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## Diversity and inclusion reputation 2017

*While diversity and inclusion now play a powerful role in shaping stakeholder perceptions, the reputational risks and opportunities aren't being adequately managed. What's at stake and how can your business get up to speed?*

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# ***Magnet for talent:*** Managing diversity as a reputational risk and business opportunity







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## **Introduction:**

# Diversity and inclusion are reputational risks that you can't afford to ignore

*Your record on diversity and inclusion is under scrutiny, not only among the talent you need to attract and retain, but consumers and investors as well.*

As diversity and inclusion become increasingly crucial in determining how your organisation is perceived by these key stakeholders, it's important to recognise this as a business issue and, in particular, a reputational risk, rather than just an HR issue. There are clear upsides if you can get to grips with the reputational risks. But there are also damaging downsides.

## What's at risk?

### **Downsides of poor reputation on diversity and inclusion**

- 1 Deterring talent:** The talent you need to attract may be encouraged to look elsewhere if they believe your organisation's approach to diversity and inclusion would make it harder for them to fulfil their potential. Existing employees may also become disillusioned with their prospects and leave.
- 2 Putting off customers:** If you don't have a good reputation for diversity and inclusion, there is a risk that customers will switch to a competitor that does. There is even a risk that your business could be boycotted by certain groups.
- 3 Difficult questions from investors:** Shareholders want assurance on anything that affects your organisation's reputation, and hence the value of their investment. As a result, they're asking more and more questions about diversity and inclusion.

### **Benefits of a favourable reputation on diversity and inclusion**

- 1 Attracting talent:** A positive reputation on diversity and inclusion will make your business more attractive to work for.
- 2 Closer to customers:** Bringing a more diverse range of people into your organisation and winning the trust of different communities is an opportunity to get closer to customers and develop more targeted and tailored products and services.
- 3 Enhancing trust:** How open you are about diversity and inclusion is a litmus test for wider transparency and trust. Even if your track record isn't great, being transparent about an issue that is high profile, and one that stakeholders care about, will strengthen your reputation elsewhere.



The spotlight is likely to be heightened by regulation requiring your business to publicise its record on diversity and inclusion. In the UK, for example, companies with more than 250 employees will, from this year be required to publish information about the gender pay gap within their organisations<sup>1</sup>. Comparisons with peers are inevitable and could be uncomfortable. And, once these disclosures begin to hit the headlines, the questions are likely to move beyond gender pay to reach into a much broader spectrum of sensitive issues ranging from facilities for people with disabilities to the ethnic make-up of your executive team.

It's therefore important to know how your organisation comes across on diversity and inclusion, what reputational risks this opens up and how these can be best managed. This is what this report sets out to do. In 2017, we analysed 39 companies to determine how their record and objectives on diversity and inclusion are likely to be perceived by key stakeholders<sup>2</sup>. From disclosed strategies, objectives and key performance indicators to levels of engagement and accountability within senior management, the analysis looked at information in the public domain across the four key dimensions of strategy, leadership, HR processes, and other diversity and inclusion initiatives. The result is a progress rating in each of the four

dimensions, ranging from 'simplistic' through to 'defined', 'advanced' and 'leading'. Although the analysis isn't exhaustive, it sheds useful light on perception, gaps in policy development, measurement and communication, and what more could be done to protect and enhance the reputation of the business.

In general, the larger businesses within our research have more developed diversity and inclusion strategies and associated disclosures. Yet none ranked as 'leading' across all four dimensions, which highlights the continuing room for improvement. For businesses that are behind the curve now, our research identifies opportunities to learn from peers that are further along this journey as they look to accelerate progress.

As our analysis highlights, the priorities for action don't just include how diversity and inclusion are communicated, but also the development of underlying strategies, targets and measurement against them. The overriding priority is recognising diversity and inclusion as a reputational risk, which should be built into business planning and managed with the same strategic focus, systematic monitoring and, where necessary, active intervention as other risks and business issues.

<sup>1</sup> 'Gender pay reporting is here, make the most of it', PwC, April 2017 (<https://www.pwc.co.uk/services/human-resource-services/gender-pay.html>)

<sup>2</sup> The information used in the research came from websites, annual reports, careers sites and general online searches (including mainstream social media sites). The use of publicly accessible information as the basis for the analysis, rather than how the organisation perceives itself, was intentionally designed to replicate the way that an external stakeholder would access information and, therefore, gain a view of the external reputation of an organisation's diversity and inclusion 'brand'.

