



Diversity and Inclusion: from pay gap reporting to linking executive pay to diversity metrics

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Forward

With increasing investor, employee and societal focus on Environmental, Social and Governance (ESG), organisations are increasingly seeking to ensure that their purpose, social value and approach to workforce fairness is well articulated both internally and externally. This includes Diversity and Inclusion related reporting and monitoring of progress against targeted actions.

The Gender Pay Gap

The Gender Pay Gap, which is an indicator of gender diversity within senior roles across an organisation, is a key metric within organisations’ sustainability strategies and is heavily scrutinised by employees and society. Organisations based in Great Britain have recently published Gender Pay Gap metrics for the sixth year since the mandatory reporting requirements were introduced in 2017. Our analysis (see page 3) shows that progress in reducing the Gender Pay Gap has been slow and incremental. Between 2017/18 and 2022/23, the mean Gender Pay Gap has decreased by 1.2% (from 13.4% to 12.2%) and the median Gender Pay Gap has decreased by 0.1% (from 9.4% to 9.3%).

Of course, it should be acknowledged that the Gender Pay Gap is a lagging indicator of performance, and actions taken by organisations in recent years to increase the representation of women both across the business and in senior roles over the short and longer term will not be fully recognised in the latest Gender Pay Gap data. Nevertheless, stakeholders expect organisations to demonstrate their commitment to reducing their Gender Pay Gap, which includes disclosing: the underlying causes of the Gender Pay Gap; actions to increase representation of women in senior roles; targets to support positive change; and progress against such targets.

Diversity and Inclusion – a holistic view

The Gender Pay Gap is only one measure of workforce diversity and should be considered alongside other indicators to support a holistic view of Diversity and Inclusion within an organisation. With this in mind, and alongside increasing Diversity and Inclusion related reporting regulations and guidance including the EU Pay Transparency Directive¹ and guidance on Ethnicity Pay Gap reporting², organisations are expected to articulate their approach and progress through a number of lenses.

We have analysed the latest pay gap reports published by FTSE 30 companies (page 4). Our analysis shows that more than 80% of the companies published: Gender Pay Gap metrics for all UK employees (in addition to the statutory reporting for employing entities with 250 or more employees); analysis of current vs prior year Gender Pay Gaps; and targets for female employee representation within senior roles. However, only around one-third of the companies published Ethnicity Pay Gap metrics and around 50% of the companies published ethnic diversity targets. Therefore, whilst there is evidence of organisations improving their disclosure of diversity commitments and pay gap reporting, further progress is required over the coming years – particularly in terms of organisations articulating their story from a broader Diversity and Inclusion perspective.

Linking executive pay to diversity targets

Over the last few years there has been an evolution in linking executive pay to ESG performance and this trend is expected to continue. As part of this, there has been a rise in the adoption of diversity targets within executive incentive plans. There are arguments for and against linking executive pay to diversity targets (as well as wider ESG performance). A premise for including such targets is that leadership are incentivised and held financially accountable for delivering on diversity / representation targets, setting a ‘tone from the top’ to drive an organisation's commitments in this area. Whilst a contrary view is that increasing Diversity & Inclusion should be a key part of the ‘day job’ for leaders for which they receive a salary and should not need additional financial incentive.

We have analysed the adoption of diversity targets within the FTSE 100 (page 5). The majority are linked to the representation of women in leadership and/or representation of ethnic minorities in leadership. In the coming years, it will be interesting to observe whether linking executive pay to diversity targets has had a material impact on gender and ethnic representation at leadership level.

Increasingly, organisations are also considering data-led metrics focused on fostering a positive inclusive workplace culture which enables colleagues from all backgrounds and demographics to thrive and be successful – which is fundamental to successfully delivering against a Diversity and Inclusion strategy.

1. The EU Pay Transparency Directive was adopted by the European Parliament on 30 March 2023 and mandates Gender Pay Gap reporting across the EU as well as other requirements to strengthen pay transparency.

