

**strategy&**

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# Ethnicity Pay Gap Report 2021

A diverse crowd of people is shown in a public setting, possibly a festival or event. The image is overlaid with several large, semi-transparent circular shapes in shades of red, white, and grey. In the foreground, a young woman with long brown hair is wearing a denim jacket and a black and white floral patterned dress, and she is clapping her hands. Next to her is a young man with short black hair wearing a white and blue jacket over a teal t-shirt. The background is filled with other people of various ethnicities, some looking towards the camera and others looking away. The overall atmosphere is bright and busy.

# Executive Summary

We launch this report after we celebrate Black History Month, recognising the contributions and achievements of those with African or Caribbean heritage in every area of endeavour throughout the UK's history. And we do so in the knowledge that over the last two decades, the working population in the UK has become increasingly diverse, with employment rates rising across all ethnic groups.<sup>1</sup>

Yet barriers remain, preventing people from different ethnic backgrounds from reaching their full potential. Individuals from different ethnic backgrounds are less likely to participate in, and progress through, the workplace than their White counterparts. And they are paid less, as this report highlights.

As we look towards a recovery from COVID-19, the public is increasingly aware of the disproportionate impact the pandemic has had on marginalised or overlooked groups in our society. There is a wealth of evidence demonstrating how ethnic minorities have experienced higher rates of unemployment, financial adversity and mental health struggles since the pandemic began.<sup>2</sup>

To date, however, very little has been done to look at how the pay received by ethnic minorities compares to that of their White equivalents, despite repeated calls from industry bodies.<sup>3</sup> While the Office for National Statistics (ONS) previously released ethnicity pay gap analysis, this was discontinued in 2019. In the meantime, MPs have debated a petition calling on the government to introduce mandatory ethnicity pay gap reporting.<sup>4</sup>

In this report, our analysis shows there are significant differences in the median hourly pay of different ethnic groups, which are magnified once you factor in regional and gender differences. After controlling for personal and work-related characteristics, we find that White British people earn significantly more, on average, than those from almost all other ethnic groups. There is also little sign that these adjusted pay penalties are reducing over time.

Increasing the diversity of organisations isn't just the right thing to do — organisations with a diverse range of employees have a better understanding of the needs of a wider range of customers, they are able to foster greater creativity and innovation, and build a more resilient workforce. Evidence consistently demonstrates

these inclusive organisations perform better financially than those with limited diversity.<sup>5</sup> As we discuss in this report, 'lost' productivity and potential not only represents a huge missed opportunity for businesses, but impacts the economy as a whole.

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The 'pay penalties' that are revealed in this report should serve to clarify the concept of privilege which is all too frequently taken for granted by those who have it, in this case, white British people.”

**Sarah J Churchman OBE**  
Chief Inclusion, Community  
and Wellbeing Officer, PwC UK

1 Office for National Statistics (2021). Employment statistics. <https://www.ethnicity-facts-figures.service.gov.uk/work-pay-and-benefits/employment/employment/latest>

2 House of Commons (2021). Coronavirus: Impact on the labour market. <https://researchbriefings.files.parliament.uk/documents/CBP-8898/CBP-8898.pdf> and Lally (2020). Impact of COVID-19 on different ethnic minority groups. <https://post.parliament.uk/impact-of-covid-19-on-different-ethnic-minority-groups/>

3 House of Commons Women and Equalities Committee (2021). Unequal impact? Coronavirus and the gendered economic impact. <https://committees.parliament.uk/publications/4597/documents/46478/default/>

4 Hansard (2021). Ethnicity Pay Gap. Volume 701. <https://hansard.parliament.uk/Commons/2021-09-20/debates/3A332BAE-A7AE-49BD-95F3-2E7875E04F66/EthnicityPayGap?highlight=ethnicity%20pay%20gap#contribution-E2B0514A-6D51-4F20-8B7E-F044661D8EBF>

5 Baroness McGregor-Smith (2017). Race in the workplace: The McGregor Smith Review. <https://www.gov.uk/government/publications/race-in-the-workplace-the-mcgregor-smith-review>



**Governments, policymakers, and businesses need to take collective action to ensure these disparities are not carried forward into the future. We believe that there are three key areas in which progress must be made:**

- **Mandating ethnicity pay gap reporting, to strengthen business and national accountability.** PwC UK have been voluntarily publishing its ethnicity pay gap data since 2016. For the first time in January 2021, PwC UK published its Black, Asian and Mixed Ethnic Background pay gaps, as part of the firm's ongoing plan to address diversity in the workplace.<sup>6</sup> We believe there has never been a greater need for it. Reporting on ethnicity pay gaps may reveal harsh truths, but that's a real trigger for action.
- **Providing robust data on a national level, to support the development of effective policy response.** The responsibility for ethnicity pay gap reporting does not fall to businesses alone, however. Without meaningful intersectional data in large government datasets, meaningful policy analysis will not be possible. The timing has never been more urgent - it is vital that we understand the barriers faced by different groups, and why they exist, so as not to leave anyone behind in our plans and priorities for recovery.
- **Implementing effective diversity action plans in the workplace.** When organisations set targets for recruitment, promotion and representation of ethnic minorities and then implement initiatives to deliver on them, ethnic minorities are more likely to progress in the workplace, helping to reduce the ethnicity pay gap. Organisations can support and empower ethnic minorities in the workplace by devising Diversity and Inclusion (D&I) plans which set targets and outline initiatives to address ethnic disparities.

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The evidence of 'lost' productivity and potential through continued inequality across the UK not only represents a huge missed opportunity for businesses, but impacts the economy as a whole.”

**Jonathan Gillham**  
Chief Economist, PwC UK

<sup>6</sup> PwC (2021). PwC UK publishes Black, Asian, and Mixed Ethnic Background pay gaps as part of action on inclusion and diversity. <https://www.pwc.co.uk/press-room/press-releases/pwc-uk-publishes-black-asian-and-mixed-ethnic-background-pay-gaps.html>

# Main Report

The makeup of the labour market in the UK has changed dramatically in recent decades. The proportion of the working age population from an ethnic minority background has almost doubled in the last 15 years, rising from 7% in 2004 to 13% in 2019.<sup>7</sup> At the same time, awareness of disparities in pay and employment between the White British population and other ethnic groups has gradually risen over time. This has accelerated over the past year, as the Black Lives Matter campaign has highlighted the continued discrimination faced by ethnic minorities, and revitalised calls for a fresh look at the barriers they face in the UK labour market.

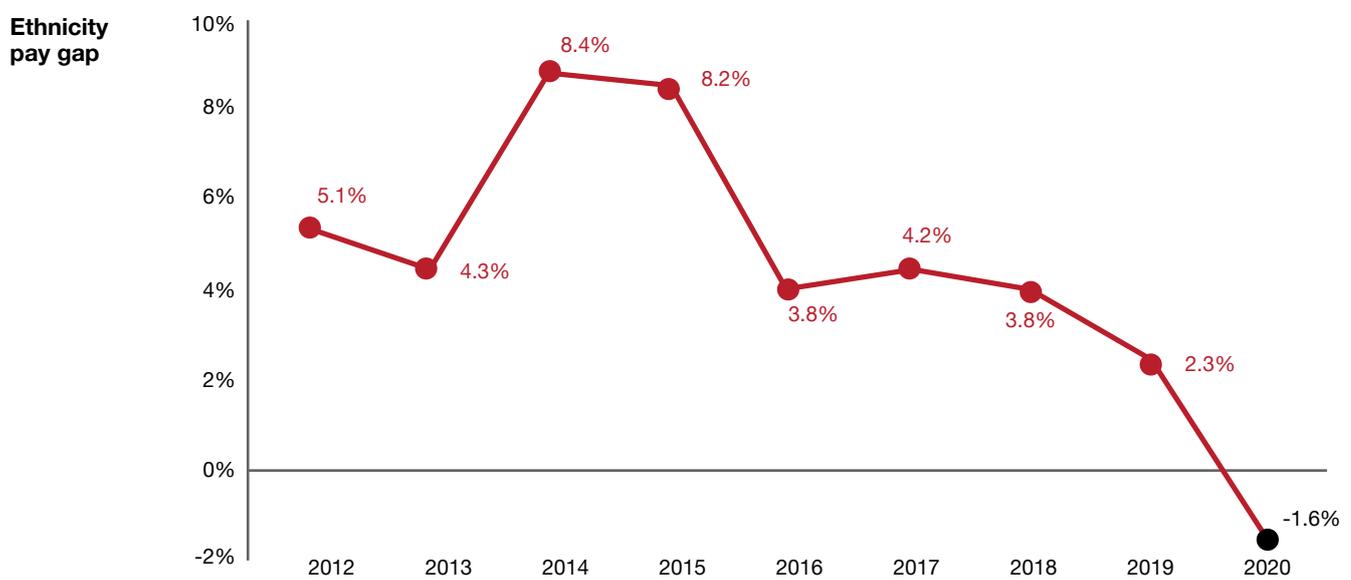
In 2020, the median hourly pay of those in the White ethnic group was £13.16, compared with a median hourly pay of £13.37 for ethnic minorities. This means that the ethnicity pay gap has turned negative (at -1.6%) for the first time since 2012 (see Figure 1). However, as we will show in this report, this simple comparison between average White and ethnic minority pay obscures the following inequalities in pay:

- There are significant **differences in pay among minority ethnic groups**. White and Black African (i.e. mixed race) people earn almost 16% less than the White British population on average, while Chinese people earn almost 47% more.
- Pay also **varies widely by gender** as well as ethnicity. White British men earn more than women from 14 of the 16 ethnic groups.
- Pay gaps are **unevenly spread across regions**. The ethnicity pay gap is largest in London — where people from ethnic minority groups earn over 20% less than their White counterparts on average.
- After holding personal and work-related characteristics constant, we find that **White British people earn more on average than people from almost all of the other ethnic groups**. As this is a like-for-like comparison, this provides compelling evidence for continued inequality in the UK labour market.