## What we mean by diversity and inclusion

### ***Diversity***

People of all backgrounds, life experiences, preferences and beliefs are recognised and respected as individuals and valued for the different perspectives they bring.

### ***Inclusion***

All people are given equal opportunity to contribute to business success and be their true selves, regardless of background.

These definitions have informed the development of the methodology and rating criteria we used in the analysis for this report.

## How we rated FS organisations' reputation on diversity and inclusion

39 companies were assessed against 17 sets of progress criteria:

### ***1 Diversity and inclusion strategy***

Rating the extent to which formal strategies and policies are referenced, associated metrics are published and individuals are identified as being responsible. The organisations out in front not only show that they have comprehensive strategies and policies in place, but these are well articulated, a senior executive is responsible for delivering the objectives and a range of relevant metrics are monitored, tracked and published to the extent appropriate.

### ***2 Leadership and tone from the top***

Rating the relative passion for and direct involvement of the leadership team in promoting diversity and inclusion, and building them into the management of the business. The organisations out in front have active sponsorship and advocacy from the leadership team, and these values are reflected in their behaviour, decision making, performance assessment and reward.

### ***3 HR processes***

Rating the extent to which key HR policies such as recruitment and career progression programmes for under-represented groups are in place and referenced. The organisations out in front not only show that they have comprehensive policies and supporting processes in place, they also regularly report on progress and act on this information. The available information also demonstrates how they are looking to lead their industry and the wider economy in these areas.

### ***4 Other diversity and inclusion initiatives***

Includes the level of information on networks for minority and under-represented groups, awareness training in areas such as unconscious bias and involvement in awards programmes. The organisations out in front not only show that such initiatives are in place, but how they are built into the culture and management of the business in areas ranging from levels of training to the promotion of dialogue between networks, internally and outside.



# Why the reputational stakes are rising

*The risks surrounding diversity and inclusion are insufficiently recognised and managed.*

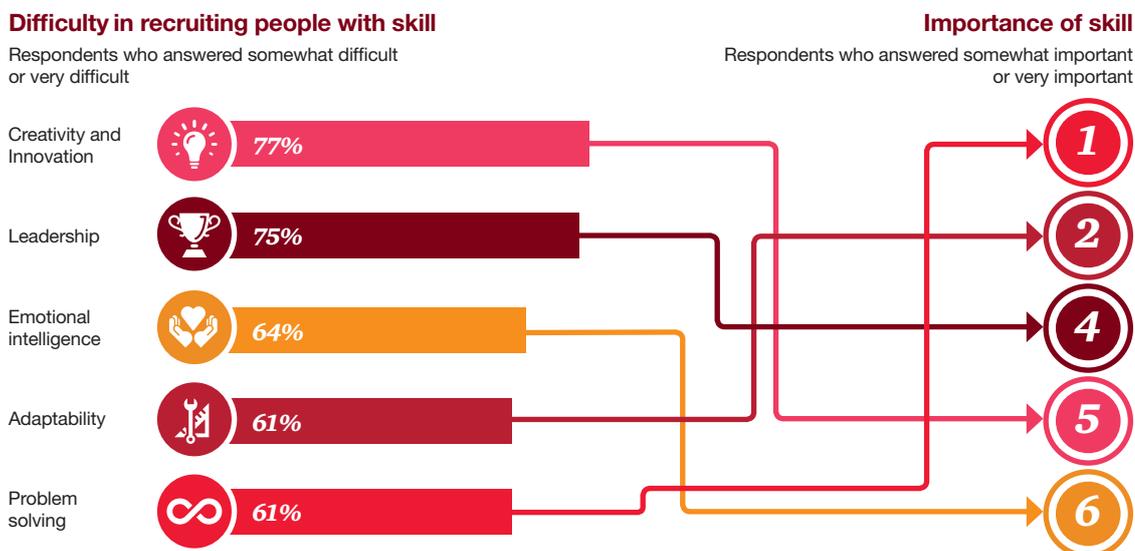
In marketplaces facing escalating disruption, the skills your organisation needs to succeed are changing. This isn't just technical skills. More than 80% of the business leaders taking part in our latest CEO Survey see emotional intelligence, creativity and innovation as important for success. And people with these capabilities and characteristics are among the hardest to recruit (see Figure 1), adding to the pressure on talent supply and retention – 77% of CEOs see the limited availability of skills as a threat to their company's growth prospects.

