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Research report

The feasibility of constructing a race equality index

by Anthony Heath and Yaojun Li

Department for Work and Pensions

Research Report No 695

The feasibility of constructing a race equality index

Anthony Heath and Yaojun Li

A report of research carried out by Department of Sociology, Oxford University and the Institute for Social Change, Manchester University on behalf of the Department for Work and Pensions

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Abbreviations

ASHE	Annual Survey of Hours and Earnings
BIS	Business, Innovation and Skills
BSA	British Social Attitudes survey
CLG	Communities and Local Government
CRE	Commission for Racial Equality
CS	Citizenship Survey
DWP	Department for Work and Pensions
ECNI	Equality Commission for Northern Ireland
EHRC	Equality and Human Rights Commission
EMs	Ethnic Minorities
EO	Equal Opportunities
EOP	Equal Opportunities Policy
ESRC	Economic and Social Research Council
FTWS	Fair Treatment at Work Survey
GEO	Government Equalities Office
ILO	International Labour Office
ISC	Institute for Social Change
LFS	Labour Force Survey
NatCen	National Centre for Social Research
NEP	National Employment Panel
QUANGO	Quasi Autonomous National Government Organisation
SME	Small and Medium-sized Enterprises
WERS	Workplace Employment Relations Survey

Glossary of terms

Chill factor	This occurs where members of one community can feel discouraged or prevented from applying for employment in an organisation because it is traditionally associated with the other community.
Correspondence testing	This refers to the sending of multiple matched written applications to real job vacancies with the variable of interest (ethnicity in our case) randomly assigned.
Direct discrimination	This occurs when a person is treated less favourably, on racial grounds, than another person is or would be treated in the same or similar circumstances.
Ethnic penalties	These are the disadvantages that ethnic minorities experience in the labour market compared with members of the majority group who have the same education, training and experience. See also 'net differential'.
Gross differential	This refers to the differential or disadvantage (e.g. with respect to unemployment) experienced by one group, in comparison with another, without taking into account differences between the two groups in relevant individual characteristics such as education, training or experience.
Harassment	This refers to the behaviour where a person engages in unwanted conduct that has the purpose or effect of violating the other person's dignity; or creating an intimidating, hostile, degrading, humiliating or offensive environment for that person.
Indirect discrimination	This occurs where apparently neutral requirements, conditions or practices by an employer nonetheless have an adverse impact disproportionately on one group when compared with others, and cannot be justified as 'a proportionate means of achieving a legitimate aim'.
Net differential	This refers to the differential or disadvantage experienced by one group in comparison with another after taking into account relevant individual characteristics such as education, training or experience. The expression 'ethnic penalty' is used to describe this concept in the context of ethnic disadvantage.
Net discrimination	In the analysis of results from correspondence testing, this is the number of instances of discrimination against a particular ethnic group that exceeds the number of instances of discrimination in its favour.

Statistical discrimination

This is the process by which discriminatory outcomes occur as a result of employers making decisions on the basis of perceptions that race or ethnicity are correlated with, and are proxies for, job-relevant but unmeasured individual characteristics such as motivation or communication skills.

Visible minorities

Members of visible minorities are defined by the Canadian Employment Equity Act as ‘persons, other than aboriginal people, who are non-Caucasian in race or non-white in colour’.

Summary

Background

There is an accumulation of evidence that ethnic minorities experience substantial disadvantage in the labour market, some of which is due to racial discrimination by employers. Following the National Employment Panel's (NEPs) recommendations, in its report on race equality in the workplace, the Department for Work and Pensions (DWP) commissioned research in order to test for the presence of racial discrimination by employers when recruiting staff. This research involved 'correspondence testing' in which matched applications were sent to employers for actual job vacancies. The study showed significant levels of net discrimination against ethnic minorities, and showed that discrimination affected all the main ethnic groups alike. The study also showed significantly higher levels of discrimination in the private sector than in the public sector.

The NEP recommended that the government should gather and publish baseline information on discrimination and race equality in the labour market and should monitor progress by employers against the baseline. As part of this they suggested that government should develop a Race Equality Index in order to understand in detail how discrimination is happening, how pro-active businesses are to promoting race equality in recruitment, retention and promotion, and to monitor trends over time. This would help to inform government as to whether new measures to promote race equality were required. The present report investigates the feasibility of constructing such an index.

In developing the index, we have focused on the experience of the main ethnic minorities in Britain today, that is the specific groups included in the broader census categories of black or black British, Asian or Asian British, Chinese, other and mixed. We have, for practical reasons of data availability, not attempted to disaggregate the different ethnic minorities.

Since the focus of the index is on private-sector business, we have taken into account the extent to which individuals from minority groups differ from the majority group in their job-relevant characteristics such as their educational qualifications. In other words, we focus on barriers to ethnic minority employment that employers might reasonably be expected to tackle as opposed to barriers that might be better tackled in the educational system or elsewhere.

What are the information needs of a race equality index?

After reviewing the legal framework and social scientific evidence we suggest that an index should ideally incorporate measures of direct discrimination, indirect discrimination, harassment and what has in the Northern Ireland context been termed the 'chill factor'. The index also needs to cover other employer-side barriers such as the use of informal word-of-mouth methods of recruitment that favour people known to existing employees, as well as the various lawful forms of positive action that might be undertaken by a pro-active employer in order to alleviate ethnic minority under-representation. The index should also include outcome measures of fair employment in the private sector. Possible outcome measures include ethnic minority under-representation in private sector firms, under-representation in managerial positions within firms, and ethnic differentials in pay.

It is not in fact possible to obtain general measures of indirect discrimination, since the presence of indirect discrimination can only be determined on a case by case basis. However, the Commission for Racial Equality's (CRE) statutory code of practice (which remains in force) includes guidance

on employers' responsibilities which is intended to give employment tribunals and courts clear guidelines on good equal opportunities practice in employment (CRE, 2003). The code in essence gives examples of what practices might be expected to minimise the risk of indirect discrimination and also covers other lawful practices that might be undertaken by a pro-active employer committed to promoting race equality. The statutory code, therefore, gives a sound legal basis for identifying possible components of an index measuring how pro-active employers are in eliminating ethnic minority under-representation in private-sector firms. The extent to which private-sector firms adhere to the statutory code is potentially, therefore, an important element of an index.

What tools can be employed?

We reviewed alternative trusted data sources for measuring direct discrimination, adherence to the different components of the statutory code, harassment, and outcomes. The most appropriate available source for tapping direct discrimination proved to be the Department for Communities and Local Government's (CLG) Citizenship Survey (CS), which contains questions that enable one to measure inequalities in job refusals and unfair treatment in promotion.