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<sup>7</sup> Office for National Statistics (2021). Employment statistics. <https://www.ethnicity-facts-figures.service.gov.uk/work-pay-and-benefits/employment/employment/latest>

**Figure 1:** Pay gap between the White group and the ethnic minority group, England and Wales, 2012 to 2020



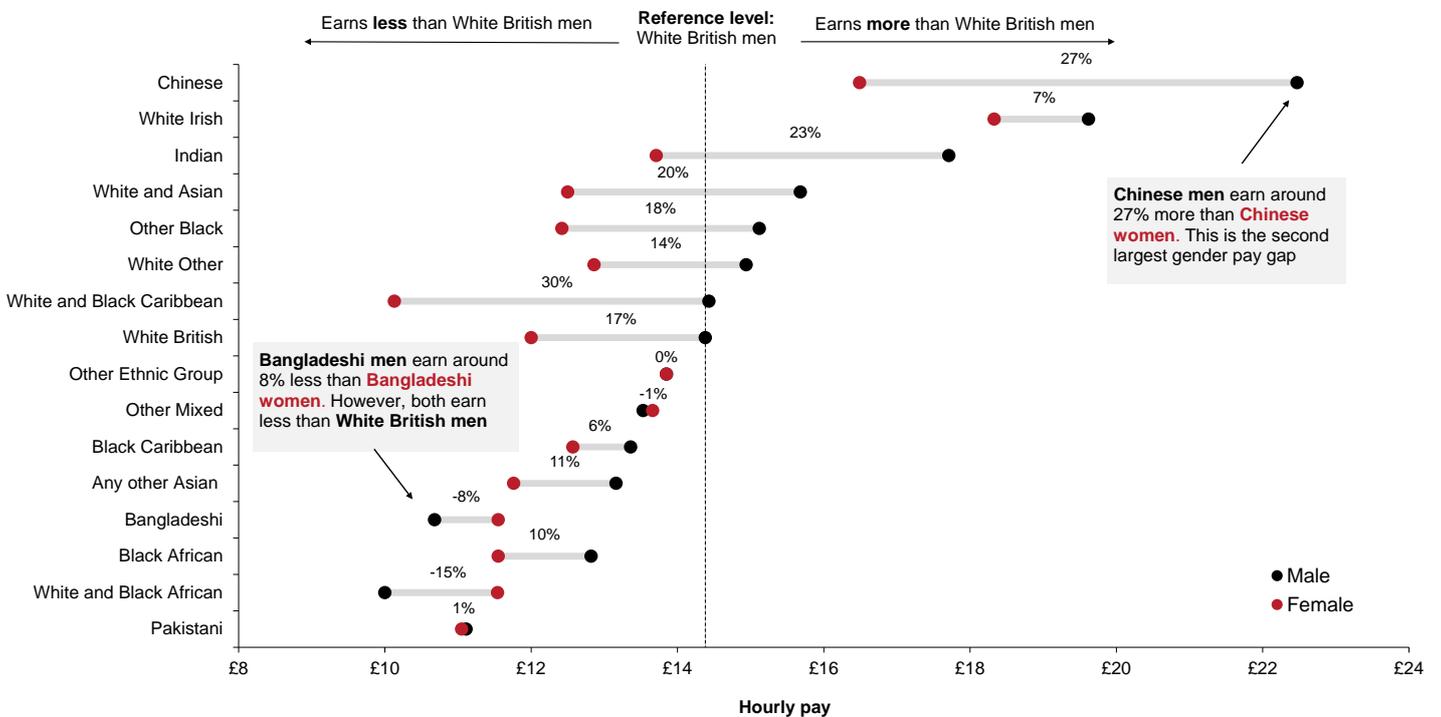
**Sources:** ONS from 2012 to 2019, Strategy& analysis of ONS data for 2020

**Note:** In line with prior research, ethnicity pay gap is defined as the difference between the median hourly earnings of the reference group (in this case, White) and other ethnic groups as a proportion of average hourly earnings of the reference group.

**Pay varies substantially by gender as well as ethnicity. The lowest earning group of women are paid less than half as much as the highest earning men.**

Exploring the ethnicity pay gap through an intersectional lens is vital to understand the different dimensions of historically marginalised groups. By doing so, we can work towards more impactful change. According to the PwC Women in Work Index, and when looking at a weighted average of five indicators that reflect women’s participation in the labour market and equality in the workplace, the UK consistently outperforms the OECD average.<sup>8</sup> When looking at the gender pay gap, however, the UK (17%) sits more than one percentage point higher than the OECD average — indicating that this is a key area holding back progress.<sup>9</sup>

**Figure 2:** Median hourly pay by ethnicity and gender in England and Wales, 2020



**Sources:** Strategy& analysis of ONS data

**Note:** As a result of data limitations, we restrict our analysis to two genders only.

<sup>8</sup> PwC (2021). Women in Work 2021. The impact of COVID-19 on women in work. <https://www.pwc.co.uk/economic-services/WIWI/women-in-work-2021-report.pdf>

<sup>9</sup> The gender pay gap is a measure of the percentage difference in the median hourly pay of men and women working in England and Wales. This data is regardless of role in the organisation, length of service, and other differentiating factors.



So how do the ethnicity pay gap and gender pay gap interact? Our findings are significant: men earn more than women in 14 of 16 ethnic groups in England and Wales.

- White and Black Caribbean (i.e. mixed race) women are the lowest female earners, earning as little as 70p for every £1 earned by the average White British man.
- White Irish and Chinese are the only groups of women that earn more than the average White British man, earning £1.27 and £1.15 respectively for every £1 earned by the average White British man. Even in these groups, however, women earn less than their male counterparts.
- In White and Black African (i.e. mixed race), Bangladeshi, and Other Mixed ethnicities, women out-earn their male counterparts by a small amount, although women in all of these groups still earn less than the average White British man.
- The gender pay gap is greatest in the White and Black Caribbean (i.e. mixed race) ethnic group. Men from this group earn around the same as an average White British man, while women earn almost a third less.

These pay differences have real impacts on the living standards of women from ethnic minority backgrounds. The 30% pay gap between White and Black Caribbean women and White British men amounts to a difference in earnings of around over £8,000 a year, if we assume they both work full-time<sup>10</sup>. This adds up over the course of a lifetime.

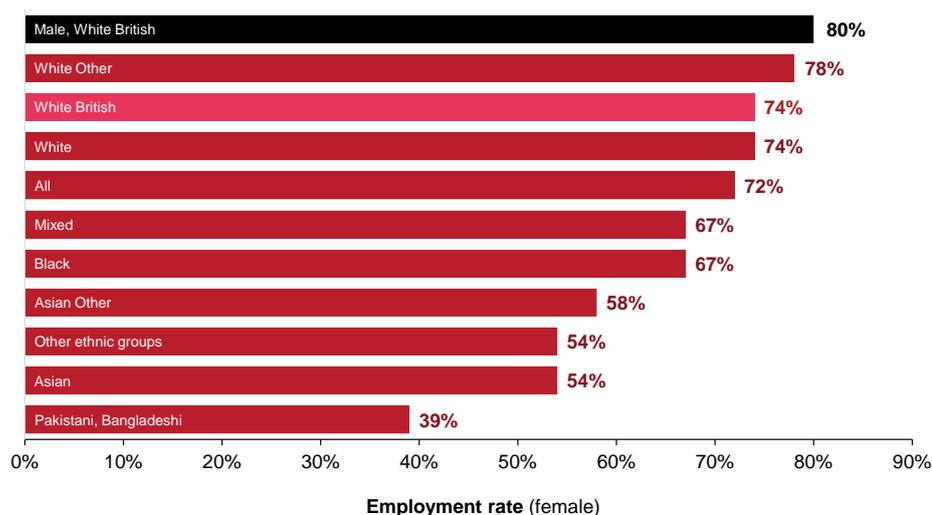
**Men earn more than women in 14 of 16 ethnic groups in England and Wales.**

<sup>10</sup> Assumes 37.5 hours worked a week

Why do these gaps exist? There are many factors at play — individuals from different ethnic backgrounds either enter less well paid occupations (producing a general pay gap across occupations) or they experience wage discrimination, being paid less than their White counterparts even when being compared on a like-for-like basis (producing a within-occupation pay gap, which we explore in-depth later in this report). Both of these issues, though, link to a much wider problem. Evidence consistently demonstrates that women from ethnic minority backgrounds experience systematic structural inequalities across the labour market that see them overrepresented in lower paid, insecure jobs, and at a higher risk of being underemployed<sup>11</sup>:

- 1 in 8 women from ethnic minority groups are in **insecure jobs**, compared to 1 in 18 white men.
- Women from ethnic minority groups have **lower employment rates** than both White British men and women (see Figure 3). The employment rate of Pakistani and Bangladeshi women (39%) is more than half that of White British men (80%).
- Despite ethnic minorities as a whole having a higher educational attainment than those from White ethnic groups, women from ethnic minorities — particularly Black African and Pakistani/Bangladeshi women — work in jobs that are **well below their qualification levels**.
- Almost 1 in 3 women (31%) from ethnic minority backgrounds report being unfairly passed over for or denied promotions at work — indicating **discrimination** in the workplace.
- More than 1 in 3 (34%) of women from ethnic minority backgrounds have **experienced racism** in the workplace, while 32% have been bullied or harassed.