2. In April 2023 the UK Government published guidance for organisations on how to measure, report on and address Ethnicity Pay Gaps. Ethnicity Pay Gap reporting is currently voluntary.

Key trends: Mean and median Gender Pay Gap by sector

The chart opposite illustrates the mean and median Gender Pay Gap by sector for reporting periods 2017/18 to 2022/23. This captures all employing entities that have published Gender Pay Gap data on the Government's Gender Pay Gap service portal.

The data shows that while there is progress across most sectors in terms of closing the Gender Pay Gap, it has been slow and incremental.

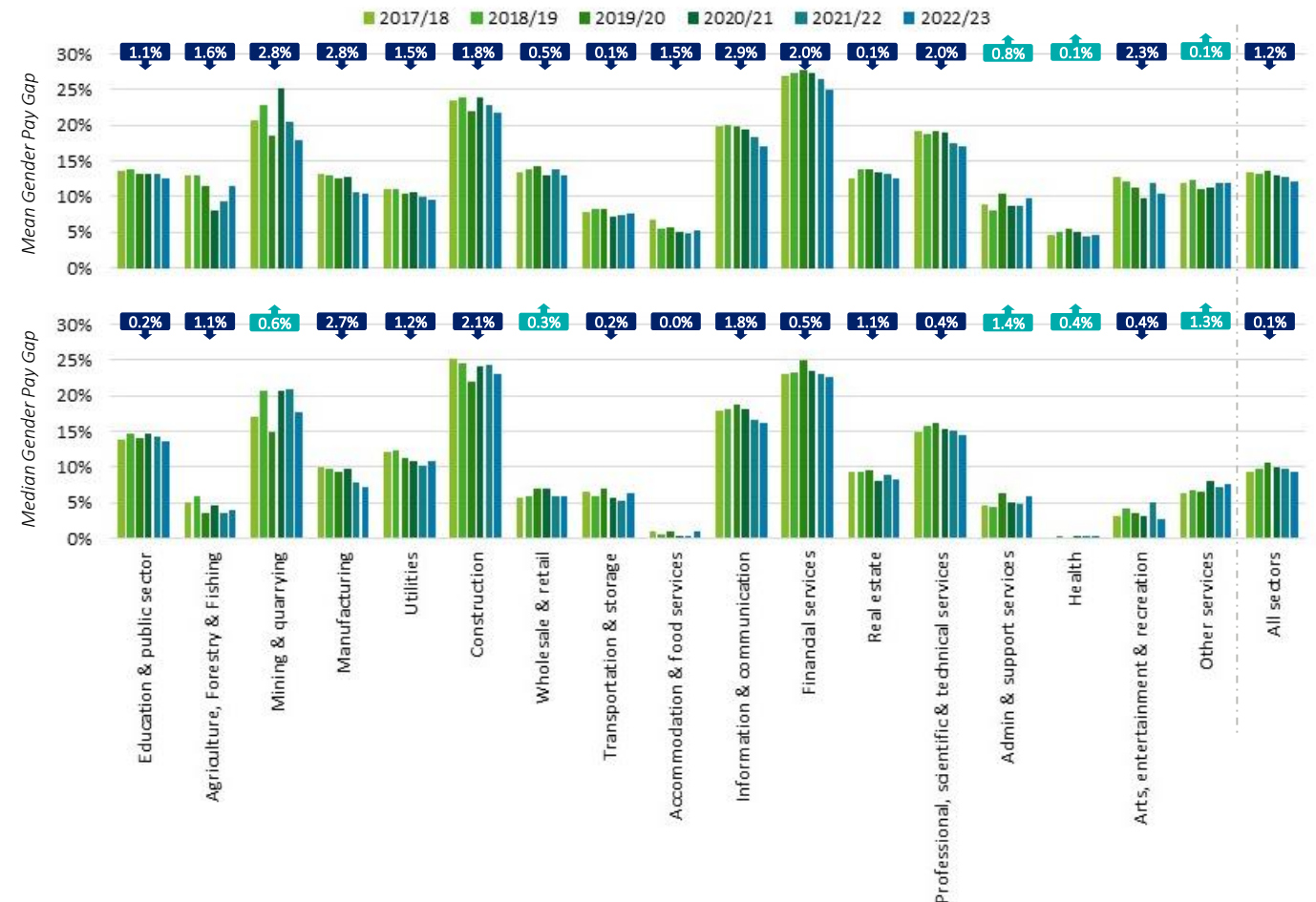
Across all sectors combined, the mean Gender Pay Gap has decreased by 1.2% (from 13.4% to 12.2%) between 2017/18 and 2022/23. The median Gender Pay Gap has decreased by 0.1% (from 9.4% to 9.3%) between 2017/18 and 2022/23.