For adherence to the statutory code of practice, the Department for Business, Innovation and Skills' (BIS) Workplace Employment Relations Survey (WERS) contains several appropriate questions, while its Fair Treatment at Work Survey (FTWS) provides good evidence on the experience of racial harassment at work. An alternative is the National Centre for Social Research's (NatCen) British Social Attitudes (BSA) survey, which contains a regular question on self-reported prejudice.

For outcome measures of ethnic minority under-representation in private sector firms, under-representation in managerial positions within firms, and differentials in pay, the most appropriate source is the large-scale and trusted Labour Force Survey (LFS).

Practical issues of measurement and recent trends

Using the CS it is possible to construct a regular, annual measure of the differential between the rates of job refusals/unfair treatment in promotion experienced by ethnic minorities compared with the rates for the labour force as a whole. In order to compare like with like, we adjust the rates so that the estimated 'net' differential takes account of differences between the education and other characteristics of ethnic minorities and those of the overall workforce. This is analogous to the way in which, in the correspondence tests of discrimination, applications were matched for education, skills and experience. We have been able to calculate trends covering the 2003-09 period showing, in the same way that the correspondence tests did, that ethnic minorities experience significantly higher rates of refusals when applying for jobs. Minorities also report significantly higher levels of unfair treatment with respect to promotion. There appears to have been little improvement in these respects since 2001 (see Section 4.1).

Unfortunately, the detailed wording of the questions means that we cannot be certain that the job refusals or unfair treatment were restricted to the private sector. This measure, although useful as an overall indicator of trends in discrimination, is not, therefore, a suitable component of a specifically private-sector index.

Using the WERS it is possible to construct a simple additive index, similar to that developed by the NEP, which measures the extent to which private-sector workplaces adhere to some important elements of the statutory code of practice. This index can only be constructed intermittently, as the survey is not an annual one, but it is nonetheless a valuable measure of the extent to which the private sector is pro-active in reducing ethnic inequality. Analysis of the 1998 and 2004 surveys

shows that there was some modest improvement over this period. However, the 2004 survey also showed very substantial differences in the extent to which the public and private sectors adhered to the statutory code: while rates of adherence were lowest in small and medium enterprises, large private-sector firms lagged a considerable way behind public-sector bodies in their use of ethnic monitoring, assessment of indirect discrimination, and the use of positive measures to encourage applications from ethnic minority applicants (see Section 4.2).

We do not feel that it is possible to construct an acceptable annual measure of harassment or the chill factor from existing sources, although the highly respected BSA survey shows a worrying increase in racial prejudice on the part of white private-sector employees in recent years (see Section 4.3).

Annual outcome measures of ethnic minority under-representation in private sector firms, under-representation in managerial positions within firms, and ethnic differentials in pay can be calculated using the LFS. These measures can be adjusted so that they take account of the extent to which ethnic minorities differ in their educational qualifications (and other socio-demographic characteristics) from the workforce as a whole. For the period 2001-09, we find that ethnic minorities have been significantly under-represented in private-sector employment, but that there has been some real improvement over time (see Section 4.4). Among those who are actually employed in the private sector, we find that ethnic minorities are significantly under-represented in managerial occupations, and there is no evidence of any improvement. We also find that ethnic minorities continue to have significantly lower hourly earnings than the overall average for the private sector, and as with access to management there has been no improvement over time (see Section 4.4).

Can the private sector's contribution to reducing the ethnic minority employment gap be measured?

It is not at present practicable to construct an annual measure that captures all the separate components of direct discrimination, indirect discrimination, harassment and other barriers that contribute to ethnic minority under-representation in private-sector firms. However, the 2011 WERS will be a valuable resource for looking at trends since 2004 in how pro-active the private sector is in tackling ethnic minority under-representation.

In contrast, an index based on the LFS and covering the three outcome measures of ethnic minority under-representation in the private sector, under-representation in managerial occupations, and pay disparities can be constructed. Our proposal assigns equal weight to these three components. Our proposed index involves adjusting for individual characteristics and geographical region, just as correspondence tests of discrimination involve the matching of ethnic minority and majority group applicants.

We have constructed an index on these lines for the 2001-09 period. This shows that there continues to be substantial ethnic inequality in the private sector with no evidence of an overall trend towards greater equality (see Section 5.2).

Conclusions

An outcome index of ethnic minority under-representation and disadvantage in the private sector can be constructed. Because it relies on sample surveys, the index has to be used with caution when measuring year-to-year variation but it does enable one to chart progress over the medium term. While the precise adjustment procedures that we have used are inevitably debateable, our checks have suggested that alternative procedures will not materially alter either the trends over time or the comparison of the private sector with the public sector. It, therefore, appears to be suitably robust for the purposes for which it is intended. Furthermore, the proposed index does capture three outcomes that would widely be recognised as important and it fulfils the requirements of the National Employment Panel for monitoring progress over time in order to determine whether there is a need for additional measures, such as the strengthened use of public procurement to incentivise private sector firms to move more rapidly towards fair employment.

We, therefore, recommend that such an index should be constructed and, after consultation with stakeholders and further statistical refinement, should be published annually.

1 Background

1.1 Aims and objectives

This study was commissioned by the Department for Work and Pensions (DWP), who wished to investigate the feasibility of constructing a Race Equality Index. The purpose of such an index would be to measure the level of active racial discrimination in the labour market, to understand in detail how discrimination is happening, and the level of commitment of businesses to dealing with it. The focus would be on private sector businesses. The Race Equality Index would then be used to monitor progress over a period of time.

Specific questions that we were asked by the DWP to consider were:

- What are the information needs for an effective index to measure policy on discrimination?
- Which tools could be employed in order to collect the information required for a future index?
- How, whether and how frequently should information be gathered? This will influence what type of index is established.
- Can the private sector's contribution to reducing the ethnic minority employment gap be measured?

One important constraint, however, is that any proposed index is required to make use of existing data sources and cannot require new surveys to be conducted.

The Race Equality Index also needs to have the following characteristics:

- transparency – it needs to be easily understood;
- to be repeatable;
- comprehensive;
- reasonable in cost;
- a trusted data source;
- simple in presentation.

In this report we first provide the background and then turn to the four central questions about information needs, tools, practical considerations and measurement.

1.2 Previous work

The stimulus for this work came from the National Employment Panel (NEP) report 60/76 *The Business Commission on Race Equality in the Workplace* (2008). The report's starting point was the employment gap between ethnic minorities and the white majority (60 per cent being the ethnic minority employment rate and 76 per cent the white employment rate at the time the report was drafted). The report argued that it is *'important to create a climate of accountability for that part of the gap that results from employer discrimination'* (paragraph 62).