**Figure 3:** Female employment rate, by ethnic group (2019)



**Source:** Strategy& analysis of ONS data

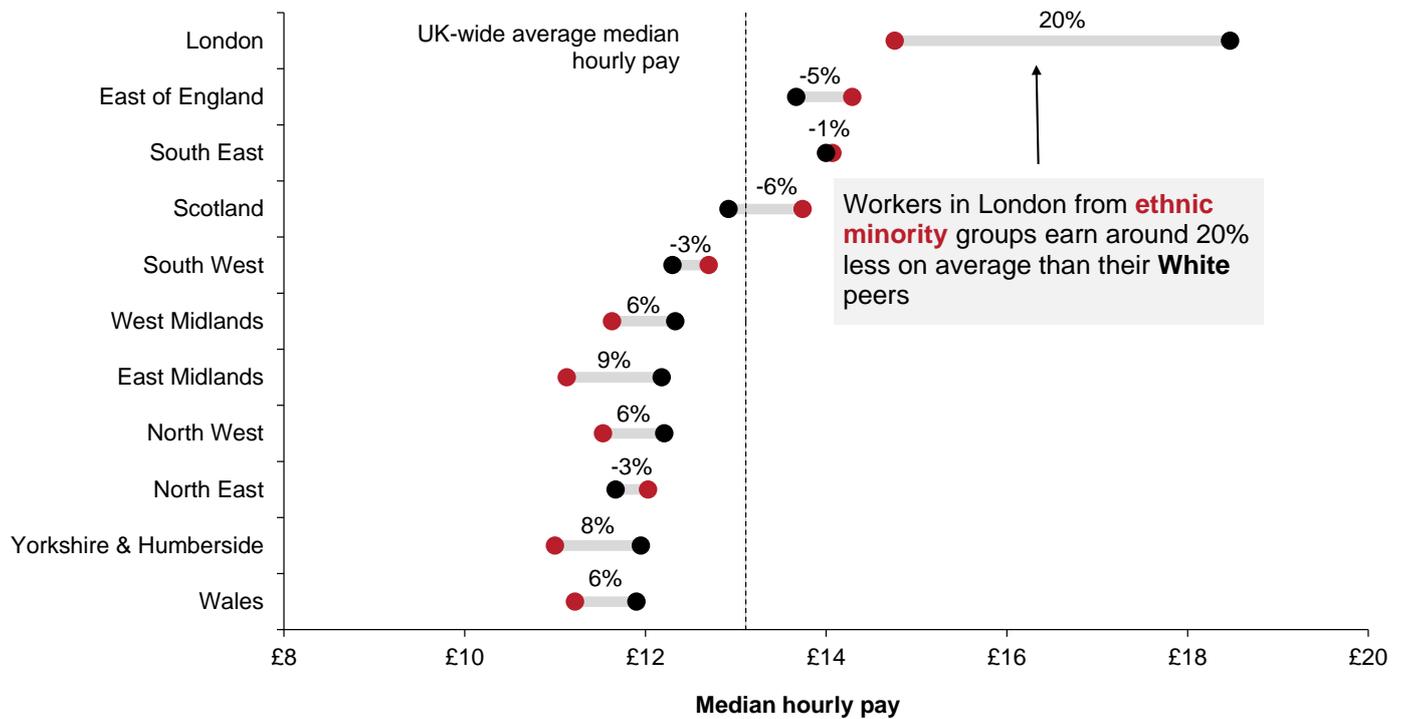
<sup>11</sup> TUC (2020). BME women and work. <https://www.tuc.org.uk/research-analysis/reports/bme-women-and-work>. BEIS (2017). Race in the workplace: The McGregor-Smith Review [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/594336/race-in-workplace-mcgregor-smith-review.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/594336/race-in-workplace-mcgregor-smith-review.pdf)

**Ethnicity pay gaps are not spread evenly across the United Kingdom. London has both the highest average pay and the highest income inequality**

Disparities in pay for men and women exist across all regions in the UK. These disparities are perceived as being central to what it means to be socially mobile. Over the last year, there has been growing concern in public attitudes towards social mobility — with urgent action required to prevent gaps widening further in society.<sup>12</sup> But how do these concerns play out when considering ethnicity pay?

**Workers in London from ethnic minority groups earn around 20% less on average than their White peers**

**Figure 4:** Median hourly pay by ethnicity and region in the United Kingdom, 2020



**Source:** Strategy& analysis of ONS data

**Note:** Consistent with the ONS approach, Northern Ireland has been excluded from this chart due to differences in the Ethnicity Classification.

<sup>12</sup> Based on a PwC survey of 4,000 people across the UK. PwC (2021). Driving social mobility. <https://www.pwc.co.uk/drivingsocialmobility>



For decades, conventional wisdom has dictated that geographical inequalities in social mobility are drawn across simple boundaries: the North versus the South. Our analysis shows that there is some truth to this. In more than half of UK regions, White people earn more than those from other ethnic backgrounds. White people in London are the highest earners in the UK, with a median hourly pay of £18 on average. This is a staggering 68% higher than the median hourly pay of the lowest earning group (ethnic minorities that work in Yorkshire & Humberside). Ethnic minorities in Yorkshire & Humberside earn 92p for every £1 earned by their White equivalent.

This in turn, leads to concentrated hardship. Of the 10 Local Authorities with the highest proportion of child poverty, seven are in the North West, and the remaining three in the North East, West Midlands, and Yorkshire and the Humber respectively.<sup>13</sup> In contrast, young people from disadvantaged backgrounds who live in London (and its commuter belt) are more likely to achieve good outcomes in school and have more opportunities to do well as adults than those in the rest of the country.<sup>14</sup>

Regional inequality also appears to exacerbate the gender pay gap in some areas. When looking at a weighted average of five indicators that reflect women's participation in the labour market and equality in the workplace, PwC research suggests that the North West, North East, West Midlands and Yorkshire and the Humber scored lower than the UK average.

But our analysis also shows that some of the conventional wisdom is outdated — progress in more prosperous regions is not spread evenly across different ethnic groups. White people are paid 20% more than people from different ethnic backgrounds in London — equivalent to £1 for every 80p earned. The hourly median pay of ethnic minorities working in London (£14.76 on average) is therefore closer to the country-wide hourly median pay (£13.11 on average) than the hourly median pay of White people working in London (£18.47 on average). For instance, the average pay of ethnic minorities in London is only marginally higher than the national average, despite living costs being significantly higher.

One possible explanation is that people from different ethnic backgrounds are concentrated in lower paying sectors compared to their White equivalents. However, when adjusting for this — and other pay-determining characteristics

— we find that across the UK the ethnicity pay gap remains at 4.1% for UK-born ethnic minorities, and 10.4% for non-UK born ethnic minorities. This suggests there is more to this story than occupational differences across ethnicities. We provide more detail on the results of our regression analysis in the remainder of this report.

