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Social Mobility &
Child Poverty
Commission

Business and Social Mobility: a Manifesto for Change

October 2013

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A MANIFESTO FOR CHANGE

Organisations are only as good as their people, so it's vital for business success that firms identify and recruit the best individuals. Yet there's growing evidence that when it comes to making the most of their assets, some of Britain's leading employers are missing out – to the cost of both the bottom line, and fairness.

This document sets out the current position regarding social mobility in the UK and what could be gained by business in changing it.

It shows that far from opportunities being open to all, there are serious barriers to some of our most talented and driven people getting ahead, and that businesses are sometimes contributing to these barriers.

It shows that this is costly for individual firms, and the economy as a whole.

It shows that these problems can be overcome by recommending the simple, practical ways that any firm can make a difference.

And it calls on employers and government to make these steps the basis for a refreshed version of the Government's leading vehicle for social mobility efforts by UK businesses: the Social Mobility Business Compact.

The Social Mobility and Child Poverty Commission consists of a range of experts within this field and has been given a role by government to encourage and support the nation's leading organisations in making Britain a more meritocratic place.

We believe there is an opportunity for firms to find untapped talent and drive greater competitiveness for the UK.

The Commission is seeking to encourage employers to implement change that has real impact. This means making the case to individual firms, and raising the bar on the support and challenge provided by government and others.

THE BENEFITS TO BUSINESS

The case for change is often made in terms of fairness: that is, a labour market which recruits according to a narrow social background is unjust in principle. But the facts suggest that tackling barriers to social background is also a matter of competitive advantage. By changing practices the country's leading employers could see a range of benefits.

The most important one is access to a **wider talent pool**. There is untapped potential across the UK, with employers' standard recruitment practices often excluding talented individuals.

Many firms' talent supply chains exclude some of the best and the brightest who didn't go to a good school, the right university, have the right contacts or cannot afford to work unpaid.

Around half of students with ABB+ at A-Level (or certain equivalent qualifications) in England went to universities other than the Russell Group in 2011;¹ with the UK's leading employers actively marketing their graduate vacancies at twenty universities, largely Russell Group, they are missing out on many top students.² And there are also those young people who do not attend university. An estimated 60,000 pupils in schools each year who at some point in their secondary school careers are amongst the top fifth of academic performers do not subsequently go on to higher education.³

"We work with the world's best companies. To do that successfully we need to attract and retain the best people regardless of background, including socioeconomic standing. Diversity and inclusiveness are not just ends in their own right but means to an end. "

(Senior Partner at Big 4 Firm)

Other benefits include:

Increased productivity and drive: We have heard from employers who recruit talented people who elsewhere get filtered out of the system that those employees often bring something extra to the business: the hunger, grit, ambition and drive of those who have succeeded against the odds.

What we look for...that kind of motivated hungry person...that's the characteristic that is really going to make a difference, and that's the characteristic when you look at what we do that actually clients respond well to...(Partner, legal firm).⁴

Improved performance: Creating a more socioeconomically diverse workforce should be viewed as another strand of diversity, along with other focus areas such as gender and ethnicity, although the specific experiences of each group also need to be recognised. There is growing management and economics literature from other areas of business diversity that finds a link between employing staff from a broad range of backgrounds and business success.

For example, evidence shows that firms with three or more female board directors achieve return on equity 45 per cent higher than the average company,⁵ and firms that have increased ethnic diversity have seen higher sales revenue.⁶

Teams with narrow demographic profiles perform worse on average than those that are mixed. Teams with a broader make-up bring advantages in relation to customer insight and product development, and enable a company to appeal to a wider client base.

"Well-balanced boards are about ideas and avoiding groupthink."