As recommended by the NEP, the DWP commissioned the National Centre for Social Research (NatCen) to carry out field research in which matched written applications from white and ethnic minority applicants (ethnicity being indicated by the names of the applicants) were submitted

to employers for formally advertised vacancies. (The applications were matched for education, skills and work history.) This ‘correspondence testing’ exercise showed statistically-significant and substantively large levels of net discrimination (as measured by call-back for an interview) against ethnic minorities. It also showed significantly higher levels of net discrimination in the private sector than in the public sector (Wood *et al.*, 2009). Previous statistical research for the Department by Heath and Cheung had also shown that ethnic minorities were under-represented in managerial posts in the private sector, compared to the public sector, and that ethnic minority men experienced significantly lower earnings in the private sector than did white men (Heath and Cheung, 2006).

The NEP’s Business Commission also constructed an index from survey items developed in a stand-alone survey of employers in six cities. (See Appendix A for the list of questions included in the index.) The intention of their index was to ‘*draw general conclusions on how pro-active businesses are to promoting race equality in recruitment, retention and promotion*’ (NEP, 2007, p 66).

Our understanding is that the NEP’s index is a useful example of what might be done, but since the current intention is to use existing data sources rather than to commission new surveys, the measures utilised in the NEP’s index will not be appropriate unless they are carried in some other ongoing survey. We have, therefore, decided to go back to first principles rather than simply trying to replicate the NEP’s measures.

1.3 General considerations

The first point to establish is which groups we are considering. Following past government practice based on the Cabinet Office Report (2003), we focus on people who in countries such as Canada are termed ‘visible’ minorities. In other words we focus on barriers to the employment of people who are included in the census categories mixed, black or black British, Asian or Asian British, Chinese and other ethnic group. We do not include the various white ethnic groups in this general category of ‘visible minority’. The rationale for this, as in the Cabinet Office Report, is that white minorities (with the exception of travellers and Roma) do not seem to suffer to the same extent from discrimination and barriers to employment as do the ‘visible’ minorities. (See, for example, Cheung and Heath, 2007; Li and Heath, 2008, 2010; Heath and Li, 2008.)

A second issue is whether the proposed index should attempt to distinguish between the different ethnic minorities. While there is clear evidence that some groups are more successful in the labour market than others, we have decided not to distinguish between the specific minorities. One reason is that the recent correspondence testing described above was unable to detect statistically significant differences in the extent of discrimination experienced by the main groups considered (Wood *et al.*, 2009). The study concluded ‘*on this evidence, it does not appear that differences in labour outcomes between minority ethnic groups are the result of differences in the level of discrimination in the application phase of the recruitment process*’ (Wood *et al.*, 2009, p.4). A second reason is that the data sources available do not have sufficiently large samples to enable us to measure confidently ethnic differences in barriers to employment.

Third, we understand that the focus needs to be on the employer side rather than on barriers arising, for example, from applicants’ lack of education or fluency in the English language. The key point is that the index is not intended to be an overall measure of ethnic disadvantage but is intended to focus on the employer side. In this respect, it is useful to distinguish between the ‘gross’ and the ‘net’ disadvantages experienced by ethnic minorities. The gross disadvantage can be thought of as the overall gap in, for example, employment rates before matching for education, skills or experience in the labour market. The net disadvantage is the gap that remains after matching for education and so on, and represents the extent of disadvantage experienced by ethnic minorities

in comparison with white British people who have the same qualifications, training and experience. These net disadvantages are often termed ‘ethnic penalties’. In essence, then, the aim is to assess progress towards reducing the ethnic penalties that minorities experience when competing for jobs in the private sector.

Fourth, in considering which measures to use we have restricted our search to authoritative government or independent sources such as the Citizenship Survey (CS), Workplace Employment Relations Survey (WERS), the Fair Treatment at Work Survey (FTWS), the British Social Attitudes (BSA) survey and the Labour Force Survey (LFS). These are all large-scale, trusted nationally-representative sample surveys. Since the CS covers England and Wales only, in this report we restrict our coverage and data analysis to England and Wales, although other sources such as the LFS cover Britain as a whole and it would be possible in principle to construct an index for Great Britain. We exclude consideration of Northern Ireland because of the special circumstances there involving inequalities between the two main Northern Irish communities.

We now turn to our four central questions.

2 What are the information needs of a race equality index?

2.1 Possible components of an index

After reviewing the legal framework and social scientific evidence we suggest that an index should ideally have five main components covering:

- Direct discrimination.
- Indirect discrimination.
- Harassment and what is sometimes termed the ‘chill factor’.
- Other employer-based barriers or lawful action that employers can undertake to address ethnic minority under-representation.
- Outcome measures of fair employment.

Each of these main components could in principle have further sub-components.

The rationale for our approach is that the ethnic penalties experienced by minorities when competing for jobs in the private sector are likely to be the product not only of direct discrimination but of various additional practices and procedures followed by employers. Some of these such as indirect discrimination, racial harassment, or the condoning of such harassment are unlawful in the same way that direct discrimination is unlawful. Other barriers might not be unlawful but might nonetheless be open to action by an employer committed to eliminating ethnic minority under-representation within the workplace. We consider each in turn.

2.2 Direct racial discrimination

Direct racial discrimination occurs when a person is treated less favourably, on racial grounds, than another person is or would be treated in the same or similar circumstances. This is the kind of concept of discrimination that was measured in the correspondence testing of discrimination described above (Wood *et al.*, 2009).

Note that this definition of direct discrimination does not include any reference to the motive for the unequal treatment. Economists often make a distinction between ‘a taste for discrimination’ where the selector has a preference (i.e. prejudice) for members of one ethnic group over another (Becker, 1957), and ‘statistical discrimination’ where the employer believes that members of the unfavoured group have on average lesser potential productive capacity than the favoured group and that this difference in productive potential would not be captured by observable characteristics in the applicant’s CV but are proxied by ethnicity (Arrow, 1972, 1998). From a legal perspective, we understand that motive is neither a necessary nor a sufficient condition for establishing direct discrimination: An employer cannot argue that it was not the intention to discriminate.

Direct discrimination can occur with respect to recruitment, performance appraisal, promotion, pay, access to training or discipline and dismissal.

2.3 Indirect discrimination

Legally, indirect discrimination occurs where apparently neutral requirements, conditions or practices by an employer nonetheless have an adverse impact disproportionately on one group when compared with others, and cannot be justified as 'a proportionate means of achieving a legitimate aim'. For example, failure by an employer to offer part-time employment might be regarded as indirect discrimination against women, unless it could be shown by the employer that it was a 'genuine occupational requirement' to have full-time workers.