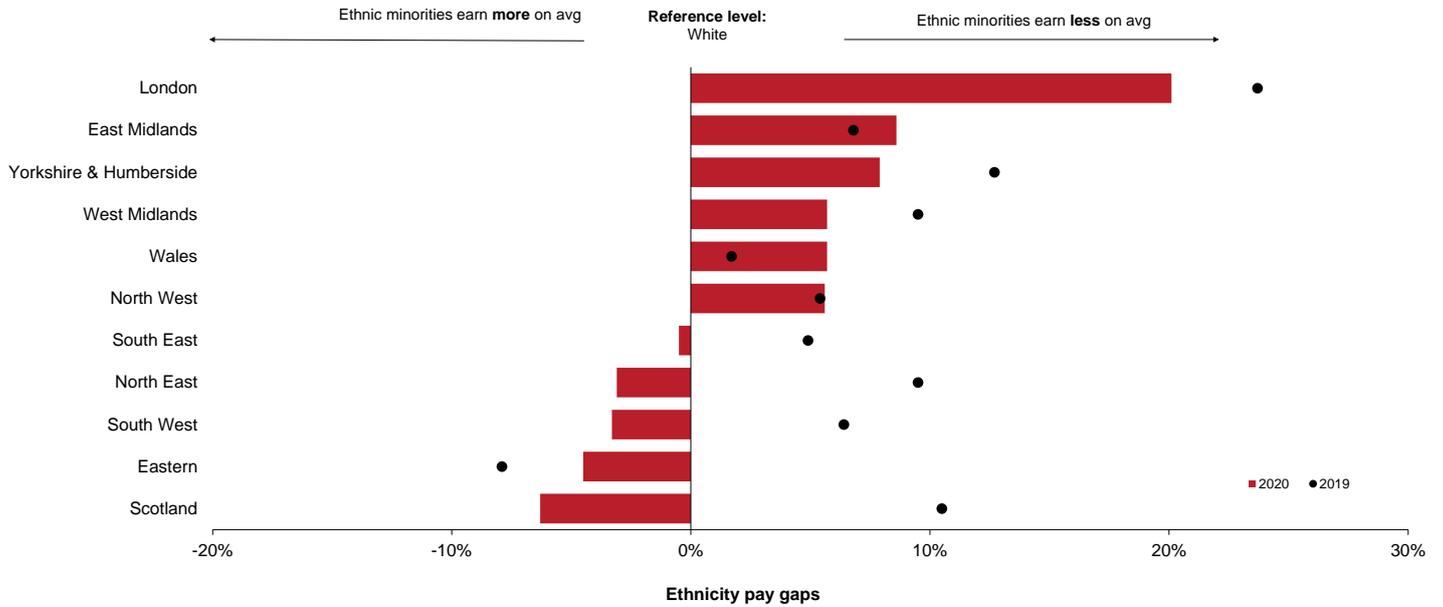
“  
This research highlights the importance of providing an accurate picture of the inequalities within the workforce - and where we need to focus on delivering real change.”

**Karen Finlayson**  
Regional Lead for Government,  
PwC UK

<sup>13</sup> Department for Work & Pensions and HM Revenue & Customs (2020). Children in low income families: local area statistics 2014/15 to 2018/19. <https://www.gov.uk/government/statistics/children-in-low-income-families-local-area-statistics-201415-to-201819/children-in-low-income-families-local-area-statistics-201415-to-201819>

<sup>14</sup> Social Mobility & Child Poverty Commission (2020). The Social Mobility Index. [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/496103/Social\\_Mobility\\_Index.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/496103/Social_Mobility_Index.pdf)

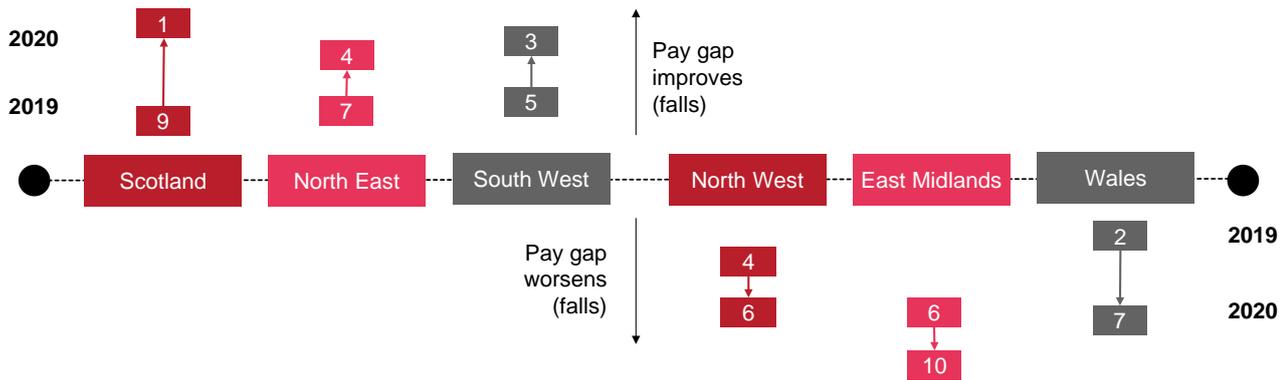
**Figure 5:** Median hourly pay by ethnicity and region in the United Kingdom, 2020 and 2019



**Source:** Strategy& analysis of ONS data

**Note:** Northern Ireland has been excluded from this chart due to differences in the Ethnicity Classification..

**Figure 6:** Biggest movements in regional rankings of the pay gap between White and Minority Ethnic hourly pay, 2019-2020



**Source:** Strategy& analysis of ONS data



When looking at trends over the past year, while Eastern England was the only region with a negative ethnicity pay gap in 2019 (where White people earned less than people from other ethnic backgrounds), a number of other regions joined this group in 2020 - notably the North East (experiencing an £1.40 absolute, or 13 percentage point, improvement), the South West (experiencing an £1.15 absolute, or 10 percentage point, improvement), and Scotland. Scotland has shown the largest improvement in ethnicity pay, with ethnic minorities earning 89p for every £1 earned by the average White person in 2019, changing to ethnic minorities earning £1.06 for every £1 in 2020.

The reasons behind these ethnicity pay gaps are complicated and require careful causal analysis to identify. Relative to the rest of the UK, the regions with negative ethnicity pay gaps are also the regions with the lowest diversity — with the non-White population totalling 6% on average compared to 11% for the UK as a whole.

As a result, these regions tend to have smaller sample sizes, resulting in greater volatility and uncertainty in the results. For this reason, movements from 2019 to 2020 for these regions must be interpreted with caution. There also needs to be further research into the impact of COVID-19 on ethnicity pay gaps, which we explore later in this report.

It is also important to note that these pay gaps simply represent the difference between median earnings for men and women in ethnic groups and do not control for important drivers in earnings differences. When adjusting for pay-determining characteristics, there are no UK regions where people from non-UK born ethnic minority backgrounds earn more than their White counterparts. Further to this, there are only four regions where UK-born ethnic minorities earn more than their White counterparts, and in most cases these negative pay gaps are relatively small. We explore these 'adjusted' pay gaps further in the remainder of this report.

Our analysis proves that closing ethnicity pay gaps must be an essential component of the government's levelling up agenda. If the government — national and local — is serious about an inclusive recovery, it needs to consider inclusion in all of its interactions. Race, alongside gender and other characteristics, must be layered into both economic outcomes and widening geographical disparities, with targeted policy to close the gaps. Looking only at regional pay levels is insufficient, as it masks sharp differences in the pay of different ethnic groups. These pay differences will have significant implications for the living standards and social mobility of different groups across the UK.

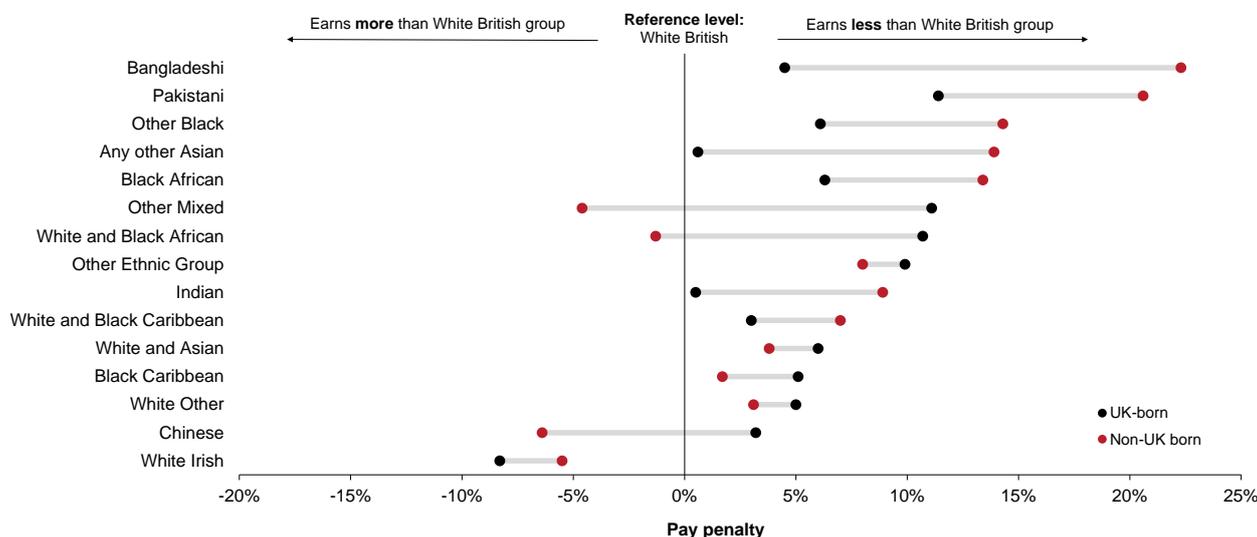
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15 For the full list of control variables, please see the appendix.

