summary of this audit made public on the employer's website¹³. Furthermore, in July 2022 the UK's ICO launched an investigation into potential bias in the use of AI in recruitment¹⁴.

Insights from our research

The most commonly cited barriers to diverse recruitment were getting candidates from diverse backgrounds to apply; difficulty in tracking equity, diversity, and inclusion metrics; candidates from diverse backgrounds being more likely to drop out of the application process or not take up a job offer; a generally tight labour market limiting choice of candidates; lack of accountability in hiring managers; and the frequently changing nature of the labour market requiring frequent reassessment of ED&I in recruitment policies.

There was strong agreement in responses to our Call for Evidence that unconscious bias remains an issue in recruitment. Impactful strategies for tackling bias included: anonymous application processes; providing ED&I training for staff responsible for recruitment; assessing the flow of underrepresented groups through recruitment funnels to identify and address potential issues; expanding the range of educational institutions towards which outreach and recruitment activities are targeted; advertising through specialist media; building a company

brand that is authentically inclusive; addressing 'supply chain' issues by using recruitment agencies with expertise in diverse recruitment; mandating diverse shortlists; having ED&I-focused roles embedded within Talent Acquisition teams; and selecting diverse interview panels.

The role of Disability Confident

Disability Confident is a government scheme designed to encourage employers to recruit and retain disabled people and those with health conditions. A survey of IoD members in May 2022 found that more than half of business leaders (51%) are not familiar with the scheme, only 1 in 20 (5%) are signed up to the scheme, and 23% of respondents indicated that they have no intention of signing up to the scheme (Annexe: Figure 4).

Disability@Work estimates that just 0.47% of private sector employers have signed up to Disability Confident, which suggests it does not have the confidence of business¹⁵. The scheme therefore requires reform if it is to gain the confidence of business and disabled people and meet its goal of closing the disability employment gap, for example by strengthening the reporting requirements mandated as part of membership of the scheme. The business case for disability inclusion and diversity in recruitment should form a key element of any scheme to build engagement and support among employers and foster positive motives for adoption.

¹⁵ <https://www.disabilityatwork.co.uk/wp-content/uploads/2019/11/disability@work-Disability-Confident-level-3-briefing-paper.pdf>



51%

of IoD members are not familiar with the Disability Confident government scheme.

Insights from Commissioners

Commissioners highlighted the clear business case for inclusive recruitment in terms of increasing organisations' ability to attract the best talent, particularly in building teams with high levels of collective intelligence.

Making inclusive recruitment a reality requires action across advertising and promoting a role or opportunity, working with external recruitment advisers, the application process, making an offer of employment, and onboarding. Job advertisements and the promotion of job opportunities should employ inclusive language, be digitally accessible, and should explicitly communicate the employer's commitment to ED&I, which itself should be embedded within each element of the recruitment and hiring process. The use of specialist organisations to target diverse candidates, as well as upskilling staff in inclusive recruitment practices, can also be helpful as part of the process.

In terms of the application process, there is increasing recognition that using CVs as the primary focus of recruitment is not necessarily the most effective means of assessing candidates; recruitment should be entirely skills, capability, and potential-based and as such provision should be made for applications in forms outside of the traditional CV model. As part of this, candidates should feel that disclosure of protected characteristic status is a neutral or, ideally, positive part of an application process. In making an offer, employers should ensure that workplace and needs assessments, and making reasonable adjustments where required in response, are undertaken as a matter of course.

Key recommendations for government

- 1.** Monitor the use of Artificial Intelligence (AI) in recruitment in the UK. If the Information Commissioner's Office's (ICO) investigation into the use of AI in recruitment finds evidence that its use is entrenching inequalities in the workplace, require companies to produce their own statement of AI governance.
- 2.** Provide up-to-date guidance for business – tailored to businesses of different sizes and including how to implement fair AI systems for recruitment – on inclusive recruitment, using the insights presented in this Commission's white paper for businesses as a starting point.
- 3.** Strengthen the Disability Confident Scheme by requiring members to report on workforce and pay gaps and on the steps they are taking to close the gaps, and requiring members at Disability Confident Levels 2 and 3 to meet minimum thresholds regarding the percentage of disabled people in their workforce.