Diversity and inclusion can help you to bridge these skills gaps by broadening your talent pool

and making your business more attractive – 87% of CEOs promote diversity and inclusion within their organisations<sup>3</sup>. The opportunity to boost your appeal to talent was highlighted in a survey of more than 10,000 millennials (people born between 1980 and 1995) we carried out in 2015 – over 80% of participants said that an employer's policy on diversity, equality and workforce inclusion is an important factor when deciding whether or not to work for them<sup>4</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.

**Figure 1: Prized skills**

Q: How difficult, if at all, is it for your organisation to recruit people with these skills or characteristics?  
 Q: In addition to technical business expertise, how important are the following skills to your organisation?



Source: 1,379 CEOs taking part in PwC's 20th CEO Survey (ceosurvey.pwc)

3 20th CEO Survey, PwC (ceosurvey.pwc)

4 'The female millennial: A new era of talent', PwC, 2015 ([http://www.pwc.com/jg/en/publications/the-female-millennial\\_a-new-era-of-talent.pdf](http://www.pwc.com/jg/en/publications/the-female-millennial_a-new-era-of-talent.pdf))

**Figure 2: Diversity and inclusion under candidate scrutiny**

Q: When deciding to accept a position with your most recent employer did you do any of the following?

	Male 	Female 
<b>Research if they have diversity and inclusion policies</b>		
Yes - completely	18%	22%
Yes - somewhat	27%	32%
<b>Look at the diversity of their leadership team</b>		
Yes - completely	15%	24%
Yes - somewhat	33%	37%
<b>Explore if you felt they had positive role models whom are similar to you</b>		
Yes - completely	26%	26%
Yes - somewhat	40%	42%
<b>Ask about their diversity and inclusion policies during your interview/s</b>		
Yes - completely	13%	19%
Yes - somewhat	22%	29%

Source: 4,792 employees participating in PwC Inclusive Recruitment Survey 2017

**Figure 3: Incorporating diversity and inclusion into the employer brand**

Q: Have you incorporated diversity and inclusion within your employer brand?

No	24%
Yes, we make sure imagery included on our website and in recruitment materials (for example, leaflets, brochures, apps) reflect the diversity of our workforce	33%
Yes, we include profiles/testimonials on our career page from minority & female employees and leaders	24%
Yes, we share the details of our diversity strategy on our organisation website	29%
Yes, we publically share information about the diverse make up of our workforce and leadership team	27%
Yes, we publically disclose our organisational diversity targets (for example for leadership)	24%
Yes, we publically disclose our organisational gender pay gap	11%
Yes, we communicate our diversity strategy and diverse employees via our organisation's social media channels	27%

328 employers participating in PwC Inclusive Recruitment Survey 2017

## Why diversity and inclusion is a competitive issue

The benefits of diversity and inclusion not only include a broader talent pool, but also a workforce that better reflects your customer base and can therefore serve them more effectively. Recruiting people from more diverse backgrounds would also bring in the fresh ideas and experiences needed to foster innovation, deal with upheaval and capitalise on opportunities.

### Perception is critical

With diversity and inclusion playing such an important factor in choosing an employer, your reputation on these issues is critical. The big risks include appearing not to give sufficient attention to diversity and inclusion or an experience that doesn't match the claims. In a survey of more than 4,000 people from around the world that was carried out earlier in the year, 52% of the women taking part and 39% of the men said that organisations talk about diversity, but opportunities are not equal for all<sup>5</sup>. When asked whether diversity (e.g. gender, ethnicity or age) can be a barrier to progression within their organisation, 38% of women and 28% of men said yes.

Candidates want an honest picture of the employment experience and culture before making a decision on where to work. As Figure 2 highlights, more than 60% of female participants in the survey looked at the diversity of the leadership team when deciding to accept a position with their most recent employer, for example. Yet when employers were asked about the extent to which they've incorporated diversity and inclusion within their employer brand, less than 30% share information about the diversity of their workforce and leadership team (see Figure 3). Many candidates will look elsewhere if they don't get the answers they want.