From a social scientific measurement point of view, the difficulty with this concept is that whether or not a particular practice constitutes indirect discrimination can only be decided in relation to a particular job. We cannot, for example, state that failure to offer part-time work, or any other practice at work, invariably constitutes indirect discrimination. Hence there can be no list of procedures and practices that we could draw up as **general** examples of indirect discrimination (or as evidence of its absence). Each practice has to be considered in relation to a particular job and the requirements for performing the job.

However, the Commission for Racial Equality (CRE) statutory code of practice (which remains in force) includes guidance on employers' responsibilities which is intended to give employment tribunals and courts clear guidelines on good equal opportunities practice in employment (CRE, 2003). The code in essence gives examples of what practices might be expected to minimise the risk of indirect discrimination. The code also covers other practices that might be undertaken by a proactive employer committed to promoting race equality. The statutory code, therefore, gives a sound legal basis for identifying and measuring possible components of a race equality index.

The first element mentioned in the statutory code is to draw up an equal opportunities policy. However, the code emphasises that employment tribunals have made it clear that statements of intent or paper policies and procedures alone are unlikely to provide employers with a defence in legal proceedings (para 3.15). This is also consistent with academic research suggesting that some equal opportunities policy documents are merely 'empty shells' (Hoque and Noon, 2004), although Fevre *et al.* (2009) found in the Fair Treatment at Work Survey that respondents in workplaces that had a written equal opportunity policy were only half as likely to report unfair treatment and discrimination as those without such a policy.

The statutory code emphasises that employers need to be able to show that they put their equal opportunities policy into operation. The code of practice states that the most effective way of approaching this is to draw up an equal opportunities action plan (para 3.16), whose aim should be to:

- a Promote the equal opportunities policy, e.g. by publicising it throughout the organisation, with a senior manager taking responsibility for the policy.
- b Make sure all workers understand the policy, and provide training for those who have particular responsibilities under it.
- c Monitor workers and applicants for employment, promotion and training, by racial group, and review all employment policies, procedures and practices, to see if they are potentially discriminatory or obstruct equality of opportunity, and
- d Take steps to remove potentially unlawful discrimination, and reduce any significant disparities between racial groups. These steps can include advertising, to make sure that the information is reaching any under-represented groups and that people from these groups feel encouraged to apply. It can also include positive action schemes which involve training or encouragement, but not employment.

The statutory code gives further details under each of these headings. In particular, consistent with the findings of the correspondence testing described above, it recommends the use of a standard application form (from which personal details on ethnic background should be detached and not made known to members of the selection panel before interview). It also recommends that employers should avoid recruitment on the basis of recommendations from existing members of staff. This is consistent with some American evidence that the use of personal networks for recruitment is a significant source of ethnic disadvantage in recruitment (Petersen *et al.*, 2000). It also advocates the setting of realistic targets and timetables for reducing any significant racial disparities both within the workforce as a whole and at different levels of the organisation.

In this way the statutory code goes further than dealing with indirect discrimination and covers 'positive action' that might 'reduce any significant disparities between racial groups'. This is helpful for our purposes as it identifies actions that employers can lawfully undertake in order to promote equality. We should note that the Equality Act 2010 (Sections 158, 159) takes this further and makes it easier for employers to undertake positive action.

In principle, it would be desirable for an index to include measures of these four sub-headings identified by the CRE, weighting them according to their importance in reducing ethnic inequalities. Unfortunately, however, there is at present only a weak evidence base for establishing which of these practices are most effective in reducing ethnic inequalities in the labour market. For example, there is American evidence suggesting that equal opportunities training has no general benefits on the employment of minorities or women (Kalev *et al.*, 2006). The British evidence base on the effectiveness of these different sub-components is largely lacking however.

We cannot, therefore, be sure, in the absence of further research, which are the key practices to include in any index. Our best guess is that a written equal opportunities policy, ethnic monitoring, developing an action plan to correct any under-representation, using standard application forms, avoiding informal personal ties in recruitment, and using advertising and positive action measures to overcome under-representation should be the key components. This is consistent with the experience of the successful Northern Ireland programme for promoting fair participation in employment (see for example McCrudden *et al.*, 2010), and with the other research evidence, but we could not claim that there is as strong an evidence base as we would wish.

2.4 Harassment and the 'chill factor'

The statutory code states that it is unlawful for employers to engage in, or condone, unwanted conduct that will violate the dignity of workers or job applicants (para 4.72). It defines harassment on grounds of race or ethnic or national origins as behaviour where a person engages in unwanted conduct that has the purpose or effect of:

- a violating the other person's dignity; or
- b creating an intimidating, hostile, degrading, humiliating or offensive environment for that person (para 2.17).

This concept of harassment is similar to the expression 'chill factor' which is often used in the Northern Ireland context to refer to workplace environments that deter potential applicants from members of a different community because, for example, of the display of insignia associated with one particular community and a generally hostile environment towards members of the other community.

Our assumption, then, is that harassment on racial grounds at a particular workplace might either deter minority applicants from applying, or might lead to higher rates of exit from the workplace than would otherwise have occurred. (Fevre *et al.*, 2009 show very high rates of exits on the part of those who had reported experiencing unfair treatment.) In these ways it might contribute to the employment gap in private sector firms (or indeed in public sector concerns such as perhaps the police). The recent Race for Opportunity report, 'Aspiration and Frustration', documents considerable disparities between ethnic minority and majority respondents in their perceptions of how welcoming professions, including the police and armed forces, are to potential applicants.

2.5 Other employer-side action

As the statutory code makes clear, especially in point (d) above, there are a range of practices that a pro-active employer can legally undertake in order to redress under-representation of ethnic minorities. These include various forms of positive action in order to encourage ethnic minorities to apply to the firm, or to provide them with the training that they need in order to be suitable candidates. The essential point, then, is that simply eliminating unlawful practices such as direct and indirect discrimination might not be sufficient to eliminate under-representation but that firms can lawfully undertake additional measures to help close the gap.

2.6 'Outcome' measures

If employers have successfully eliminated direct and indirect discrimination, have successfully followed the code of practice, have eliminated any 'chill factor', and have undertaken proportionate positive action to encourage applications from under-represented groups, then we would expect to find that the overall level of representation of ethnic minorities in the firm would more closely mirror that of the ethnic composition of the suitably-qualified pool of potential applicants in the catchment area, (recognising that different geographical catchment areas might be appropriate for different levels of qualification). This is essentially the approach taken by the Equality Commission for Northern Ireland (ECNI) when determining whether a particular community is under-represented in a Northern Ireland firm or public body.

Given the uncertainties involved in the measurement of the various components that generate ethnic penalties, we would regard it as important to include in the index robust outcome measures of this kind in addition to the practices and procedures described in the statutory code of practice. Three separate outcomes could be included:

- a The ethnic or racial composition of the private-sector workforce, compared to that of the potential pool of employees in the relevant geographical area, that is, a measure of the extent to which ethnic minorities are under-represented in the private sector.
- b Occupational inequalities, particularly under-representation in managerial positions, among those who actually are employed in private-sector firms.
- c Pay inequalities at all levels within private-sector firms.