Progression

The state of play

Recruitment of a diverse workforce is a common first step to creating an inclusive workplace, but without concerted action to ensure equal opportunities for progression, employees from diverse backgrounds will continue to struggle to realise their potential and reach the top. This is bad news both for them and, of course, the businesses missing out on the diversity of thought that they bring.

Although the representation of women and ethnic minorities on boards and in other senior leadership positions in businesses has improved in recent years, individuals from diverse backgrounds remain consistently underrepresented in such positions. Almost half (45%) of individuals from an ethnic minority background reported feeling it necessary to leave their current organisation to progress in their career, compared to 31% of White British employees¹⁶, and research by Samsung found that 45% of workers with disabilities have concealed their conditions to increase their chance of securing a promotion¹⁷.

Progress on representation at board levels has also been mixed. As of February 2022, 40% of FTSE100 board positions were held by women, compared with 12.5% a decade before. The number of women in Chair roles across the FTSE 350 rose to 48, up from 39 in 2020, and there has been a significant decrease in the number of 'One & Done' boards – where only one woman is appointed – to just six this year. At the same time, women are much more likely to hold more junior boardroom positions; only one in three executive leadership roles and around 25% of all executive committee roles are held by women, and there are very few women in the CEO role¹⁸.

As of December 2021, 89 FTSE 100 companies had boards that met the Parker Review target on ethnic diversity, compared to 74 in

November 2020. However, only six CEOs across the FTSE 100 come from a minority ethnic background and 16 minority ethnic CEOs lead FTSE 250 companies. There are even fewer Chairs from a minority ethnic background: three in the FTSE 100 and five in the FTSE 250.

Furthermore, research by The Valuable 500 has found that there are no executives or senior managers who have disclosed a disability, at any of the FTSE 100 companies¹⁹, and as of January 2021, there were no publicly out LGBTQ+ CEOs in the FTSE 100, and these figures have not improved for several years. In fact, there are now fewer publicly out LGBTQ+ CEOs in the FTSE 100 than in 2018.

Insights from our research

Evidence gathered through our Call for Evidence, surveys, focus groups, and interviews identified several key barriers to the progression of individuals from underrepresented backgrounds, as well as a range of effective strategies to increase the representation of protected characteristic groups in the leadership talent pipeline.

Reasons given for persistent lack of people from protected characteristic groups in senior leadership positions included: unconscious bias in the promotion and performance improvement process; flawed perceptions among management of diverse groups' capabilities; performance metrics having in-built bias against diverse employees in requiring well-rounded skillsets not related to role success; the prevalence of 'old boys' networks' and their relationship to opportunities for progression; a perceived limited pipeline of diverse talent; a lack of access to requisite experience among underrepresented groups; the historic legacy of exclusion and the resulting lack of visible diverse role models; and diverse candidates being less likely to apply for senior positions.

¹⁶ Business in the Community (2021). Race at Work 2021: McGregor-Smith Review Four Years On. London: Business in the Community, p.13

¹⁷ <https://news.samsung.com/uk/new-research-reveals-nearly-half-of-the-nation-arent-comfortable-talking-about-disabilities-in-the-workplace>

¹⁸ <https://www.gov.uk/government/news/sea-change-in-uk-boardrooms-as-women-make-up-nearly-40-of-ftse-100-top-table-roles>

Impactful strategies in increasing representation included: creating performance and potential-centric opportunities; targeted development programmes; setting targets and sharing progress with all employees; supporting men to take on more parenting responsibilities; increasing visibility of role models; secondments, individual development plans, and mentoring (internal, cross-organisation, and reverse). Again, as with recruitment, a review of promotion and progression processes by external ED&I expertise is also helpful in 'holding the mirror up' and challenging long-established internal practices, and can result in significant enhancements. Similarly, data on the outcome of progression processes has a critical part to play in the continued drive to make progression processes more inclusive.

A majority of respondents agreed that organisations should set and – where possible – report on ambitious targets relating to representation in senior leadership, but quotas were viewed with caution. Whilst it is true that without targets in place organisations can fail to set objectives at all, caution must be exercised to ensure that this does not become a tokenistic exercise and that roles are appointed based on merit from an intentionally diverse candidate pool.