### Ethnicity pay gaps remain significant even when you control for individual characteristics

Our analysis has shown there are significant pay gaps between the median hourly pay of the White/White British population and some (but not all) other ethnic groups. In this section of our report, we investigate whether these pay differences remain when holding constant characteristics that typically drive pay. These characteristics include personal factors (such as age and region) and work-related factors (such as occupation and working hours).<sup>15</sup> In this way, we can compare ‘like-for-like’. In keeping with prior research, we refer to the pay gaps that persist after controlling for pay-determining characteristics as ‘pay penalties’.

**Figure 7:** Pay penalties by ethnicity and country of birth, 2020



**Source:** Strategy& analysis of ONS data

### Our analysis shows that, even after adjusting for pay-determining characteristics, there remains significant pay penalties between the White British population and other ethnic minorities:

- There is a positive pay penalty for both UK-born and non-UK born individuals in 11 of the 15 minority ethnic groups. These groups earn less on average than the White British population, even when you control for a selection of individual characteristics. White Irish is the only ethnic group where both the UK-born and Non-UK born pay penalty is negative.
- Non-UK born Bangladeshis and Pakistanis bear the greatest pay penalties — they earn as little as 78p and 79p respectively for every £1 earned by the average White British person, even when you control for a selection of individual characteristics.
- In 8 out of 15 minority ethnic groups, the Non-UK born pay penalty is larger than the UK-born pay penalty. In some cases, this difference is quite large. The ethnicity pay penalty for non-UK born Bangladeshis is more than four times the size of the pay penalty for UK-born Bangladeshis. However, both groups earn less than the White British population on average.



Why do these pay penalties persist even when you compare individuals on a like-for-like basis? There are two possible explanations:

**1. Pay penalties are the result of additional known drivers of pay that have been omitted from our model.**

There are some drivers of pay we were unable to hold constant. For instance, we were unable to fully control for socioeconomic background, which continues to be a major driver of life chances and earning potential in the UK.<sup>16</sup> In this sense, it is plausible that ethnic minorities have inherited the historical disadvantages of their parents and prior generations before them. While there is some evidence to support this theory, it is unlikely to fully explain away the pay penalties we estimate.<sup>17</sup> This is because our model indirectly controls for most of the key channels through which a lower socioeconomic background can depress earnings (including, for example, occupation and education). It should also be noted that the socioeconomic status of the parents of ethnic minorities will in-part be determined by the racism they faced during their careers. In this way, socioeconomic status is one channel through which historic injustices are reproduced over time.

We were also unable to control for the additional value that is attached to qualifications that are obtained domestically, rather than abroad. As a proxy, we control for country of origin, though this is an imperfect substitute. We expect this is one of the main reasons why the pay penalties of non-UK born ethnic minorities tend to be greater than those borne by UK-born ethnic minorities.<sup>18</sup>

**Our analysis presents convincing evidence that race remains a determining factor for professional success.**

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<sup>16</sup> National Equality Panel (2010). An anatomy of Economic Inequality in the UK

<sup>17</sup> Li and Heath (2016). Class Matters: A Study of Minority and Majority Social Mobility in Britain, 1982–2011

<sup>18</sup> Friedberg (1996). You can't take it with you? Immigrant assimilation and the portability of human capital

## 2. Pay penalties are indicative of wider structural inequality.

Our analysis has shown that pay gaps between ethnic minorities and the White population persist even once you control for personal and work-related characteristics. We have also explained why we expect that the other ‘known’ pay-determining characteristics that we were unable to control for are unlikely to fully explain away the pay penalties we estimate. For these reasons, our analysis presents convincing evidence that race remains a determining factor for professional success — and that ethnic minorities are being held behind in the workplace for reasons beyond their control.

There is a wider body of evidence for discrimination in the workplace across the UK. A 2019 study conducted by the Centre for Social Investigation found that levels of discrimination have remained unchanged since the 1960s, with applicants from minority ethnic backgrounds having to send 60% more applications to get a positive response from an employer compared to White British candidates.<sup>19</sup>

There is also evidence that ethnic minorities are discriminated against during promotion rounds and pay negotiations. Almost one in three people from an ethnic minority background report being unfairly overlooked for a pay rise (29%) or a promotion (28%), compared to around one in five White workers (22% of which report being unfairly denied a pay-rise, and 21% a promotion).<sup>20</sup> In turn, only 10 out of 300 senior leadership positions in FTSE 100 companies are currently held by people from ethnic minority groups.<sup>21</sup>

Discrimination at each stage of your career (in recruitment, promotions, pay-rounds and so on) accumulates over the course of a lifetime. Highly qualified young people from ethnic minority backgrounds are rejected from jobs and promotions that would have enabled them to accumulate the experience needed to maximise their earning potential. Others may limit their career ambitions because they are aware of the barriers they will face in the workplace. As a result of all of these factors, people from ethnic minority backgrounds can be put on a permanently lower career track that doesn’t fully meet their potential.

Clearly this is just the tip of the iceberg - how ethnic minorities are treated in wider society will have implications for their professional success. However, crucially, our analysis shows that government policy aimed at upskilling ethnic minorities, or shifting them into higher-paid occupations, will not be sufficient — despite the merits of such policies. This is because ethnic minorities are earning less than their White counterparts even when they have the same qualifications and are working in the same jobs. Although it may be more challenging, tackling inequality across society and in the labour market is essential to closing the pay penalties borne by ethnic minorities.

19 Di Stasio, V., & Heath, A. (2019). Are employers in Britain discriminating against ethnic minorities. Centre for Social Investigation. [http://csi.nuff.ox.ac.uk/wp-content/uploads/2019/01/Are-employers-in-Britain-discriminating-against-ethnic-minorities\\_final.pdf](http://csi.nuff.ox.ac.uk/wp-content/uploads/2019/01/Are-employers-in-Britain-discriminating-against-ethnic-minorities_final.pdf)

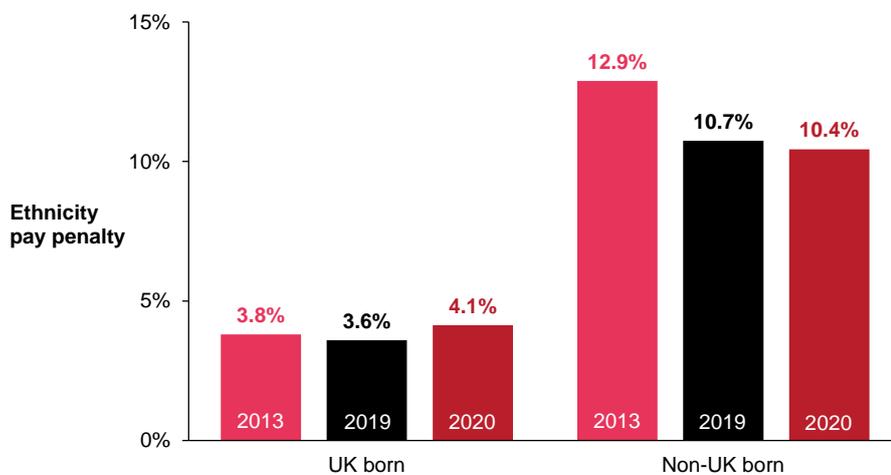
20 TUC (2021). One in three BME workers say they have been unfairly turned down for a job: TUC poll. <https://natcen.ac.uk/media/20541/test-for-racial-discrimination.pdf>

21 CBI (2020). Daily Coronavirus Webinar: Race and equality: Inclusive recruitment and promotion policies. <https://www.cbi.org.uk/articles/daily-coronavirus-webinar-race-and-equality-inclusive-recruitment-and-promotion-practices-10-07-2020/>

### Ethnicity pay penalties have remained stubbornly high over the past seven years, with the pandemic worsening disparities for UK-born workers

Over the past seven years, there has been some movement in pay penalties — but overall there is little evidence that the UK is making the progress it needs to make. Between 2013 and 2019, the non-UK born pay penalty narrowed slightly (falling from 12.9% to 10.7%), while the UK-born pay penalty remained largely constant (falling from 3.8% to 3.6%). Looking at 2020, where we should start to see the initial effects of the pandemic, we can see that the UK born pay penalty has increased from 3.6% to 4.1%, suggesting that the COVID-19 has worsened ethnicity pay penalties for UK-born workers. Meanwhile, the non-UK born pay penalty has continued to narrow very slightly (from 10.7% to 10.4%).

**Figure 8:** Ethnicity pay penalty, by country of origin, 2013 to 2020, England and Wales



**Source:** Strategy& analysis of ONS data

**Note:** 2013 is included as a reference point due to differences in how variables were recorded in the Annual Population Survey in the years prior.