Ideally then a race equality index of the kind required should include measures of:

- direct discrimination experienced by ethnic minorities;
- the practices identified by the CRE in the statutory code such as having an action plan, conducting ethnic monitoring, targeting advertising at under-represented groups, and positive action;

- harassment/the chill factor; and
- outcome measures of under-representation of ethnic minorities in private-sector employment, and of ethnic inequalities in earnings and in access to managerial positions in private-sector firms.

We should mention two important caveats at this point. First, we do not at present have robust evidence showing us the relative importance of direct discrimination, indirect discrimination, the chill factor and other barriers in accounting for the ethnic penalties experienced by minorities in competing for jobs in the private sector. In research undertaken for the NEP, Heath and Li (2007) estimated that up to one-quarter of the penalty might be due to direct discrimination, but there is considerable uncertainty around this estimate. Secondly, there is always the possibility that part of the observed ethnic penalties might be due to unmeasured characteristics of the minority applicants (for example, lack of English language skills in the case of migrants) rather than to employer-based barriers.

In order to tap these different conceptual components, we reviewed possible sources of measures for each component and sub-component. We consider each in turn in the next chapter.

3 Possible tools for measuring the different components

3.1 Tools for measuring direct discrimination

For measuring direct discrimination we considered alternatives such as further exercises involving correspondence testing of discrimination, measures of employment tribunal cases involving racial discrimination, and self-report measures of job refusals and unfair treatment, based on the Citizenship Survey (CS) and Fair Treatment at Work Survey (FTWS).

While correspondence testing provides hard evidence and in that respect is much to be preferred to other measures, it is expensive and there are no current plans for regular exercises of this kind. Furthermore, there are issues of generalisability and representativeness (since correspondence testing can only be used for jobs that are formally advertised, and only addresses one part of the selection process).

Employment tribunal records are administrative data and entail the difficulties of administrative data. In particular, it is possible that the willingness to bring cases against employers will vary over time, depending on the economic and cultural climate, e.g. the stigma attached to making such claims or the extent of victimisation experienced by complainants. A greater willingness to bring cases might not necessarily indicate an increase in the incidence of unfair treatment.

Self-report measures of racial discrimination are also somewhat problematic, since respondents will often not know the grounds on which they failed to get a job or promotion, and there is, therefore, a risk that respondents may mis-attribute a rejection to race when it was in fact perhaps due to lack of qualifications or other weaknesses in their applications.

The most reliable measure might, therefore, be a survey-based one, analogous to correspondence testing, which compares the rates at which equally-qualified members of the majority and minority groups are rejected for jobs or promotions. In other words we should focus on the outcome – the rate of rejection – not the supposed reason for the rejection. Self-report measures of this kind have proved acceptable in the contexts of measuring crime rates and unemployment rates.

A measure of this kind is available from the CS. The CS is a large-scale government survey, highly trusted, with the great advantage of oversampling ethnic minorities (and, therefore, providing more robust estimates). We should note that, while the survey allows us to look at job refusals with respect to recruitment and unfair treatment with respect to promotion, it does not contain questions on other areas such as appraisal, training, discipline or dismissal. The CS asked the following questions:

- *May I check, in the last five years, have you been refused or turned down for a job?* (asked of those currently in work together with those who had had a job or looked for one in the last five years);
- *In the last five years, have you been treated unfairly at work with regard to promotion or a move to a better position?* (asked of those currently in work together with those who had had a job in the last five years).

These measures have been used by the CLG for monitoring trends (CLG, 2009). However, there is one major weakness of the survey for our purposes: the wording of the questions in the survey makes it impossible to be sure that the job refusals were from private-sector firms. The survey question asks

about job refusals in the last five years, and even though we can establish from the survey whether the respondent is currently employed in a private sector firm, there is no way of determining whether the prior job refusals were from private or public sector concerns.

3.2 Tools for measuring adherence to the statutory code

As we showed in Section 2.3, we cannot straightforwardly measure indirect discrimination. However, the CRE's statutory code of practice gives us a sound legal basis for identifying practices that would reduce the risk of indirect discrimination and which would also help to eliminate race inequality. The National Employment Panel's (NEP) stand-alone survey covered some of the practices identified in the statutory code, but there are no current plans to repeat this survey. The main alternative source which contains information on employer practices is the Business, Innovation and Skills (BIS) Workplace Employment Relations Survey (WERS), a representative survey of over 2,000 workplaces with more than five employees. The WERS was conducted in 1990, 1998 and most recently in 2004, and a new survey is planned for 2011.

The 2004 survey asked questions about a number of the practices included in the statutory code of practice, although not all of them. The key questions that we have been able to identify in the 2004 survey are:

- Whether the workplace (or the organisation of which it is a part) has a formal written policy on equal opportunities or managing diversity which explicitly mentions equality of treatment or discrimination on grounds of race.
- How the policy has been made known to employees.
- Whether attempts have been made to measure the effects of the Equal Opportunities (EO) policies on the workplace or on the employees at the establishment, and what were the effects (though this is not explicitly mentioned in the code of practice).
- Whether recruitment and selection are monitored by ethnic background.
- Whether promotions are monitored by ethnic background.
- Whether recruitment and selection procedures are reviewed by ethnic background to identify indirect discrimination.
- Whether promotion procedures are reviewed by ethnic background to identify indirect discrimination.
- Whether relative pay rates are reviewed by ethnic background (not explicitly mentioned in the code of practice).
- Whether, when filling vacancies, there are any special procedures to encourage applications from members of minority ethnic groups.
- Whether direct recommendations from existing employees or word of mouth methods are used when recruiting staff.

Some of these questions were asked in 1998, and there are plans to retain almost all for the 2011 survey. This list of questions covers many of the key practices identified in the statutory code although it does not ask about the presence of an action plan and the setting of targets and timetables for reducing race inequality, or whether standard application forms are used. However, the items that are included would provide the basis for a useful index.

3.3 Tools for measuring the ‘chill factor’

The most relevant source is Business, Innovation and Skills (BIS) 2008 FTWS, a representative survey of current employees in Great Britain (excluding the self-employed) together with those who had been employees over the previous two years (Fevre *et al.*, 2009). The survey updates findings from the 2005 FTWS, but changes in the methodology make it difficult to make comparisons over time.