Increasing diversity on boards

In a March 2019 survey, we asked business leaders what would help to improve the diversity of board members in their organisation, and the most popular factors selected were having a greater number of minority employees with relevant skills and experience (26%), mentoring programmes (18%), effective minority role models (14%), and better careers advice and understanding of the industry by prospective staff (14%) (Annexe: Figure 5). These results reflect

the long-term nature of some aspects of the change needed to achieve progress in this area; building the skills and experience needed for senior posts takes time and a long-term senior level commitment to policies which will be effective.

Insights from Commissioners

Key findings from the Commission's discussion included the need for more work to build and raise awareness of the evidence base for the positive contribution of diversity in leadership in terms of productivity and profitability, given that awareness of the business case is variable.

Commissioners also emphasised the importance of clarity around how performance is measured in facilitating equal access to progression, along with the role of delegation and assignment of work as an area in which unconscious bias can play out. The influence of senior role models on the ambition and confidence of junior colleagues from protected characteristic groups was also highlighted.

Mentoring and executive sponsorship were recurring themes of discussions around how high-potential employees from underrepresented groups can be supported to progress into leadership positions. In addition to the traditional mentorship model, cross-organisational mentoring was highlighted as a particularly valuable tool for smaller employers.

Employers need to utilise data to identify where employees from protected characteristic groups drop out of the leadership pipeline in their organisation and then implement policies to address the root causes of the drop-off, for example through measures to reintegrate and support the development of women returning from maternity leave.

Key recommendations for government

1. Work with the IoD and other business representative organisations to develop best practice and the production of high-quality guidance on making access to progress equitable, tailored to businesses of different sizes.
2. Extend the Financial Conduct Authority's requirements for listed companies to report information and disclose against targets on the representation of women and ethnic minorities on their boards and executive management to large non-listed companies.
3. Introduce a public reporting process and targets on the representation of LGBTQ+ and disabled individuals on the boards of FTSE 350 companies, following the success of the Hampton Alexander and Parker reviews.



Workplace culture

The state of play

The COVID-19 pandemic brought about changes to workplace cultures at an unprecedented scale and speed. The growth of more inclusive working practices during the pandemic included increased acceptance of flexible working arrangements such as remote working and flexible hours, increased use of closed captioning and other accessibility features in virtual meetings, and increased recognition of the role of employers in their employees' physical and mental well-being. These changes have the potential to make work environments more equitable for female and disabled employees in particular. The government has also recently consulted on making the right to request flexible working a day one employment right.

However, protected characteristic groups remain significantly more likely to face harassment and violence in the workplace. Black, Asian, Mixed Race and other ethnically diverse employees are twice as likely as White employees to have experienced or witnessed racist harassment from managers, customers/clients, and colleagues²⁰. Furthermore, around 23% of employed respondents to the 2017 National LGBT Survey reported that they had experienced a negative or mixed reaction from others in the workplace just for being a part of the LGBTQ+ community²¹.

Insights from our research

Flexible working

There was a consensus among business leaders and ED&I experts that the normalisation and spread of hybrid and other forms of flexible working was the most significant change to workplace culture to result from the pandemic, and that the tightness in the labour market that followed the end of lockdowns has served to entrench this trend for the long run, by enabling individuals to choose employers more aligned to their values and working preferences.

An IoD survey in January 2022 found that eight in ten (79%) business leaders are planning to utilise some degree of remote working in the long term, with one in four (27%) intending to offer staff full flexibility over their working location (Annexe: Figure 6).

Our research also highlighted the risk that the continuation of some of these workplace adaptations may have unintended consequences for certain characteristic groups. For example, there is concern that employees who make greater use of remote working policies may be disadvantaged by not accessing the networking and development opportunities linked to attending offices. Hybrid working should also not be considered a reason to deprioritise or avoid making office spaces more accessible for disabled employees.

Despite the rapid growth of flexible working practices since the start of the pandemic, there is limited data on its impact as most data collection has focussed on the change in practice. Although 41% of businesses using, or planning to use, homeworking permanently cited increased productivity as a reason²², more in-depth data on its economic impact is needed in order to build the evidence base and support more widespread adoption of flexible working practices.