(Lord Davies, Former Chief Executive of Standard Chartered and ex-Trade Minister)

Improved staff loyalty and engagement: Employees who enter a firm from a non-traditional background or route, such as apprenticeships, often have greater commitment to the business, reducing staff turnover and the cost of recruitment and training. Evidence from other diversity strands has also shown that a more inclusive workforce tends to be more engaged.⁷

“We have a higher turnover of graduates, of about 20 per cent compared to 0 per cent for apprentices. They [apprentices] are more committed to the organisations and can thus be a better way to grow your own workforce”⁸ (HR Director from Nestlé)

Enhanced brand and corporate reputation: Building public recognition of a diverse workforce has the potential to widen a company’s future recruitment pool, improve the reputation of the profession or industry, and drive a firm’s own brand as an organisation that supports fair competition and rewards merit. Equal opportunities and diversity are used by many firms in their marketing and branding to potential employees and clients (for example, over 350 employers entered this year’s Stonewall Workplace Equality Index). And at a time when the public has low confidence in ‘big business’, taking steps to diversify the workforce can have reputational benefits as well as positively impact the company.

“For whatever reason, society has disconnected from business. Part of the solution is that business needs to remember it’s part of society.”
(Steve Varley, Chief Executive of Ernst and Young)

THE CURRENT SITUATION: SOCIAL IMMOBILITY IN THE UK

Many of today’s CEOs, Board members, partners and directors are part of a generation of leaders who benefited from the social changes of the late 1950s and early 1960s. Many were the first in their families to attend university and made it to the top from humble origins. They benefited from better educational opportunities, the expansion of the professions during the post-war period, and growth in businesses where you could work your way up from the shop floor to the boardroom. How many could make the same journey today? Evidence suggests that the answer is fewer, and that social mobility has been stagnating.

Economists measure social mobility by looking at the strength of the link between the income of parents and that of their children when they are adults. In a society where background didn’t matter, there would be limited association. But analysis of UK cohort studies has found a relatively strong relationship – and, worryingly, one that is one and a half times higher in Britain than in international competitors like Canada, Germany, Sweden or Australia.⁹

Current business leaders rode the crest of an unprecedented wave of opportunity. Yet evidence suggests that between 1958 and 1970, progress subsequently went backwards. The link between parental and the later earnings of children born in these years – the grip of the accident of birth over future success - worsened over the twelve year period. And whereas the social profile of law, banking and accountancy over these years became more exclusive, ability – measured by cognitive tests of IQ – became more like the norm.¹⁰

Much of what determines the strength of the link between people’s background and what kind of income they earn is beyond the direct influence of business: it’s a product of other social challenges arising years before people get into the jobs

market, whether differences in parenting, school performance or access to university.

However, even if you control for these factors, a link between background and family income remains, driven by factors including the way that people get access to the best jobs. Unfortunately many business practices are reinforcing educational and social disadvantage.

THE CAUSE OF SOCIAL IMMOBILITY: HOW BUSINESS RECRUITMENT PRACTICES CONTRIBUTE

There are two main ways business practices contribute to the lack of social mobility.

First, where practices or policies mean that access to jobs depends on 'who you know and what you can afford', rather than what candidates can do.

Second, where employers define the evidence used to assess talent too narrowly.

The 'who you know and what you can afford' problem is most apparent in relation to **work experience and internships**, which are now crucial to getting a job. For example, over a third of this year's top graduate entry-level positions will be filled by graduates who have already worked for their organisations, and half of graduate recruiters say that applicants with no previous work experience have little or no chance of receiving a job offer, with work experience commonly being scored as part of the selection process.¹¹ But half of work placement opportunities in the wider economy are recruited for informally through word of mouth, rather than advertised, and young people from poor backgrounds are less likely to have the relevant contacts than those from better off backgrounds.¹² Work experience opportunities are too often given exclusively to employees' families or the relatives of clients.

The key 'what you can afford' issue is the prevalence in some sectors of **unpaid internships**. Past research has found that only 37 per cent of cultural and creative, 44 per cent of media related, 58 per cent of financial and professional services and 65 per cent of marketing, advertising and PR internships were paid.¹³ Yet many people, such as those based outside London or from backgrounds without extensive family financial support, haven't got the means to work unpaid. Therefore 40 per cent of young people who had thought about applying for an internship changed their mind as they were not in a position to be able to work for free, and 39 per cent of those who were offered an internship, meaning they were deemed suitable for the role, had to turn it down for the same reason.¹⁴