The 2008, FTWS included questions on experience of unfair treatment, discrimination at work, and bullying and harassment. It found that most harassment seemed to be individualised and there were only small (and statistically non-significant) ethnic differences in experience of bullying (Fevre *et al.*, 2009, Table B8.1). The FTWS does, however, permit one to identify bullying and harassment that has occurred at the current workplace and, therefore, to examine experiences in the private sector.

A second potential source is the annual British Social Attitudes (BSA) survey. Again this is a nationally-representative high quality probability sample, and it routinely includes a self-report question on racial prejudice. Respondents are asked:

How would you describe yourself...as very prejudiced against people of other races, a little prejudiced or not prejudiced at all?

In principle, one could measure trends over time in the proportion of private-sector employees who admit to racial prejudice. (See, for example, Heath and Cheung, 2006; CLG, 2009.) It might be expected that these levels of racial prejudice would be related to levels of racial harassment in the workplace. However, the evidence base for this assumption is missing, and indeed there is some evidence that prejudiced attitudes do not always correspond with actual behaviour. This, therefore, becomes a somewhat uncertain measure of the chill factor.

3.4 Tools for measuring outcomes

Given the limitations and uncertainties over the various possible tools for measuring the separate components described above, the overall measures acquire greater importance.

As noted above, if firms have eliminated unlawful practices and pro-actively undertaken lawful ones to promote race equality, then we might expect the profile of their workforce to come to reflect more closely that of the available workforce in their area (taking account of the skills needed). As noted above, this is essentially the approach that the ECNI adopts when assessing fair participation within a particular firm or public body, although we should note that the ECNI does not formally quantify this but instead has detailed discussions with each concern in the light of local knowledge.

Ideally, we would measure the workforce composition of a sample of firms and compare this profile with that of suitably-qualified personnel in the relevant travel-to-work area. To the best of our knowledge, however, suitable data are not currently available on a regular basis on the composition of individual firms. Instead, therefore, we turn to aggregate measures which compare the composition of private-sector firms as a whole in a given area with the profile of potential employees in that area.

18 Possible tools for measuring the different components

We considered the Annual Survey of Hours and Earnings (ASHE) but this does not contain a measure of ethnicity. As recommended in the ASHE reports, we, therefore, turned to the Labour Force Survey (LFS). The LFS is a large-scale, high quality and trusted data source. It is used for example for measuring International Labour Office (ILO) unemployment rates and the ethnic minority employment gap. It does not, however, oversample ethnic minorities, and, therefore, while it is adequate for measuring overall trends is not ideal for measuring year-to-year variations. It does, however, contain the information on ethnicity, private sector, and region that we need in order to measure the extent to which ethnic minorities are under-represented in private-sector employment and at different occupational levels. The overall measures can, therefore, be focused specifically on the private sector and computed over time.

4 Practical issues of measurement and recent trends

4.1 Job refusals and unfair treatment in promotion

As noted previously the Citizenship Survey's (CS) self-report measures of job refusals and unfair treatment with respect to promotion are the best available ones. These questions have been asked since 2003. Until 2007 the Survey was a biennial one, but it has since moved to a continuous basis and it is anticipated that it will be available in the future for regular monitoring of trends over time.

From the CS we can calculate estimates of the extent of ethnic minority disadvantage with respect to recruitment and promotion. Following the Department for Work and Pensions (DWP) practice, for example, in calculating the ethnic minority employment gap, we have computed the differential between the ethnic minority rate of job refusals, or unfair treatment in promotion, and that for the population as a whole. We should note, however, that, if the ethnic minority share of the population increases (as it is tending to), then compositional changes will automatically lead to some gradual convergence of the ethnic minority rate with the population rate. From a purely statistical point of view, therefore, it would be preferable to compute the minority/majority differential.

Table 4.1 shows the recent trends using the CS data.

Table 4.1 Trends in self-reported job refusals in recruitment and unfair treatment in promotion 2003-2008/09

	<i>Percentages reporting job refusals or unfair treatment in promotion</i>			
	2003	2005	2007/08	2008/09
Recruitment				
White respondents	21.5	17.2	17.5	8.1
Ethnic minority respondents	33.1	31.3	31.1	15.3
All respondents	22.4	18.2	18.6	8.8
Differential % (Ethnic Minorities (EM)-All)	47.8	72.0	67.2	73.9
Promotion				
White respondents	12.3	8.9	8.5	6.3
Ethnic minority respondents	17.7	19.3	15.5	13.9
All	12.7	9.7	9.1	7.0
Differential % (EM-All)	39.4	99.0	70.3	98.6
<i>Base, All</i>	<i>10,805</i>	<i>10,802</i>	<i>10,727</i>	<i>11,411</i>
<i>Base, EM</i>	<i>4,645</i>	<i>4,529</i>	<i>4,894</i>	<i>5,651</i>

Source: The CS 2003-2008/09.

Notes:

1. Men aged 16-64 and women aged 16-59 in England and Wales (same below).
2. The figures in the table refer to percentages answering 'Yes' to the questions on job refusals and unfair treatment in promotion over the last five years. The Ns refer to the numbers of respondents who are employees or who have been (or have looked for a job in the case of job refusals) employees in the last five years. The sample includes both public and private sector employees.
3. Differential percentages (EM - All) is calculated as $((EM - All)/All) \times 100$ and serves as an indication of ethnic minority disadvantage over the general population in recruitment or promotion.
4. In 2007, the Citizenship Survey moved from being a biennial survey to a continuous survey.
5. Weighted analysis reported (individual combined weight: same below).

In the first three rows of Table 4.1 we show the rates of job refusals reported by white, ethnic minority and all respondents respectively. As we can see, in all four years, ethnic minorities reported substantially higher rates of job refusal than did the overall population who were asked this question. In the next row, we calculate the differential, setting the figure for the population as a whole to 100. In 2003 the ethnic minority rate of job refusals was 47.8 per cent higher than that for the population. The differential then widened in 2005 and has remained at this high level subsequently.

The differential reported in Table 4.1 is in essence a 'gross' differential. It does not, therefore, strictly compare like with like, since ethnic minorities will tend to be younger, less well-qualified, have less work experience and so on than the majority group. The gross differential is not, therefore, analogous to the results for the matched applications in the correspondence testing of discrimination described above. The natural solution is to use multivariate methods to in effect match for relevant individual characteristics in the same way that the correspondence testing did. This is done in Table 4.2, which shows the adjusted or 'net' figures, after controlling for age, education, gender and other relevant factors in a multivariate model. (For details of the adjustment procedure, see Appendix B.)

Table 4.2 Adjusted trends in self-reported job refusals in recruitment and unfair treatment in promotion 2003-2008/09

	<i>Percentage differentials</i>			
	2003	2005	2007/08	2008/09
Recruitment				
Net differential % (EM-All)	12.8	28.5	25.2	24.6
Promotion				
Net differential % (EM-All)	26.2	65.0	43.9	56.2

Source: The CS 2003-2008/09.