The role of training and engagement programmes on inclusion

The importance of training and engagement programmes to inclusion was a recurrent theme throughout the evidence collected by the Commission. Participants emphasised the importance of all staff being required to undertake ED&I training, to avoid the risk that non-marginalised groups will be less likely to engage with voluntary ED&I training. The importance of senior level buy-in and participation was also stressed as critical to avoiding such training becoming a tick box

²⁰ Business in the Community (2021). Race at Work 2021: McGregor-Smith Review Four Years On. London: Business in the Community, p.24.

²¹ 2017 LGBT Survey: Summary Report. London: Government Equalities Office.

²² <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/articles/is-hybrid-working-heretostay/2022-05-23>



exercise. While training alone is unlikely to engender sustainable change, it can form a powerful part of embedding ED&I into the DNA of employers and help create a culture where employees feel comfortable discussing their differences.

The growth of staff networks

In recent years, the use of staff networks in organisations has increased significantly. Staff networks are initiated to inform, support, and advance employees with similar social identities. The potential transformational role of staff networks in facilitating the embedding of ED&I throughout organisations was a recurrent theme in our research, supporting findings from existing research that staff networks can create internal pressure which engenders company social activism²³.

However, participants emphasised the need for staff networks to themselves be inclusive in terms of their engagement and to have clear support from senior management, as well as to be empowered in change processes from an early stage and, where possible, to be given a platform and budget to maximise their impact.

Insights from Commissioners

Commissioners emphasised the importance of cultural change in the workplace not being viewed as a standalone project, but as part of wider business strategy that will help to deliver growth. Having a clear culture and set of values is a business need that requires buy-in at every level of an organisation.

Building an inclusive workplace culture requires senior leaders to demonstrate active and consistent engagement and commitment by

²³ Maks-Solomon, C., & Drewry, J. (2021). Why Do Corporations Engage in LGBT Rights Activism? LGBT Employee Groups as Internal Pressure Groups. *Business and Politics*, 23(1), 124-152. doi:10.1017/bap.2020.5

calling out poor behaviour, using inclusive language, embracing difficult conversations, asking employees directly what support they need to thrive, as well as recognising that the task is one of continual improvement. Building trust with colleagues at all levels of an organisation helps to create a learning organisation; colleagues are significantly more likely to forgive mistakes where trust and a commitment to learning from errors is embedded in workplace culture. Trust is also essential to increasing disclosure rates, as employees need to feel safe and comfortable in sharing personal information about themselves and understand the cultural and business benefits for the organisation of doing so. This can be achieved, for example, through sharing case studies of how employee data has been used to build a better workplace. Employee groups — where they have executive sponsorship — have the ability to help enable employees to feel comfortable in being their whole selves at work.

There was consensus among Commissioners that the growth of hybrid and flexible working in recent years represents an opportunity to improve workplace culture for all groups. However, it was emphasised that flexible working is only one tenet of equitable working and needs to be part of a wider package of workplace culture reforms. Commissioners also emphasised the importance of employers not making assumptions about the physical or digital infrastructure and resources that employees have at their disposal to facilitate remote working, and that some employees — for example, those with a learning disability — may need additional support and job coaching to work effectively remotely.

Key recommendations for government

1. Make the right to request flexible working a day one employment right.
2. Support the use of flexible working to create more equitable, inclusive, and productive workplaces.
3. Capture data on the economic value of flexible working, develop clear guidelines on how employers can measure the impact of flexible working, and prioritise the infrastructure — such as high-speed broadband — needed to facilitate it.
4. Reflecting the importance of language, review government publications, documentation, and web content to ensure it uses gender neutral language, including replacing the use of the word 'Chairman' with 'Chair' in the model articles of association provided by Companies House.

Senior leadership and the role of government

The state of play

Senior leaders play a vital role in setting an employer's agenda for ED&I from the top; final accountability for organisational culture rests with CEOs. There has been an impressive increase by more than a third in the number of organisations with a senior leader and/or champion who actively promotes equality, equity, fairness and inclusion, from 32% in 2015 to 44% in 2021²⁴, while PwC reported in 2021 that nearly half of the FTSE 100 companies had set measurable ESG targets for their CEOs and had begun to introduce ESG targets in executive compensation packages²⁵.