**While our 2020 data indicates that COVID-19 has not resulted in significant movement to overall pay penalties, there is significant evidence to suggest that these headline figures obscure the disproportionate health and economic impacts experienced by the ethnic minority population during the pandemic:**

- Ethnic minorities have been almost **three times more likely to contract COVID-19** than the White population, and **five times more likely to experience severe outcomes**.<sup>22</sup>

- Ethnic minorities are **overrepresented in the sectors most impacted by COVID-19 lockdowns**, such as retail and hospitality, making them more vulnerable to job losses and weaker pay growth.<sup>23</sup>
- Ethnic minorities have **borne the brunt of job losses** during the pandemic, with ethnic minority employment falling by a staggering 5.3% over the past year, compared to a fall of 0.2% in White employment.<sup>24</sup>

- This is in part because **UK-born White British people have been 1.7 times more likely to be furloughed than their ethnic minority colleagues**, even when you control for personal and work-related characteristics.<sup>25</sup>
- Ethnic minorities have been more likely than the white UK-born population to report increased **difficulty in keeping up to date with their bills during the pandemic**.<sup>26</sup>

22 NHS Race and Health Observatory (2020). Impact of COVID-19 on different ethnic minority groups <https://post.parliament.uk/impact-of-covid-19-on-different-ethnic-minority-groups/>

23 House of Commons Library (2020). Coronavirus: Which workers are economically impacted? <https://commonslibrary.parliament.uk/coronavirus-which-workers-are-economically-impacted/>

24 TUC (2021). Black and minority ethnic (BME) workers have been hit much harder by job losses during the pandemic. <https://www.tuc.org.uk/news/black-and-minority-ethnic-bme-workers-have-been-hit-much-harder-job-losses-during-pandemic>

25 Hu (2020). Intersecting ethnic and native-migrant inequalities in the economic impact of the COVID-19 pandemic in the UK. <https://www.sciencedirect.com/science/article/pii/S0276562420300640>

26 Ibid.

**Closing the ethnicity pay gap could generate up to £24 billion a year for the UK economy, as well as countless benefits for organisations**

Increasing diversity of organisations isn't just the right thing to do — 'lost' productivity and potential represents a huge missed opportunity for businesses, and impacts the economy as a whole. Studies have shown that the potential benefit to the UK economy from full representation of Black and ethnic minority individuals across the

labour market through improved participation and progression could reach £24 billion a year. Higher wages encourage more ethnic minorities to enter the labour market, leading to an increase in the productive capacity of the economy and therefore increased employment. Increased labour force participation also has much broader societal implications — for example, expanding the labour force by including more ethnic minorities may help to mitigate the impacts of

an ageing population.

In addition to the economic benefits, taking positive action on the ethnicity pay gap will have significant benefits for organisational reputation, culture, and employee experience. Ultimately, addressing the ethnicity pay gap is a crucial first step to diversity and inclusion (D&I). Creating environments that recognise the importance of D&I can support wider talent, brand and operational strategies, and help to achieve key business outcomes:

Benefit		
<p><b>Creating better returns for businesses</b></p> 	<p><b>Being a more attractive workplace to potential and existing employees</b></p> 	<p><b>Improved reputation and brand to create better outcomes for customers</b></p> 
<p>Organisations with greater ethnic diversity in their leadership teams are more likely to be profitable and generate shareholder returns. Based on 2020 analysis of more than 1,000 organisations across 15 countries, organisations in the top quartile for ethnic diversity on executive teams are 36% more likely to have above-average profitability than organisations in the fourth quartile. The likelihood of outperformance appears even higher for ethnicity compared to gender — organisations in the top quartile for gender diversity on executive teams are 25% more likely to have above-average profitability than organisations in the fourth quartile.<sup>28</sup></p>	<p>A diverse and inclusive workforce is crucial for organisations that want to attract and retain talent. When asked to prioritise the societal outcomes that businesses should help deliver, CEOs put the creation of a skilled, adaptable workforce at the top of the list.<sup>29</sup> People with these capabilities and characteristics are among the hardest to recruit. Diversity and inclusion can help bridge these skills gaps by broadening talent pools and making businesses more attractive. A diverse set of experiences, perspectives and backgrounds generate more innovation and new ideas.</p> <p>In a separate PwC survey of more than 10,000 working millennials across the globe, more than 80% of participants say an employer's policy on diversity, equality and workforce inclusion is an important factor when deciding whether or not to work for them.<sup>30</sup> This reflects people's desire to be part of a business that not only offers them opportunities to develop their individual careers, but also has values which are aligned to their own.</p>	<p>From a brand and reputational perspective, diversity and inclusion are increasingly recognised as key influencers of consumer choice. This influence may be direct, with customers consciously opting for brands promoting diversity and inclusion. It can also be unconscious, through consumers' desire to engage with people who reflect and understand them.</p> <p>A diverse workforce can help organisations to understand different segments of the population better, anticipate their needs and deliver on them. As a result, organisations can better engage a diverse client base and succeed in a wide number of markets.</p> <p>Regulators are also placing increased scrutiny on diversity and inclusion - looking at what role they can most usefully play to accelerate meaningful change, and create organisations that reflect the diverse consumers which they serve.<sup>31</sup></p>

27 Baroness McGregor-Smith (2017). Race in the workplace: The McGregor Smith Review. <https://www.gov.uk/government/publications/race-in-the-workplace-the-mcgregor-smith-review>

28 McKinsey (2020) Diversity wins: How inclusion matters. <https://www.mckinsey.com/featured-insights/diversity-and-inclusion/diversity-wins-how-inclusion-matters>

29 PwC (2021). 24th Annual Global CEO Survey. <https://www.pwc.com/gx/en/ceo-agenda/ceosurvey2021/report.html>

30 PwC (2017). Magnet for talent: Managing diversity as a reputational risk and business opportunity. <https://www.pwc.co.uk/human-resource-services/assets/documents/diversity-and-inclusion-reputation-2017.pdf>

31 For example, the Financial Conduct Authority, the Prudential Regulation Authority and the Bank of England recently produced a discussion paper on their role in promoting diversity and inclusion in the financial sector. FCA (2021). Diversity and inclusion in the financial sector - working together to drive change. <https://www.fca.org.uk/publications/discussion-papers/dp-21-2-diversity-and-inclusion-financial-sector-working-together-drive-change>

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# Recommendations

There are significant disparities in ethnicity pay across the UK, particularly when viewed by gender and region. People from ethnic minority groups continue to be paid significantly less than their White counterparts with the same personal and work-related characteristics, and there is limited evidence to suggest this is changing over time. Our analysis provides evidence of inequality in the UK labour market.

As our analysis shows that ethnic minorities are earning less than their White counterparts working in the same occupations and with the same level of qualifications, policies aimed at upskilling ethnic minorities will only have limited success. Governments, policymakers and businesses should all take action through better ethnicity pay gap reporting, interventions to fairly value and compensate work, and the implementation of effective action plans to support and empower progression for a diverse workforce in the workplace.





When PwC UK chose to publish its ethnicity pay gap five years ago, we knew that doing so may generate uncomfortable conversations across the firm. Yet we also recognised that this transparency is a vital tool in driving a culture of accountability and action. By doing so we have been able to take meaningful steps to nurturing a truly inclusive and diverse workplace, and set targets to monitor and report on our progress."

**Laura Hinton**

Chief People Officer, PwC UK

This can be achieved by:

**Mandating ethnicity pay gap reporting, to strengthen business accountability.**

Transparency not only demonstrates a strong commitment to improving diversity, it also strengthens accountability for addressing the causes of inequality. In possession of the right facts, a business can understand whether opportunities are equal across its workforce and pinpoint specific areas where action is required. Collecting disaggregated data on metrics such as pay, working hours, promotion, representation in senior roles, and attrition can help organisations to diagnose specific disparities that exist, and inform the design of effective workplace interventions. Organisations should also continually monitor and report on key metrics, to evaluate the effectiveness of any interventions over time and assess progress against industry, national and international benchmarks.

In the UK, it is not currently mandated that companies disclose ethnicity pay gaps. In January 2019, the UK Government closed its consultation on ethnicity pay reporting, with results expected later this year. A 2020 PwC survey of more than 100 UK companies, representing around one million employees combined, found that while two in three companies in the survey were collecting ethnic pay data, only one in ten companies had reported their ethnicity pay gap.<sup>32</sup>

We know there are a number of organisations that are already reporting their ethnicity pay gap. At PwC in the UK, we have been voluntarily publishing our ethnicity pay gap data since 2016 because we believe it's an important step towards ensuring our workforce is diverse, inclusive and fair for everyone. For the first time in January 2021, PwC UK also published its Black, Asian and Mixed Ethnic Background pay gaps. For the majority of organisations, reporting is a long way off. Fewer still take active steps to measure experiences of inclusion within organisations. The

reasons for this vary, from the complexities of collecting data to concerns around the quality and extent of this data. However, delaying reporting will not solve these challenges and will only add to the complexity. Reporting on ethnicity pay gaps may reveal harsh truths, but that's a real trigger for action.

**Providing robust data on a national level, to support the development of effective policy response.**

The responsibility for ethnicity pay gap reporting does not fall to businesses alone, however. Robust data is crucial to developing effective policy responses. The ONS presented the first analysis of ethnicity pay gaps in the UK in 2018, including backwards looking estimates from 2012. This analysis was re-produced once in 2019, before being decommissioned. Without meaningful intersectional data in large government datasets, meaningful analysis will not be possible. The timing has never been more urgent — it is vital that we understand the barriers faced by different groups, and why they exist, so as not to leave anyone behind in our plans and priorities for recovery.