<sup>5</sup> 'Winning the fight for female talent', PwC, March 2017 (<http://www.pwc.com/gx/en/about/diversity/iwd/iwd-female-talent-report-web.pdf>)

And these perceptions can be just as important among other stakeholders. Customers are more likely to want to deal with inclusive organisations, for example. In turn, governments want businesses to be more inclusive. When these stakeholders set their sights on an issue, analysts and investors will inevitably want to know how your organisation is responding.

### **Who is at risk?**

If your business is being judged on its record on diversity and inclusion, then this is a reputational risk. Yet, there are still some companies that are making very little progress on diversity and inclusion and don't look at the consequences through a reputational risk lens. These are the most vulnerable. There are other companies that don't live up to their public claims. They are also at high risk. At the other end of the spectrum, there are quite a few organisations that have put improving diversity and inclusion at the top of their business priorities, but the message isn't always getting out there. Their big risk is the missed opportunity.

### **Opening up on diversity**

So, if only a few organisations look at diversity and inclusion through a reputational lens, why is this and how does it heighten the risks? In our experience, there is still a tendency to see diversity and inclusion as primarily an HR

responsibility, rather than integrating them into risk and wider business management. But progress demands full business buy-in across areas such as recruitment and progression. If your organisation is falling short and this is affecting your reputation, the leadership within the business can respond more quickly and decisively than HR on its own.

There may be a temptation to keep disclosure to a minimum because you're worried that a lack of progress could lead to disenchantment within your workforce and potentially bad publicity. The reluctance can be heightened by the sensitivities surrounding diversity and inclusion. Yet, 'silence' could easily be construed as a lack of commitment, even if this is not the case. And the reputational risks can only increase if you fail to adequately explain why any shortcomings exist and how you plan to address them. This is especially true if you're subject to regulatory reporting requirements and your record is being compared to your industry peers.

The good news is that even if you're behind the curve on diversity and inclusion now, there are opportunities to get on the front foot by acknowledging that there are issues that need to be addressed and setting out your plans for accelerating progress. Such openness and resolve can make a very favourable public impression.