There is also a growing number of domestic and global business collectives aimed at galvanising C-suite support for improving ED&I in business, including The Valuable 500, Change the Race Ratio, and the 30% Club. There has also been significant progress in increasing representation of underrepresented groups on boards of directors in recent years, a trend which has been shown to lead to better leadership from board level on ED&I in the organisation²⁶.

In July 2021, the UK financial services regulators published a discussion paper seeking views on how to make the industry more diverse and inclusive²⁷. It set out potential policy options including, inter alia, linking remuneration to performance against diversity and inclusion metrics, suggesting that connecting progress on diversity and inclusion to remuneration could be a key tool for increasing accountability and incentivising progress.

Insights from our research

A strong consensus across our Call for Evidence responses, interviews, surveys, and focus groups placed the ultimate responsibility for the implementation of successful ED&I strategies with senior leadership, particularly with CEOs and boards.

When asked to describe the most impactful actions that business leaders could take to engender change on ED&I in their organisations, respondents highlighted the potential of introducing a clear and data-driven ED&I strategy supported by clear accountability mechanisms, engaging in structured mentoring and reverse mentoring schemes with more junior staff from underrepresented backgrounds, providing visible representation of protected characteristic group status and/or allyship, and sponsoring staff networks.

It is important that a workforce sees the CEO take an authentic, vocal, and visible role in advocating for and championing ED&I, whilst empowering the employees leading the work to do so effectively.

The role of boards

Boards have a vital role to play in setting strategy and culture across organisations, and in providing accountability for progress on ED&I. Roughly half of respondents to the Call for Evidence stated that responsibility for monitoring progress on ED&I is built into the functioning of their organisation's board. Such leadership and the creation of strategic space for ED&I, together with monitoring and auditing, provide credibility to the work whilst enshrining it in an organisation's governance.

²⁴ Business in the Community (2021). Race at Work 2021: McGregor-Smith Review Four Years On. London: Business in the Community, p.13.

²⁵ O'Connor, P., Harris, L., Gosling, T. (2021). Linking executive pay to ESG goals. London: PwC.

²⁶ Bushell, M., Hoque, K., and Dean, D. (2020) The Network Trap: Why women struggle to make it into the boardroom. Springer, Singapore.

²⁷ Financial Conduct Authority, Bank of England, and Prudential Regulation Authority (2021). Diversity and inclusion in the financial sector – working together to drive change. London: Financial Conduct Authority, Bank of England, and Prudential Regulation Authority.

A range of good practice on building ED&I into the core functioning on boards exists, such as in having a board member specifically responsible for ED&I. However, their core function is to challenge; too many board members have limited awareness of their organisation's progress on ED&I, which precludes their challenging it, or are too focussed on one area of ED&I to take a holistic view. The crucial starting point is therefore to provide the level of information they need to enable them to both understand where the organisation is and challenge the progress — or lack thereof — that is being made.

The role of government

Our research suggests that the current government policy structure related to ED&I needs reform, given the government's vital role in providing leadership on this issue. There is a need for a clear accountability structure to support work towards achieving equity of opportunity in the workplace.

Responsibility for equity of opportunity is best located in the government department which works most closely with — and understand the needs of — business; BEIS is therefore best placed for developing a programme of engagement with business.

It is crucial that government recognises that ED&I is central to the future of the workforce and the success of the economy through its impact on productivity and ensuring that business can access the talent needed to fill roles and grow. Any government initiatives relating to the future of work should therefore have ED&I as a central pillar.

Insights from Commissioners

Key findings from the Commission's discussion included the importance of visibility among senior leaders, both in terms of visible allyship and also themselves being role models where appropriate. Senior leaders play a vital role in influencing workplace culture from the top, and by making ED&I core to an organisation's values and objectives, senior leaders can send a clear message that ED&I is woven into an organisation's DNA.

Senior business leaders often avoid conversations around ED&I for fear of 'saying the wrong thing'; getting language and leadership on ED&I right is

not straightforward. However, business leaders who have embedded a culture of psychological safety have successfully moved the dial on ED&I in their organisations by emphasising the power of honesty, humility and vulnerability, behaviours which build respect between all levels of an organisation and mean that if mistakes are made, they are much less damaging.