Notes:

1. The adjusted figures are based on the predicted probabilities of job refusals or unfair treatment in promotion respectively derived from logistic regressions, controlling for all other socio-demographic variables – age, age squared, gender, region, highest educational qualification, marital status, number of dependent children, generation (1st versus 2nd or higher) and limiting long-term illness, and with the values of the covariates set at their means.

As we can see, the adjusted differentials are considerably smaller than the unadjusted ones, although they continue to show substantial ethnic minority disadvantage and the trends over time remain almost identical to the unadjusted ones.

As noted above, unfortunately the CS does not enable one to restrict the measure of job refusals to the private sector, since the question does not ask whether the job refusal was from a public or private sector employer. Given the evidence from the correspondence testing of discrimination, the inclusion of the public sector in the measure may well lead to an underestimate of discrimination in the private sector. However, this would still be a problem for measuring trends over time, since trends could in theory be moving in different directions in the public and private sectors.

On balance, since the focus of the index is on the private sector, our inability to restrict the CS measure to job refusals by private sector employers does make it a questionable component of a private sector index. To be sure, it could have a useful role as a regular measure of direct discrimination in the labour market, and the trends should certainly be monitored, but we recommend that it not be included in the proposed private-sector index.

4.2 Adherence to the statutory code of practice

As noted above, the only robust source for measuring adherence to the statutory code is the Workplace Employment Relations Survey (WERS). However, the WERS is not an annual survey. It was conducted in 1990, 1998, 2004 and it is planned to be conducted again in 2011. It is not known when the next survey will be carried out after 2011.

There is also an important issue about the extent to which the WERS items cover all domains relevant to the statutory code of practice; for example, there are no questions on the use of standard application forms or on action plans containing realistic targets and timetables. A further issue is whether all the items that are actually included in WERS are equally important for rectifying ethnic minority under-representation in private sector establishments. There is also a concern that it may not be reasonable to expect smaller firms to follow the code of practice to the same extent that larger firms should; the statutory code itself allows for some degree of latitude in this respect.

In the absence of robust evidence about the relative importance of the different practices, a straightforward approach is to construct a simple additive measure from the current and planned WERS questions similar to that developed by the NEP, scoring workplaces according to the number of equality-promoting practices that they have. The index could, therefore, be the percentage of workplaces that have reached or exceeded a given threshold number of practices. The NEP suggested that firms should count as high-performing if they gave positive answers to five or more of the eight questions included in their list, and this might be a suitable threshold for the WERS' list too. Different thresholds could be allowed for large and small workplaces. This could be a stand-alone measure which would be estimated only when WERS data became available.

Table 4.3 shows the percentage of private-sector workplaces reporting positive answers to the relevant items in the WERS in 1998 and 2004. It shows relatively little progress between 1998 and 2004, although we should note that changes in question wording mean that the decline in the number of workplaces carrying out ethnic monitoring of selection may well be artefactual. However, the relatively small proportion of workplaces (only ten per cent) who use five or more of the listed practices indicates that there is considerable scope for greater action on promoting race equality. While this index cannot be calculated on an annual basis, it will nonetheless be important to calculate it and to monitor progress between 2004 and 2011 when the next WERS is due.

Table 4.3 Trends in the private sector's adherence to the statutory code of practice 1998-2004

Whether workplace...	Percentages	
	1998	2004
Has written Equal Opportunities Policy (EOP) mentioning race	65.4	69.2
Makes EOP known formally	70.7	75.1
Measures effects of EOP	13.4	12.4
Monitors selection by ethnic background	39.6	24.7
Reviews selection for indirect discrimination by ethnic background	N/A	19.8
Monitors promotion by ethnic background	N/A	8.3
Reviews promotion for indirect discrimination by ethnic background	N/A	11.1
Reviews relative pay by ethnic background	N/A	5.1
Has special procedures for encouraging minorities	8.5	8.0
Does not use personal recommendations or word of mouth	N/A	31.3
% high scoring workplaces (5+)	N/A	10.3
<i>Base</i>	<i>1,514</i>	<i>1,543</i>

Source: WERS 1998, 2004, private-sector workplaces.

Notes:

1. The figures in the table refer to percentage of workplaces answering 'Yes' to the questions about the named practice.
2. The base consists of all private-sector workplaces responding to the survey (excluding a small number of missing cases) except for the final item (see note 5). Percentages are comparable across all but the final item.
3. Wording changes affect some time trends, e.g. on ethnic monitoring.
4. Unweighted analysis reported.
5. The base for the final question on use of personal recommendations or word of mouth excludes those firms which reported that they did not fill a vacancy for their largest occupational group over the past 12 months.

It should be noted that, because three of the listed practices in the WERS relate to monitoring, the proposed simple additive measure in effect gives greater weight to monitoring. In contrast our own preliminary analysis suggests that the use of special procedures to encourage applications from ethnic minorities is the practice that correlates most strongly with the proportion of ethnic minorities employed at the workplace. It will be useful to carry out more detailed analysis when the 2011 WERS data become available, and alternative weighting schemes could be explored at that stage.

In addition to measuring the adherence of private-sector workplaces to the statutory code, it is also possible to use the WERS to compare adherence between the private and public sectors. This comparison is shown in Table 4.4 which shows the differences between small and medium enterprises (SMEs) and large enterprises in the private-sector, public-sector and charitable organisations in their use of these practices.

Table 4.4 Public or private sector differences in adherence to the statutory code of practice

Whether workplace...	Percentages			
	Private sector SME	Private sector 250+	Charities, mutuals etc	Public sector
Has written EOP mentioning race	44.4	85.9	87.2	94.4
Makes EOP known formally	53.2	89.9	89.9	93.5
Measures effects of EOP	4.7	17.6	34.2	37.5
Monitors selection by ethnic background	8.9	35.4	55.7	72.6
Reviews selection for indirect discrimination by ethnic background	9.0	27.2	50.3	56.0
Monitors promotion by ethnic background	3.3	11.7	29.1	38.8
Reviews promotion for indirect discrimination by ethnic background	4.3	15.7	28.9	34.7
Reviews relative pay by ethnic background	1.6	7.5	20.1	16.2
Has special procedures for encouraging minorities	4.3	10.5	28.2	33.4
Does not use personal recommendations or word of mouth	35.2	29.0	56.7	70.2
% high scoring workplaces (5+)	4.0	14.0	39.4	49.5
<i>Base</i>	<i>503</i>	<i>858</i>	<i>149</i>	<i>589</i>

Source: WERS 2004.