The 'what is talent and how do you identify it' problem is most apparent in how **graduates are recruited, often using a formula that scores the number of A* and A grades at GCSE and A-Level and whether the candidate went to a target Russell Group university**. By failing to place exam results in the context of the school they were achieved at, candidates who attended the best and worst schools in the country are treated as though they received the same education. But almost a quarter of England's sixth forms and colleges failed to produce any pupils with the

top A-level grades.¹⁵ And increasingly evidence suggests state school students with ABB perform as well as independent school students with AAA at university.¹⁶

Only 7 per cent of the top graduate employers target more than 30 universities, with nearly a fifth of employers targeting 10 or fewer.¹⁷ This focus on a small number of universities is shutting out talent. Even after controlling for a range of factors, including A-level grades and the subjects taken at A-level, pupils from state schools need to be the equivalent of two grades better qualified than privately educated pupils to be as likely to apply to Russell Group universities.¹⁸

Other features of graduate recruitment processes also work against disadvantaged students. These include the range of unfamiliar online tests, e-tray exercises and situational judgement tests that are not monitored for whether they advantage certain groups - yet the plethora of organisations that offer coaching services to those who can afford them suggest people can obtain an advantage if they are trained for them - as well as the marking or requiring of work experience when it is so frequently reserved for personal connections. Unconscious bias may also play a role where employers recruit in their own image, or in some cases act consciously by ruling out people whom they believe would not suit the firm's desired image or be accepted by clients, on the basis of such presentational matters as accent and clothes worn at interview, rather than judging their ability.

These barriers are underlined by the structure of the UK economy and labour market. This year, more than 80 per cent of graduate employers will be offering vacancies in London versus just 48 per cent in Scotland and 43 per cent in East Anglia.¹⁹ Many talented young people from **outside London and the South East** have limited opportunities due to the domination of the capital. We recognise the reasons for focusing graduate schemes in and around the capital but this does not explain employers also restricting their outreach activity to London and often the same one or two boroughs of London on their doorstep, which limits exposure and prevents some talented students even being aware of the opportunities elsewhere in the country. Some leading employers such as J.P. Morgan, Linklaters and KPMG are now opening up opportunities by holding residential work placements in London for young people from across the U.K.

More broadly, talent may be prevented from flourishing by choices about which roles do and do not require **graduate level qualification**. Forty years ago, it was possible for large proportions of school leavers to work their way up within a number of sectors including accountancy and journalism. However, with nearly half of the population now attending university, a degree has arguably crowded out non-graduate pathways. This is often not due to the skills requirements of jobs. Talented young people that don't find their way onto one of the increasingly common but relatively small scale direct access school leaver programmes are likely to see their opportunities for progression limited and their potential wasted.

HOW TO DRIVE CHANGE

For a leading employer who is persuaded of the need to ensure their firm is open to all, a key question is 'what, practically, can we do to make it happen'? 'What will

work in driving social mobility and delivering business benefits?' The answer is that there is a whole range of activities that firms can undertake both to improve their own procedures and to reach out and tackle some of the drivers of thwarted opportunity.

We believe that these recommendations are relevant to firms of all sizes and where some may be more challenging for smaller companies, can be achieved through collaboration. Professional bodies can also play a key co-ordination role, and in some sectors are already doing so.

The Social Mobility and Child Poverty Commission has analysed the evidence base on different practices, assessing impact on business and on social mobility. On the basis of this research, we recommend that firms take action in five key areas.

1. **Engage strategically with young people and schools** – The education system is a key driver of opportunity, and many businesses are engaged in schools, and often schools or employers prevent this interaction being optimally designed – for example, if engagement is focused exclusively on Corporate Social Responsibility goals rather than developing talent and driving academic attainment. Research shows contact with employers is directly linked to employment outcomes: young adults who recalled 'four or more employer contacts' being five times less likely to be NEET than those who had no involvement, regardless of academic achievement.²⁰ Businesses also have a vital role to play supporting clear pathways to employment. Work experience for example plays an important role in helping young people enter the labour market, with over half of recruiters stating graduates with no previous work experience have little or no chance of receiving a job offer.²¹ Business can help by opening up **formalised work placements** which can also be a useful recruitment tool – giving opportunity for someone to demonstrate their capability. Other kinds of engagements include visits to schools, career talks, hosting student visits to your workplace, providing mentoring or coaching or training students in a skill. Ernst & Young's 10 month programme Smart Futures includes work experience, mentoring and networking opportunities, and has been a useful recruitment tool with some participants joining their school leavers' programme.