The mean Gender Pay Gap has decreased between 2017/18 and 2022/23 in 14 of the 17 sectors. The median Gender Pay Gap has decreased in 11 of the 17 sectors and remained the same in one sector.

Manufacturing and Information and communication were the sectors with the largest decreases in mean and median Gender Pay Gap between 2017/18 and 2022/23.

Financial services, Mining and quarrying and Construction were the sectors with the largest mean and median Gender Pay Gaps. However, all three sectors were amongst the sectors with the larger decreases in mean Gender Pay Gap between 2017/18 and 2022/23.

Accommodation and food services and Health were the sectors with the lowest mean and median Gender Pay Gaps.



The chart above illustrates the median of the mean Gender Pay Gap and the median of the median Gender Pay Gap by sector for reporting periods 2017/18 to 2022/23. The chart has been prepared based on data published on the Government's Gender Pay Gap service portal.

Indicates a decrease in the Gender Pay Gap between 2017/18 and 2022/23. Indicates an increase in the Gender Pay Gap between 2017/18 and 2022/23.

Key trends: FTSE 30 pay gap reports

25 of the FTSE 30 constituents (as at 1 June 2023) have published pay gap reports for the 2022/23 reporting period¹.

The table opposite provides analysis of the contents of these reports focusing on three areas:

- Publication of Gender Pay Gap metrics for all UK employees and for any non-UK jurisdictions.
- Publication of Ethnicity Pay Gap metrics.
- Publication of employee diversity targets.

21 (84% of) companies published: Gender Pay Gap metrics for all UK employees (in addition to the statutory reporting for employing entities with 250 or more employees); analysis of current vs prior year Gender Pay Gaps; and targets for female employee representation within senior roles.

5 (20% of) companies published Gender Pay Gap metrics for non-UK jurisdictions. 1 company published Ethnicity Pay Gap metrics for non-UK jurisdictions.

8 (32% of) companies published Ethnicity Pay Gap metrics. There is mixed practice between using the five ONS ethnic groups (Asian, Black, Mixed or Multiple Ethnic, Other Ethnic Group, White) and using Minority Ethnic vs Majority Ethnic to calculate the Ethnicity Pay Gap metrics. Each of these companies also published the proportion of the workforce that have provided their ethnicity – disclosure rates range between 70% and 90%.

12 (48% of) companies published ethnic diversity targets (focused on global ethnic minority representation and ethnic minority representation within senior roles). 6 (24% of) companies published Black employee representation targets.

A range of disclosures can be observed within each sector. Collectively as a sector, Banks / Financial services typically provide the most comprehensive pay gap reports.

FTSE 100 companies are generally enhancing disclosure on workforce fairness, be that through distinct fair pay reports or expanding disclosures within remuneration reports.