<sup>32</sup> PwC (2020). Ethnicity pay gap reporting - A focus on inclusion, equality, and fairness. <https://www.pwc.co.uk/human-resource-services/assets/pdfs/ethnicity-pay-report.pdf>



### Implementing effective diversity action plans in the workplace.

When organisations set targets for recruitment, promotion and representation of ethnic minorities and then implement initiatives to deliver on them, ethnic minorities are more likely to progress in the workplace, helping to reduce the ethnicity pay gap.

Organisations can support and empower ethnic minorities in the workplace by devising D&I plans which set targets and outline initiatives to address ethnic disparities.

- An example might be setting targets for the number of ethnic minorities recruited and promoted in each financial year, and the proportion of senior positions occupied by ethnic minorities.
- As part of these plans, organisations can provide workplace initiatives such as unconscious bias training, mentorship and sponsorship programmes, and networking and affiliate groups to foster a diverse and inclusive environment which attracts, retains and facilitates the progression of ethnic minorities.

- Organisations can prioritise providing ethnic minorities with leadership and development opportunities through education and training. These initiatives are particularly important to facilitate progression to senior roles which often require a high level of skill and specific expertise.

Many organisations have already publicly declared their commitments to D&I action plans. PwC analysis, based on a survey of almost 1000 corporate respondents across 19+ countries and 26 industries, suggests however that diversity remains a barrier to progression.<sup>33</sup> Only 2% of European organisations' D&I programmes reached the highest level of maturity when assessed against four key dimensions. These dimensions provide insight on what differentiates a leading D&I programme from others which are ineffective at realising their goals:

- **Initiating a continuous data-driven process** for understanding the facts. This includes gathering and analysing data to remove bias and increase opportunity, including demographic data, performance and compensation data, and feedback from customers. It also includes sharing this information with employees.

- **Creating a business-focused vision** and strategy for D&I that reflects the reality of today and potential for tomorrow. This includes identifying D&I as a priority for driving business results, as well as publicly communicating progress towards meeting goals.
- **Engaging leadership** around an inspirational D&I strategy by articulating the business case and establishing supportive governance. This includes leaders communicating regularly about D&I as part of broader discussions about business priorities and results, holding leaders accountable for D&I results, and placing oversight for D&I with senior leadership and the Board of Directors.
- **Executing the D&I strategy** across all elements of the business. This includes embedding a diversity lens into talent management, training, and supply chain operations and programmes; embracing a broad definition of diversity that includes a focus on inclusion of all differences; and leveraging affinity networks to inform strategic priorities.

<sup>33</sup> PwC (2020). Global Diversity & Inclusion Survey. <https://www.pwc.com/gx/en/services/people-organisation/global-diversity-and-inclusion-survey.html>

# Appendix

## Our approach

Our data is sourced from the Annual Population Survey (APS). We first present simple comparisons of median hourly pay earned by individuals from White British and 15 other ethnic groups. These comparisons are extended to different genders, and different UK regions.

While comparisons of median hourly earnings are useful for comparing groups of employees, they alone do not take into account the differences between demographic characteristics that are common to these groups. For example, ethnically diverse groups generally working in certain occupations compared to their white counterparts, or being concentrated in certain geographic areas. These characteristics also impact earnings, as illustrated in Box 1 below.

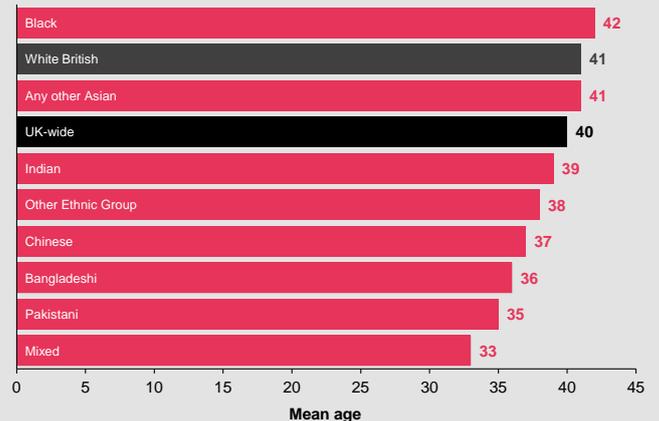
## Box 1: Example characteristics affecting earnings

### Age

Figure 9a: Median hourly pay (2020), by age group, UK



Figure 9b: Median age (2020), by ethnic group, UK



Source: Strategy& analysis of ONS data

There is a non-linear relationship between age and pay. Pay typically rises as workers get older, and then starts to decline from around 50 onwards. This is because age tends to act as a proxy for experience and the build up of skills over time, which start to deteriorate as you reach the end of your career. As a result, if ethnic groups within the UK have different age profiles, then we would expect this to impact their average earnings.

As Figure 9b shows, most ethnic groups have a lower average age than the White British population, so we would expect this to have an effect on their average earnings. To strip out the effects of these different age profiles, we include both age and age<sup>2</sup> in our 'pay penalties' model. Both variables are included to approximate the non-linear relationship between age and pay.



## Geography

**Figure 10a:** Median hourly pay (£), by region

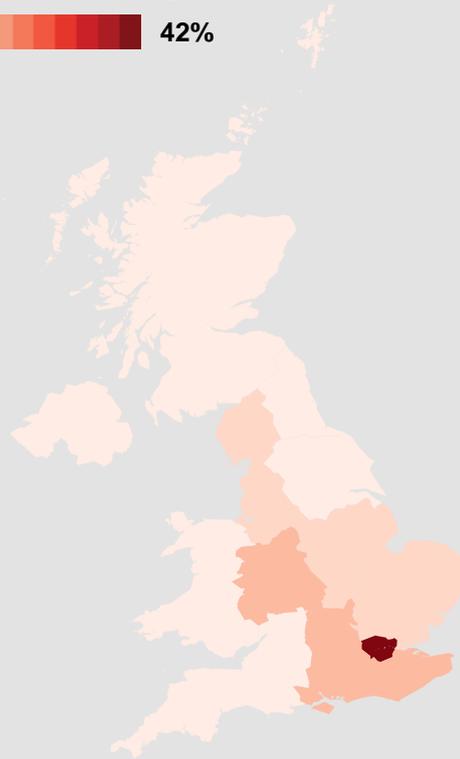
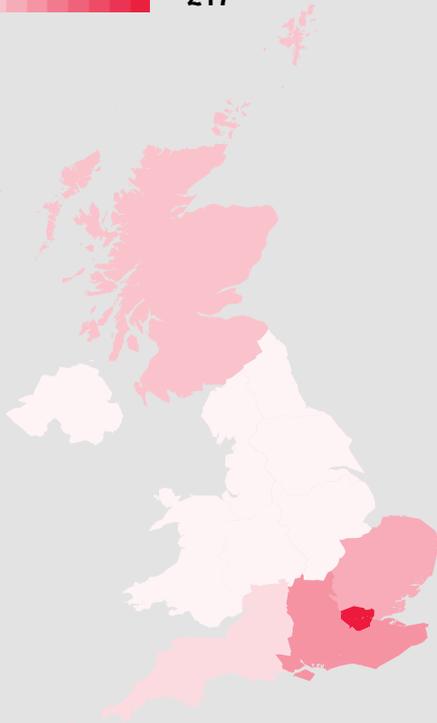
**Figure 10b:** Share of total non-White population (%), by region

**Median hourly pay by region**

£11  £17

**Share of total non-white population**

0%  42%



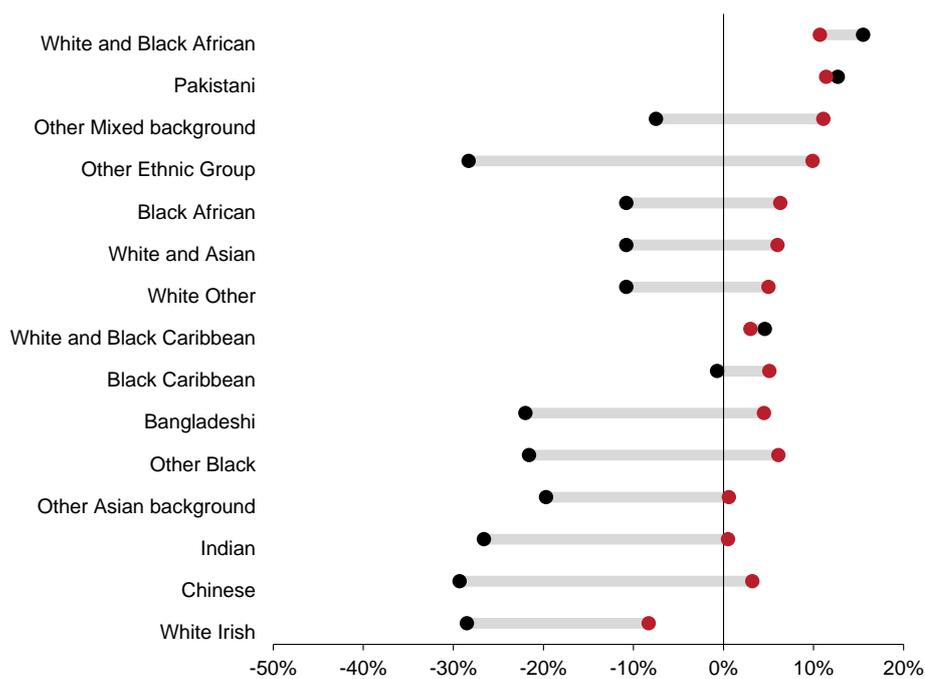
**Source:** Strategy& analysis of ONS data

In the UK, where you live is one of the biggest determinants of your pay. The highest earning region (London) earns almost 50% more on average than the lowest earning region (North East). As a result, if there is an uneven geographic distribution of ethnic groups in the UK, then we would expect this to impact their average earnings.