Effective engagement:

- Appropriately targets the most suitable young people
- Involves sustained relationships with the young people in question
- Is multi-pronged – for example, mentoring and work experience together rather than either alone
- Provides the possibility of a pathway into the firm/profession for those that are interested in it
- Is robustly evaluated for effectiveness so businesses use their resources – money and staff – in the most effective way

In addition to programmes for young people, a particularly valuable kind of engagement is for businesses to **encourage staff to volunteer as governors**, a low risk activity for them, which provides much-needed connections to the world of employment and also develops employees' skills

by providing them with Board experience. At an institutional level within England, the lack of effective governorship is a substantial disadvantage for a school and its students. According to the schools inspectorate OFSTED most of the 6000 schools which are neither 'good' nor 'outstanding' in its inspection regime have weak governance.²² Conversely, survey evidence suggests that business representation helps low performing primary and secondary schools to develop standard-raising relationships with businesses as well as addressing skills shortages in areas of business strength like strategy and financial management.

2. **Adhere to best practice on internships** - Internships are increasingly important as the first rung on the career ladder. However, unpaid internships, typically offered in London, mean many young people cannot access them, so they can't get that initial step into employment. Businesses can open up opportunities to a wider talent pool on the basis of ability rather than background by:

- Openly advertising internships.
- Paying internships, including adhering to National Minimum Wage (NMW) guidelines and paying above NMW where possible.

The Gateways to the Professions Collaborative Forum *Common Best Practice Code for High-Quality Internships* outlines the core elements of fair and open internships²³. Centrica, for example, openly advertises its summer placements via the free-to-use government set-up internship website Graduate Talent Pool, using the internships as a pipeline for graduate talent.

3. **Reform selection processes** – Nearly 60 per cent of the Times Top 100 Graduate Employers don't include UCAS points in their entry requirements.²⁴ But that leaves 40 per cent who still do. This automatically excludes graduates who did well at university but do not have top A-Level grades as a result of individual circumstances, such as attending a weaker school. At the time of graduation, A-level grades or equivalent are not the most accurate assessment of ability and future performance. Linklaters has launched a firm wide initiative to review its selection and marketing practices to attract a more diverse mix of graduates to the firm, as a result of which they will now target half the UK's universities.

The Commission recommends:

- If used in recruitment processes, A-level and GCSE grades should be judged contextually – that is, according to the relevant school's performance.
- Employers should widen their search for talented young recruits, recognising that they will not all attend the most selective universities, many of which have serious access problems themselves.
- Employers should run name and university blind application processes, including those stages outsourced to external companies. Parts of the Civil Service and the legal sector already do this.

4. **Open up well-structured non-graduate routes** – 55 per cent of young people don't enter higher education and many of these end up in jobs with low wages and little opportunity for progression. So building work-based, paid routes that recognise practical real-life experience is very important if people's life chances aren't to be decided by their twenties. Leading graduate employers have increased non-graduate routes in recent years with such developments as Higher Apprenticeships. However, non-graduate routes can exclude talent if they simply reproduce university entrance requirements (anecdotal evidence heard by the Commission suggests that up to 40 per cent of school leaver programme entrants attended independent schools). Those embarking on non-graduate routes add most if their future options are not later limited by artificial barriers based on their entry route, and their experience is valued in the same way as a degree if they change career. Meaningful non-graduate routes involve:

- Entry requirements based on contextual data
- Avoiding barriers to career progression based on artificial distinctions between different entry routes
- Flexibility, meaning skills and qualifications and experience are recognised by others

By opening up non-graduate entry with clear progression routes, employers can increase their talent pool and will recruit individuals who are cheaper to train and likely to have a greater commitment to the organisation. Barclays has already recognised these benefits and has already employed over 1000 apprentices, many of whom were previously unemployed.