Sector	Have Gender Pay Gap metrics been published on a consolidated basis (all UK employees)?	Have Gender Pay Gap metrics been published for non-UK jurisdictions?	Is analysis of current vs prior year Gender Pay Gaps published?	Are Ethnicity Pay Gap metrics published?	On what basis are Ethnicity Pay Gap metrics published?	Is the proportion of the workforce that provided their ethnicity published?	Have female employee diversity targets been published?	Have ethnic minority employee diversity targets been published?	Have Black employee diversity targets been published?	Has the company signed up to the Race at Work Charter?
1 Oil & gas			✓	✓	ONS Ethnic Groups	✓	✓	✓	✓	✓
2 Banks	✓	✓		✓	ONS Ethnic Groups	✓	✓	✓		✓
3 Food, beverage & household goods	✓		✓							✓
4 Food, beverage & household goods	✓	✓	✓							
5 Oil & gas			✓	✓	Minority vs Majority Ethnic	✓	✓	✓	✓	
6 Mining										
7 Utilities	✓		✓				✓	✓		✓
8 Food, beverage & household goods	✓	✓	✓				✓	✓		✓
9 Pharmaceuticals	✓		✓				✓			✓
10 Pharmaceuticals	✓						✓			✓
11 Food, beverage & household goods	✓		✓	✓	Minority vs Majority Ethnic	✓	✓	✓		✓
12 Financial services	✓		✓							✓
13 Mining	✓		✓				✓			✓
14 Travel & leisure	✓		✓	✓	Minority vs Majority Ethnic	✓	✓			✓
15 Banks	✓		✓	✓	ONS Ethnic Groups	✓	✓	✓	✓	✓
16 Telecommunications	✓		✓				✓			✓
17 Pharmaceuticals	✓						✓			
18 Banks	✓		✓	✓	Minority vs Majority Ethnic	✓	✓	✓	✓	✓
19 Transportation & business services			✓				✓			✓
20 Banks	✓		✓	✓	Minority vs Majority Ethnic	✓	✓	✓	✓	✓
21 Industrial goods & services	✓		✓				✓			
22 Retail	✓		✓				✓	✓		✓
23 Utilities	✓	✓	✓			✓	✓	✓		✓
24 Travel & leisure	✓		✓				✓			
25 Banks	✓	✓	✓			✓	✓	✓	✓	✓
Total	21 (84%)	5 (20%)	21 (84%)	8 (32%)		10 (40%)	22 (88%)	12 (48%)	6 (24%)	19 (75%)

1. Five of the FTSE 30 constituents have less than 250 employees based in Great Britain (and are therefore not required to publish Gender Pay Gap metrics) and have not published pay gap reports for the 2022/23 reporting period.
2. Majority ethnic refers to White British. Minority ethnic refers to all ethnic groups except White British.

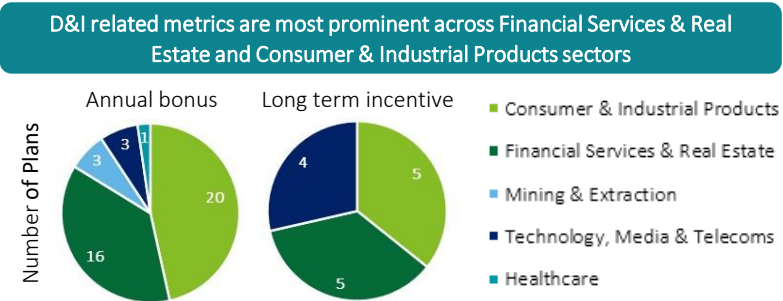
Key trends: Linking executive pay to Diversity and Inclusion

Over the last few years there has been an evolution in linking executive pay to ESG performance. As part of this, there has been a rise in the adoption of diversity targets within executive incentive plans. The majority of targets are linked to the representation of women in leadership and/or representation of ethnic minorities in leadership. Organisations are also considering data-led metrics focused on fostering a positive inclusive workplace culture which enables colleagues from all backgrounds and demographics to thrive and be successful – which is fundamental to successfully delivering against a Diversity and Inclusion strategy.