As Figure 10b shows, the non-White population of the UK is not evenly spread across the UK. Indeed, around four in 10 of the non-White population is based in the highest earning region (London). We would expect this to somewhat artificially push up the wages of the non-White groups in our sample. To strip out this regional effect, our 'pay penalties' model adjusts the pay of each group to London levels.

In order to account for these characteristics, we conduct a quantile regression analysis to estimate pay gaps based on conditional medians (as opposed to ordinary least squares regression, which would be based on conditional means). This enables us to compare more easily with the raw pay gaps discussed in this report, which are also calculated from medians. Figure 11 below shows the impact of controlling for pay-determining characteristics on the unadjusted ethnicity pay gaps, which we refer to as 'pay penalties'.

**Figure 11:** UK-born pay gaps and penalties (2020), England & Wales,



**Source:** Strategy& analysis of ONS data



For our quantile regression, we use the logarithm of hourly pay as our dependent variable, controlling for the following independent variables:

- Logarithm of hourly pay
- Age and age<sup>2</sup>
- Ethnicity
- Region
- Country of birth
- Marital status
- Sex
- Working pattern
- Occupation
- Sector of employment
- Highest qualification obtained

We include a number of interaction terms, as follows:

- Gender\*Working status
- Country of origin\*Ethnicity

While medians are also more robust to outliers than means, we have also removed the top 1% and bottom 2% of pay distribution from our data. APS data on earnings is known to be subject to greater recall error than data collected from the Annual Survey of Hours and Earnings (ASHE), a business survey.

Furthermore, earnings questions on the APS are known to have poor response rates. The achieved sample for APS earnings questions is usually around 9,000, compared with approximately 150,000 respondents on ASHE. This limited sample size restricts the extent to which multivariate analysis can be performed, particularly where the independent variables of interest have many categories. Therefore, consistent with the ONS approach, we apply an income weight to the APS. More information on the calculation of this weight can be found in Volume 6 of the Labour Force Survey User Guide.<sup>34</sup>

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<sup>34</sup> Office for National Statistics (2019). Ethnicity pay gaps: 2019. <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/articles/ethnicitypaygapsingreatbritain/2019>



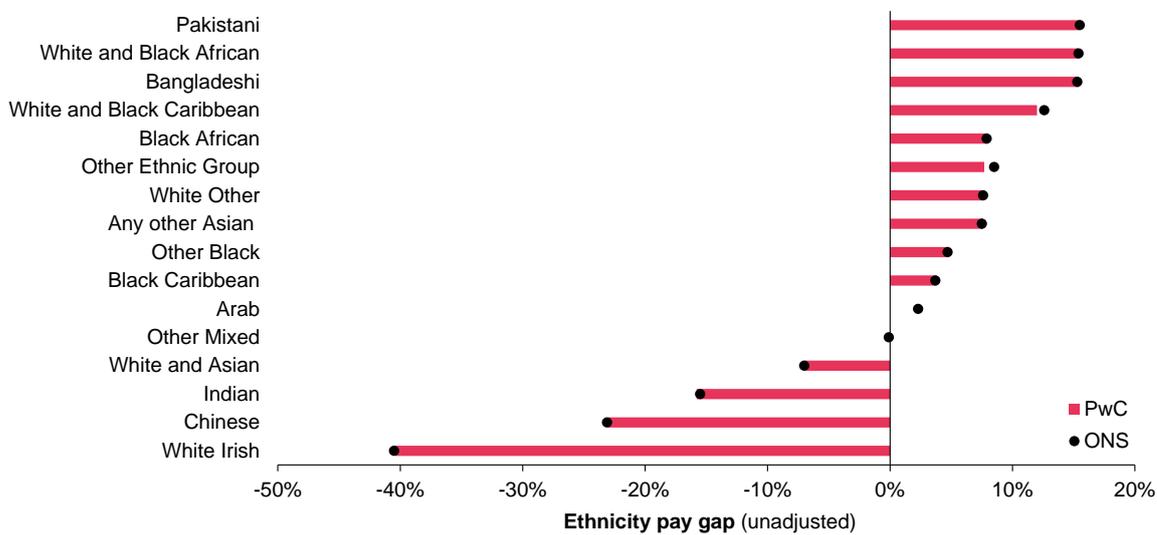
### **Differences between our approach and the ONS approach**

We have aimed to follow the methodology used by the ONS in their 2019 analysis of ethnicity pay gaps as closely as possible.<sup>35</sup> As a result of data limitations, there are two slight differences between our approaches, which are as follows:

- We have not controlled for whether employees have dependent children. While this variable may not directly affect pay, it may indirectly do so by influencing the choice of occupation.
- We have only controlled for geography at a NUTS1 — as opposed to NUTS2 — level. This means that we control at a regional level, rather than a more granular county level.

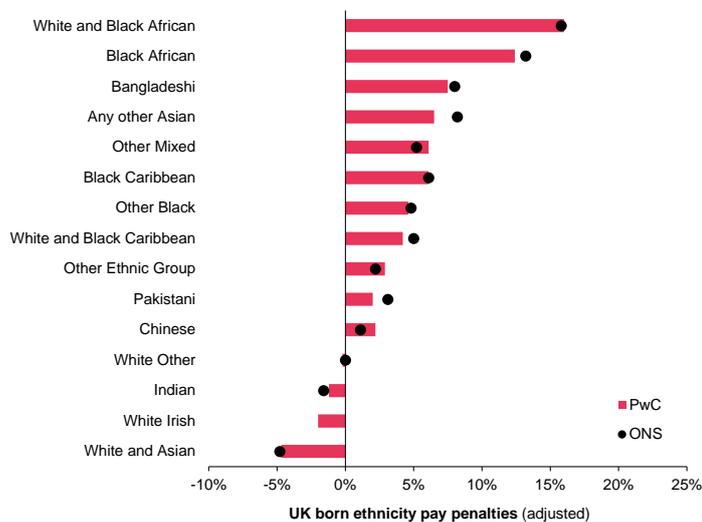
In Figure 12, we compare the results of our analysis with the ONS' 2019 analysis. It is clear that the (unadjusted) ethnicity pay gaps we estimate are very close to those estimated by the ONS, with an average difference of 0.1 percentage points. However, as Figure 13 shows, there is slightly more variability between our estimates for the (adjusted) ethnicity pay penalties and the ONS equivalents, though the average percentage points difference is still less than 0.1 percentage points. As our unadjusted estimates are closely aligned to the ONS, we expect that these slight differences between our adjusted estimates are being driven by the omitted variables listed above.

**Figure 12:** Ethnicity pay gaps (2019), unadjusted, England & Wales,



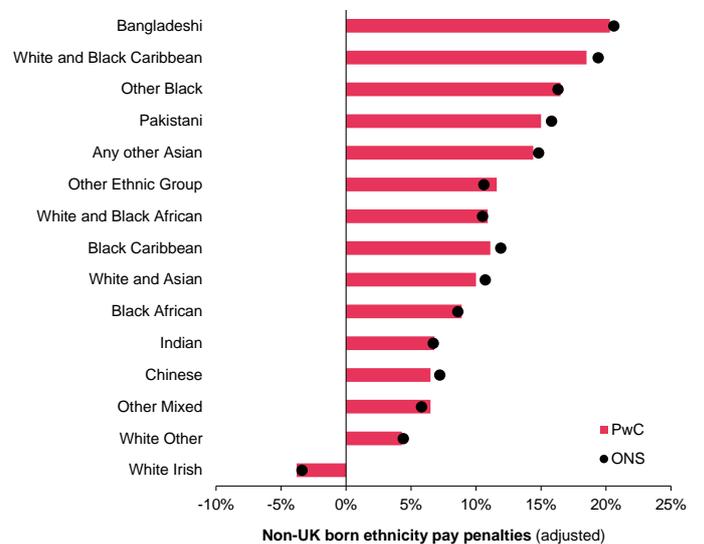
Source: Strategy& analysis of ONS data

**Figure 13a:** UK born ethnicity pay penalties (2019), adjusted, England & Wales



Source: Strategy& analysis of ONS data

**Figure 13b:** Non-UK born ethnicity pay penalties (2019), adjusted, England & Wales



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