5. **Monitor and evaluate** – Transparency is vital to understanding the facts on the ground on social mobility: without hard data it is difficult for firms to tell if they are missing out or not. Monitoring has helped identify patterns regarding gender and ethnic minorities, initially in recruitment, and now on promotion and seniority. So it has the potential to make a similar impact on social mobility, helping to identify inadvertent barriers to talent, and making a more diverse and creative workforce possible. The medical profession has already gathered information on its trainee doctors according to socioeconomic background which is a positive step showing that it is possible to do so inexpensively and unobtrusively, and other sectors are set to follow soon. Effective monitoring requires:

- A measure that adequately reflects the socioeconomic make-up of the workforce: this probably means tracking more than one thing, such as family income and educational background.
- Data gathering which goes beyond the distinction of simply those who attended 'state' or 'independent' schools as this fails to reflect the intricacies of the education system.
- Looking at each stage of the application process to see at what stage candidates from particular backgrounds fall down.
- Publishing the application/acceptance figures to the firm by university so that undergraduates can see if they have a realistic chance of success.

The Professions for Good's Social Mobility Toolkit provides a useful template of questions to gather the necessary information.²⁵ It can be found here: <http://www.professionsforgood.com/wp-content/uploads/2012/03/SocialMobilityToolkit-FINAL.pdf>

Leadership

The common theme cutting across all the above steps is leadership: none of those organisations who have made progress against these benchmarks have done so without a conscious choice by someone at the top of the organisation to drive change. This means each organisation should have an identified senior leader who champions the importance of social mobility within their own firm, monitors implementation of the above steps and encourages other firms to take them. It could also mean showcasing the firm's commitment by adding questions to tender documents that ask bidders to describe the steps they take in their own firms to improve social mobility alongside those commonly used on areas such as sustainability, minimum wage and gender/ethnic diversity.

BECOMING A LEADER IN SOCIAL MOBILITY

Many of Britain's leading firms are already taking action to tackle social mobility. More than 150 are demonstrating public commitment to being open to talent through being signed up to the government-convened programme, the Social Mobility Business Compact.

Signatories to the Compact, launched by the Deputy Prime Minister in February 2012 pledge to:

- Take part in mentoring scheme for young people, allow staff time off and reward them for getting involved in schools, including encouraging staff to talk about their careers
- Provide opportunities for young people to get a foot on the ladder including by advertising work experience formally and paying internships appropriately
- Recruit openly and fairly including not allowing people to be inadvertently screened out because they went to the wrong school.

The Commission is a strong supporter of the principles behind the Compact and wants more firms to join in. At the same time, we believe that the Compact's requirements are a starting point, not the finishing line. And involvement should mean that firms genuinely make changes to their policies and practices, in line with public commitments. But at the moment businesses' efforts are not tracked systematically, and the list of signatories covers firms at very different levels of development.

That is why, 18 months on from its official launch, the Commission is calling on the government and Compact members to raise the bar on what being a member involves. The five areas set out in this document represent the Commission's assessment of what all leading firms should be doing: they are achievable, practical

measures that will make a difference while helping businesses access more talent. We would like these practices to become the basis for membership of the Compact, with reporting by firms and publication by the Government on what they are doing.

About the Commission

The Social Mobility and Child Poverty Commission is an advisory Non-Departmental Public Body established under the Child Poverty Act 2010 (as amended by the Welfare Reform Act 2012). It is made up of ten Commissioners and is supported by a small secretariat. Its Chair is The Rt. Hon. Alan Milburn, and its Deputy Chair The Rt. Hon. Baroness Gillian Shephard.

The functions of the Commission include:

- undertaking social mobility advocacy.
- monitoring progress on tackling child poverty and improving social mobility including implementation of the UK Child Poverty Strategy and the 2020 Child Poverty targets, and describing implementation of the Scottish and Welsh Strategies
- providing published advice to Ministers on matters relating to social mobility and child poverty

This publication is part of the Commission's social mobility advocacy work. See <https://www.gov.uk/smcpcc> for more details.

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