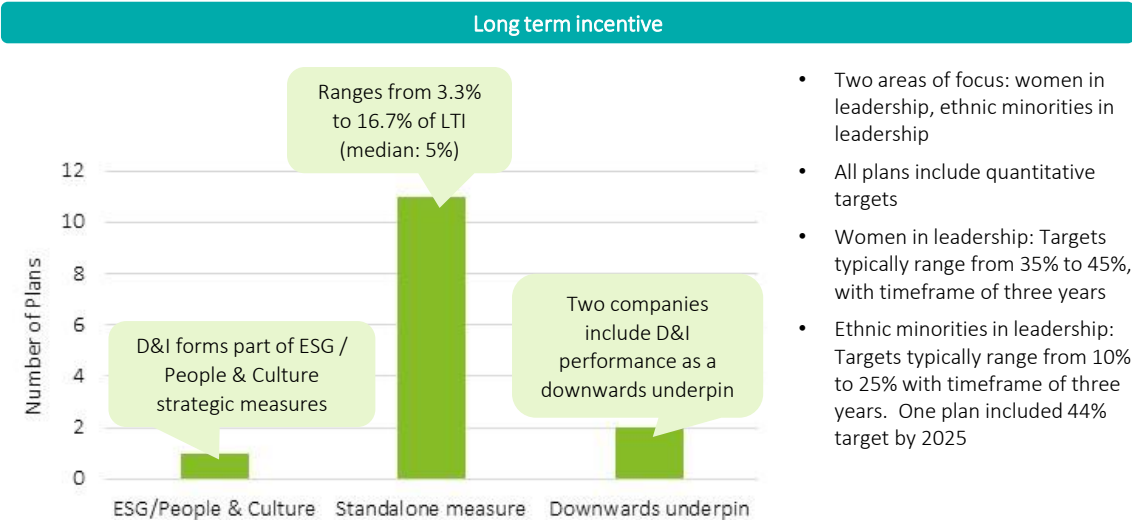
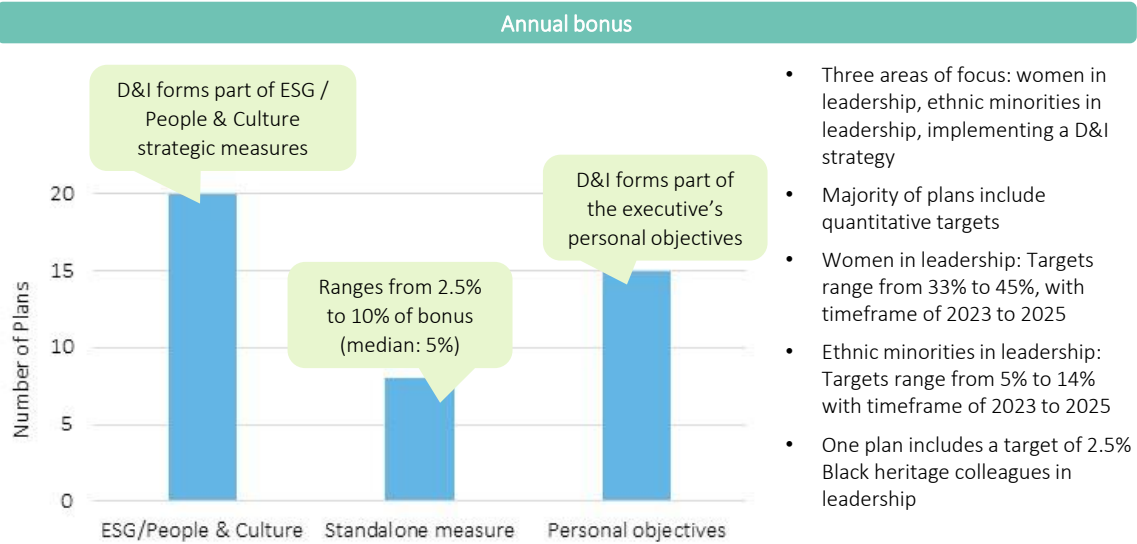
Analysis of the adoption of Diversity and Inclusion related metrics within the FTSE 100 (as at 1 June 2023) is provided below.