ED&I initiatives are most likely to be successful where they have senior-level buy-in; employee networks, for example, operate most effectively where they have explicit executive support. However, Commissioners emphasised the importance of senior leaders listening to feedback from more junior colleagues and not dominating conversations. Senior leaders also have an important role in making connections and introductions for employees from underrepresented groups to key colleagues and networks in order to help overcome the 'network trap'.

Key recommendations for government

- 1.** Develop best practice on mentoring and reverse mentoring schemes, including cross-organisational schemes for SMEs.
- 2.** Make equity of opportunity in the workplace a key policy priority. As part of this, add equity of opportunity in the workplace as a specific responsibility within an existing Ministerial portfolio in BEIS, with a requirement to report annually to Parliament on progress against KPIs.
- 3.** Ensure that all future government economic and industrial strategies include consideration of the importance of fostering a diverse and fair economy with an effective workforce fit for the future, to drive future economic success. Such strategies should recognise the intersection of ED&I with other aspects of the changing economy, such as the ageing population and the influence of automation on workforce skills requirements.



Conclusion

Business has made huge strides in building inclusive workplaces in recent years. Yet there is much more to be done to create working environments where all talent has an equal opportunity to thrive and contribute to business' bottom line.

Government has an opportunity to support business in achieving this aim through the creation of a regulatory and legislative environment conducive to transparency, by setting the example of inclusive leadership in its own work, and by working with organisations like the IoD to ensure that businesses are able to access high-quality guidance on creating inclusive workplaces.





Appendix: the data

This annex contains data collected from various iterations of the IoD's monthly Policy Voice surveys of members.

Figure 1: Should the next Prime Minister make equality of opportunity in the workplace a policy priority?
Total responses: 671

Total	Total
	671
Yes	54%
No	35%
Don't know	11%

Figure 2: Currently, all employers with more than 250 staff must report their gender pay gap. How would you view a requirement for these firms to also report their ethnicity pay gap?
Total: 609 responses

Total	Total %
	671
I would welcome it	28%
I would have concerns around employee anonymity and ethnicity data	18%
It would represent an excessive burden on business	15%
It would not serve a useful purpose	31%
Don't know	8%

Figure 3: Do you think that large employers (250+ employees) should be required to report on the proportion of employees identifying as disabled?
Total: 671 responses

Total	Total %
	671
Yes	42%
No	45%
Don't know	13%

Figure 4: Has your organisation signed up to the government's Disability Confident scheme?
Total: 455 responses

Total	Total %
Yes	5%
No, but we have plans to do so	3%
No, but we would be interested in doing so	11%
No, and we have no plans to do so	23%
I don't know whether we are signed up or planning to do so	6%
I am not familiar with the scheme	51%

Figure 5: What would help to improve the diversity of board of directors of your (primary) organisation? Total responses: 1044

Total	Total %
Effective minority role models	14%
Greater number of minority employees with relevant skills/experience	26%
Greater efforts to attract minority applicants	14%
Diversity levels are satisfactory and there are no perceived barriers	34%
Action to promote diverse candidates to senior positions (e.g. quotas)	7%
Better careers advice/understanding of the industry by prospective staff	14%
Mentoring programmes	18%
Other (please specify)	10%
Don't know	10%

Figure 6: Which of the following most closely describes your organisation's expected average use of remote working in the long-term? Total: 671 responses

Total	Total %
No remote working	16%
1 day per week remote working	6%
2 days per week remote working	17%
3 days per week remote working	13%
4 days per week remote working	3%
Fully remote working	13%
Fully flexible - staff choice	27%
Don't know	5%

The Institute of Directors is a non-party political organisation, founded in 1903, with approximately 20,000 members. Membership includes directors from right across the business spectrum, from media to manufacturing, professional services to the public and voluntary sectors. Members include CEOs of large corporations as well as entrepreneurial directors of start-up companies. The IoD was granted a Royal Charter in 1906, instructing it to “represent the interests of members and of the business community to government and in the public arena, and to encourage and foster a climate favourable to entrepreneurial activity and wealth creation.” The Charter also tasks the Institute with promoting “for the public benefit high levels of skill, knowledge, professional competence and integrity on the part of directors”, which the IoD seeks to achieve through its training courses and publications on corporate governance.

The IoD is an accredited Good Business Charter organisation.

iod.com



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Please contact alexandra.hall-chen@iod.com with any feedback on the recommendations and how to take them forward.