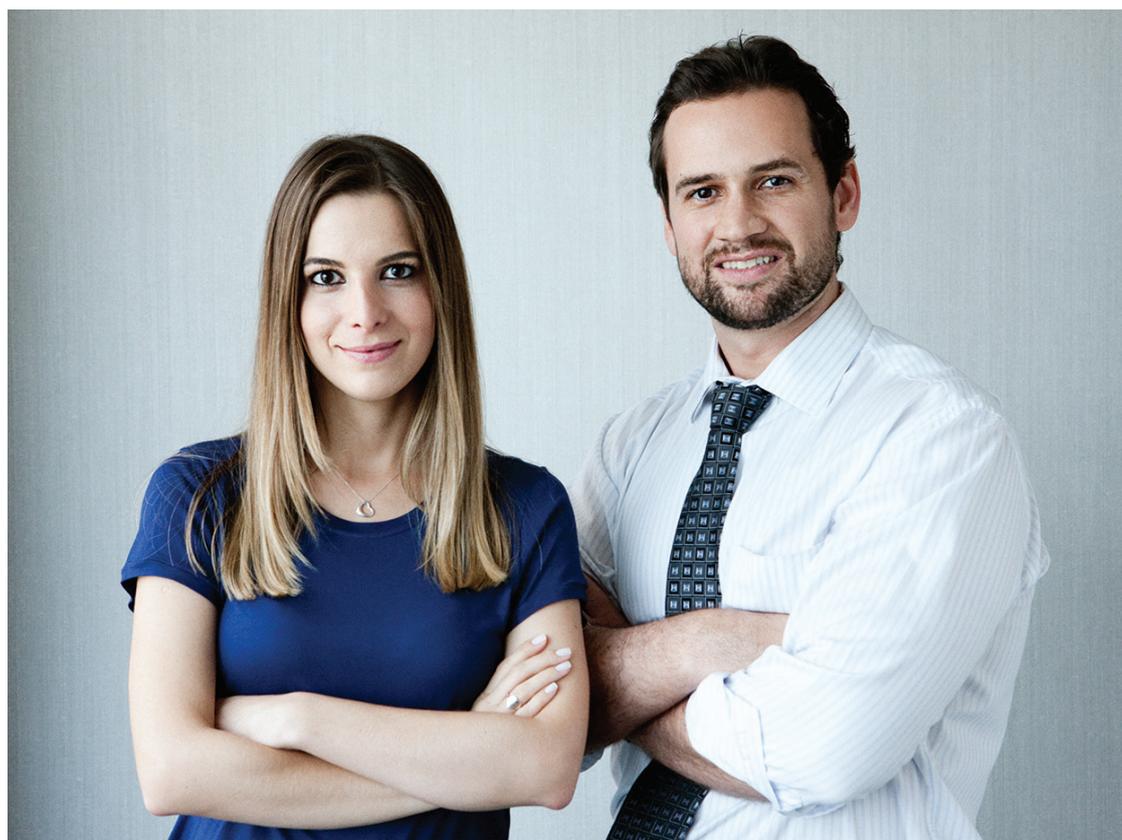
### **The risk spectrum**

Do little/say little  
Say a lot/but reality falls short

Moving in the right direction/failing to get this across

Do a lot/  
communicate well

- High risk
- Medium risk/high opportunity
- Low risk/high opportunity





## Gauging progress and priorities ahead

*Our analysis of how 39 sample companies are perceived on diversity and inclusion highlights both the gaps and the opportunities to accelerate progress.*

Our analysis looked at information in the public domain across four dimensions:

- Diversity and inclusion strategy
- Leadership and tone from the top
- HR processes
- Other diversity and inclusion initiatives

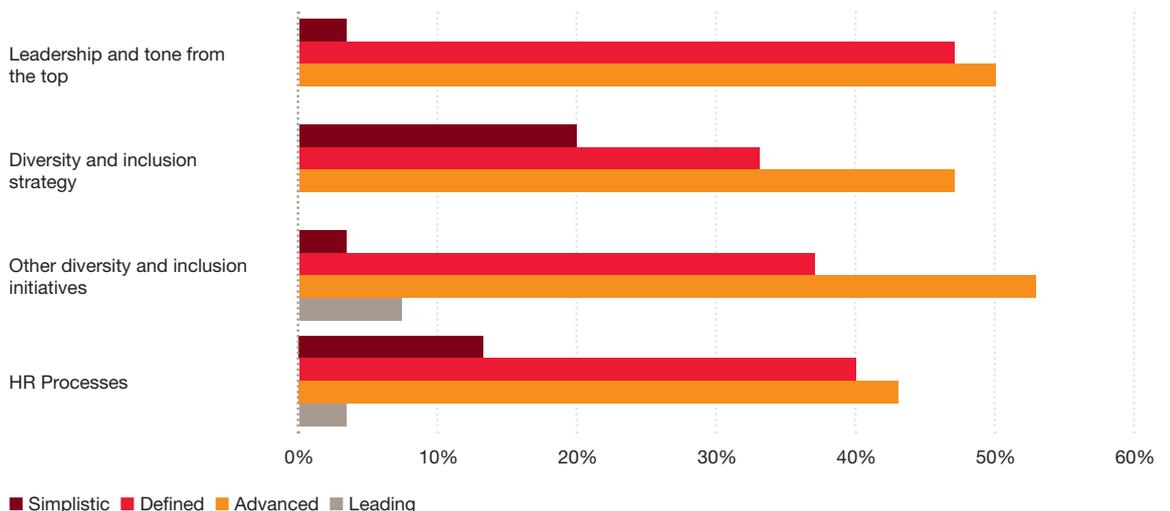
Across the survey sample, we found some notable instances of leading practice in HR policies and

some of the other initiatives being pursued. But none of the organisations we analysed are fully up to speed ('leading' rating) on strategy and leadership (see Figure 4).

Most of the larger groups we analysed have reached an 'advanced' level across each of the four dimensions. Their longstanding commitment to diversity can be seen in areas such as the promotion of internal diversity networks and participation in awards – a key factor behind the high scores within the 'other diversity and inclusion initiatives' dimension. They also have the critical mass needed to set up diversity networks and put funding and manpower behind these initiatives.