Increasing use of D&I related metrics as part of broader focus on ESG				
	Annual bonus		Long term incentive	
	No of companies	% of Index ¹	No of companies	% of Index ¹
2022	43	45%	14	15%
2021	29	31%	9	9%

1. Excludes investment trusts and companies with no Executive Directors on the Board.

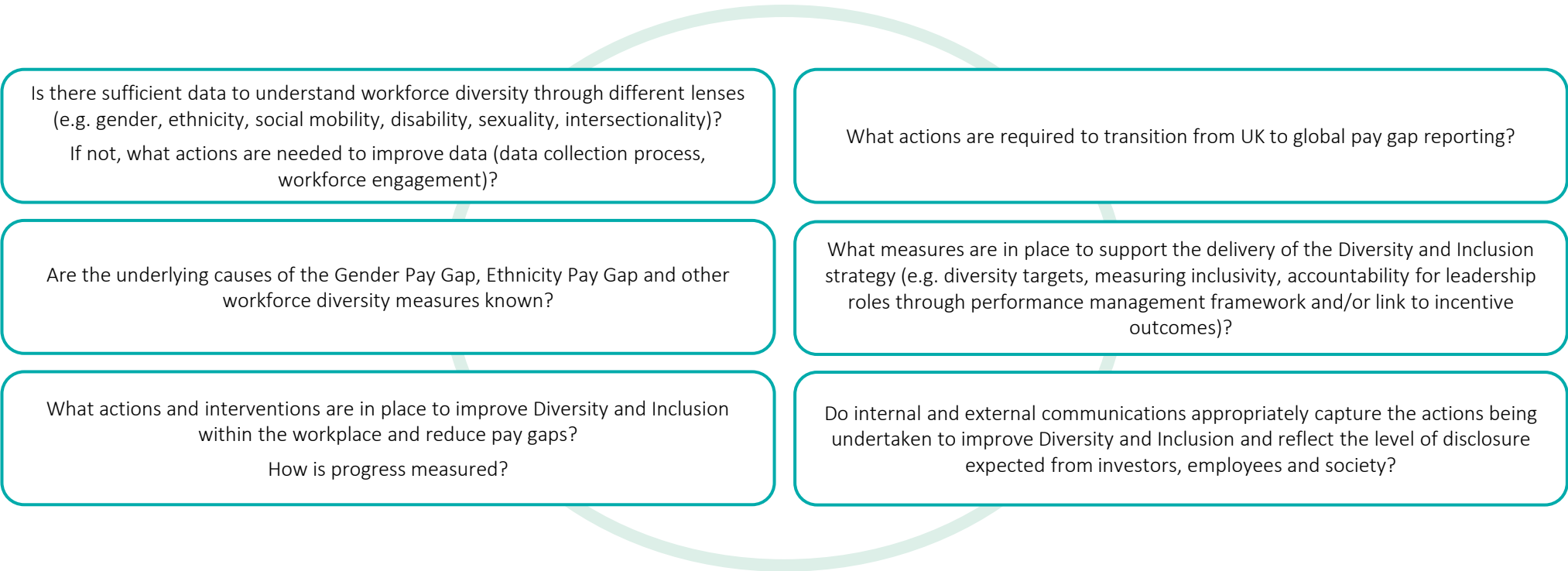


There are arguments for and against linking executive pay to diversity targets. A premise for including such targets is that leadership are incentivised and held financially accountable for delivering on diversity / representation targets, setting a 'tone from the top' to drive an organisation's commitments in this area. Whilst a contrary view is that increasing Diversity & Inclusion should be a key part of the 'day job' for leaders for which they receive a salary and should not need additional financial incentive.



Key considerations

Progress in reducing the Gender Pay Gap has been slow and incremental, notwithstanding that many organisations have disclosed actions taken to increase the representation of women both across the business and in senior roles over the short and longer term. Stakeholders increasingly expect organisations to provide transparent disclosure of Diversity and Inclusion strategies, which includes pay gap reporting as well as progress against broader representation targets and commitments. There is also an increase in Diversity and Inclusion related reporting regulations and guidance to strengthen diversity and pay transparency across the UK and globally. Many organisations are seeking to step up their approach to analysing and reporting to align with evolving market practice. Key considerations are set out below to help organisations plan their next steps.



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