**Figure 4 Rating progress**

Proportion of companies rating 'simplistic', 'defined', 'advanced' or 'leading' for each of the four key dimensions of diversity and inclusion reputation



Source: 39 organisations analysed as part of PwC's Diversity and Inclusion Reputation Research 2017



Yet none have made the step up to a 'leading' position in areas such as explicitly aligning their diversity and inclusion policies with their business strategy and priorities. Common gaps include the need to articulate strategies more effectively and fully embed them into the business through senior management ownership, alignment with business plans and targets/ measures to back this up. The lower ratings for 'strategy' than other dimensions also reflect the fact that alignment between diversity and inclusion and business strategies tends to be less well publicised than 'other initiatives' such as awards, even though it's the key foundation for making diversity a reality.

Many of the businesses that are at the early stages of their journey recognise the need to get the overall strategy and business alignment right before moving on to individual initiatives. This 'strategy first' approach can provide a solid foundation for closing the gap with more advanced counterparts. One area where our analysis indicates they can quickly get up to speed

is 'HR processes', including the targeting of people from under-represented groups for recruitment and support with career progression. Drawing on evaluations on where your company is now on diversity and inclusion and how this aligns with your business objectives, the right target might be certain roles or areas within the business (e.g. senior management), dimensions of diversity (e.g. broadening the social backgrounds of people within the organisation) or certain moments in employees' careers (e.g. moves from middle to senior management or returning after parental leave or a career break).

While smaller organisations may have less resources to invest in HR processes and diversity initiatives, they can still move forward relatively quickly on strategy and leadership. As a first step, it's important to think about how to harness the power of leaders to set the right tone and mobilise the organisation behind progress on diversity and inclusion.

## 3

## On the front foot

*Building diversity and inclusion into risk and wider business management will enable your organisation to actively shape perceptions and turn what might be a weak link into a source of strength and advantage. So how can your organisation get on the front and realise the benefits?*

### **1 Articulate and communicate your strategy**

Be clear about your strategy for diversity and inclusion and how you intend to achieve it. A key part of this is how you plan to integrate diversity and inclusion into business plans, performance management and rewards. At the same time, you have to be realistic about what can be achieved by when. The danger is creating expectations that aren't being or can't be met.

### **2 Tell it how it is**

Be as open as possible, even if this means acknowledging shortcomings. Your candour will be respected, especially if you disclose the information voluntarily and or go beyond any statutory requirements. Being open about gaps and weaknesses will also strengthen your reputation for transparency across the board.

### **3 Integrate into reputational risk management**

It's important to build diversity and inclusion into the risk register, strategy and tracking in the same way as other reputational risks such as product faults or poor labour practices. The risk assessment should ask "have the reputational risks been identified?", "how are we addressing them?" and "are they being appropriately measured and tracked". Ensuring that diversity and inclusion are built into the business enables you to manage the risks proactively and respond to weaknesses and emerging issues. And as so much of the information that shapes your reputation comes from social media, this includes tracking what's being said, engaging in dialogue and moving quickly to refute or address potentially damaging statements.

### **4 Capitalise on the benefits**

Putting the business in the driving seat on diversity and inclusion is an opportunity to engage more closely with a broad range of communities and tailor products and services more effectively. Other openings include developing new solutions and adapting existing services to address the particular issues faced by different groups of the population. Managing diversity and inclusion as a reputational and risk priority can help to identify and cement these connections by winning community trust and responding in ways that make lives better.

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## **Conclusion:** Taking the initiative

*You can't ignore your reputation on diversity and inclusion as it's a key basis for how stakeholders judge your organisation. And by actively managing your reputation and the surrounding risks you can turn this stakeholder scrutiny to your advantage.*

We believe that there are five key questions that your organisation needs to actively address to minimise the risks and capitalise on the benefits:

- 1 How are you perceived across the four dimensions of strategy, leadership, HR processes and other initiatives?
- 2 What risks and opportunities do these perceptions open up?
- 3 What is your strategy for addressing these risks and opportunities?
- 4 How does diversity and inclusion fit into the wider push to improve transparency and trust?
- 5 How do you measure and communicate progress?

Taking the initiative in this way will help your business to build diversity and inclusion into a winning commercial and employer brand – a magnet for talent.

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## **Contacts**

If you would like to discuss any of the issues raised in this report in more detail, please get in touch with your usual PwC representative or one of the contacts listed below:

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