Notes:

1. The private sector includes public limited company, private limited company, company limited by guarantee, partnership (including limited liability partnership).
2. The charitable sector includes trust/charity, body established by Royal Charter, co-operative/mutual/friendly society.
3. The public sector includes government-owned limited company/nationalised industry, public service agency, other non-trading public corporation, Quasi Autonomous National Government Organisation (QUANGO), Local/Central Government (including NHS and Local Education Authority).

As we can see, public-sector workplaces report much higher use of these recommended practices than do private-sector workplaces. To be sure, this is not at all surprising given the requirements (general and specific) of the race equality duties on public bodies under the Race Relations (Amendment) Act 2000. Given these requirements, it is indeed somewhat surprising that the public sector figures are not even higher. This should perhaps be investigated further in a separate exercise.

As we shall find later, the public sector also appears to exhibit substantially lesser under-representation of ethnic minorities than does the private sector, and of course was also found in the correspondence testing to exhibit significantly less discrimination in recruitment. To be sure, this in no way proves a causal connection between adherence to the practices listed in the statutory code and outcomes, but it does suggest that the presence of a causal connection should not be ruled out.

Within the private sector we also see large differences between SMEs and larger firms in the extent to which they adhere to the statutory code. Larger firms are almost identical to the public sector in their use of written EOPs, but lag behind in the more demanding practices such as ethnic monitoring and the use of positive action.

4.3 Self-reported prejudice

As noted above, the only available source for over-time trends is the British Social Attitudes (BSA) series on self-reported prejudice. In Table 4.5, we show the trends among white employees in private sector firms from 2001 to 2008 (the most recent available).

Table 4.5 Trends in racial prejudice among white private-sector employees, 2001-08

	<i>Percentages</i>							
	2001	2002	2003	2004	2005	2006	2007	2008
Very or a little prejudiced	29.3	38.2	33.4	31.4	34.2	36.8	36.2	41.8
<i>Base</i>	641	330	1,142	318	283	858	551	327

Source: BSA surveys.

Notes:

1. The figures give the percentage of respondents who report that they are either ‘very prejudiced’ or ‘a little prejudiced’ against people of other races.
2. The percentages are weighted. The base gives the unweighted sample sizes.

In several years the sample sizes are relatively small, and thus there will be large confidence intervals around the percentages shown. The trends should, therefore, be treated with some caution.

Previous research had shown a trend towards declining prejudice during the 1980s and 1990s, but Table 4.5 suggests that there has been a trend towards increasing prejudice since 2001. The explanation for this is not well-understood but earlier studies that have made use of these data suggest that it may be related to increasing adverse media coverage of immigration (McLaren and Johnson, 2004).

The trends shown in Table 4.5 are certainly a cause for concern, but the small sample sizes involved give us an additional reason for not including this measure in an index of race equality.

4.4 Under-representation in private-sector firms

Outcome measures of under-representation are by no means entirely unproblematic but they are probably the most reliable source of trends over time on racial inequalities within the private sector. There are three potential measures that we have been able to construct using the Labour Force Survey (LFS). First, we have constructed a measure that compares the ethnic minority employment rate in private-sector firms with that of the labour force as a whole. We take as our base people aged 16-64 (men) or 16-59 (women) who are economically active. That is, we exclude full-time students and those not seeking work but include in the base all those who are employed, self-employed or unemployed (International Labour Office (ILO) definition). We then simply compare the overall percentage of the economically active who are employed by private-sector firms with the percentage of economically-active ethnic minorities who are employed in the private sector. This gives us a measure of the extent to which ethnic minorities are under-represented in the private sector.

Table 4.6 shows the trends from 2001 to 2009. In 2001 we see that approximately 74 per cent overall of the economically active were employed in private-sector firms (the other 26 per cent being either employed in the public sector, self-employed or unemployed) compared with 68 per cent of the economically-active members of ethnic minorities. Setting the overall figure to 100, we find that the 'gross' differential was, therefore, around eight per cent in 2001. That is to say, there were eight per cent fewer ethnic minority employees in the private sector than we might have expected.

It could be argued that the self-employed should be excluded from the base, but making this exclusion does not have any material impact on the measure¹. There is also some evidence that ethnic minority self-employment is sometimes a response to discrimination in the labour market and that it, therefore, should be included in the base (Clark and Drinkwater, 1998).

¹ Further analysis excluding the self-employed from the base shows that the 'All-EM' differentials for the nine years for men and women combined are 9.3, 8.3, 8.7, 5.9, 6.6, 6.4, 6.8, 4.8 and 4.6 per cent respectively, which are slightly higher than the corresponding figures shown in Table 4.6.

Table 4.6 Trends in ethnic minority under-representation in the private sector, 2001-09

	<i>Percentages</i>								
	2001	2002	2003	2004	2005	2006	2007	2008	2009
Men									
White	81.0	80.6	80.6	80.9	80.5	80.3	81.1	79.9	76.3
EM	74.5	75.9	73.8	75.6	74.0	74.1	76.4	75.8	73.5
All	80.5	80.3	80.0	80.4	79.9	79.6	80.6	79.4	75.9
% (All-EM)	7.5	5.5	7.8	6.0	7.4	6.9	5.2	4.5	3.2
Women									
White	66.6	65.8	64.7	64.3	64.6	64.2	64.6	63.8	62.3
EM	59.8	58.3	58.7	60.4	60.8	60.0	58.3	60.1	56.5
All	66.1	65.2	64.3	64.0	64.2	63.8	64.0	63.4	61.7
% (All-EM)	9.5	10.6	8.7	5.6	5.3	6.0	8.9	5.2	8.4
Men and women									
White	74.5	74.0	73.4	73.4	73.4	73.1	73.8	72.7	70.0
EM	68.3	68.4	67.3	69.1	68.5	68.3	68.8	69.2	66.5
All	74.1	73.5	72.9	73.0	72.9	72.6	73.2	72.3	69.6
% (All-EM)	7.8	6.9	7.7	5.3	6.0	5.9	6.0	4.3	4.5
Bases									
Men, All	30,444	29,784	29,014	28,024	28,202	26,913	26,879	26,172	24,803
Men, EM	2,421	2,534	2,551	2,609	2,762	2,804	2,815	2,977	2,750
Women, All	30,044	29,247	28,519	27,566	27,861	26,711	26,333	25,370	23,973
Women, EM	2,621	2,752	2,746	2,804	2,967	3,050	3,055	3,234	2,919

Source: LFS 2001-09.

Notes:

1. For men aged 16-64 and women aged 16-59 in England and Wales.
2. Weighted analysis and unweighted Ns.
3. % (All-EM) is the differential between minority ethnics and the overall population expressed as $((\text{All-EM})/\text{All}) \times 100$. It indicates the disadvantages of the minority ethnics relative to the general population in private sector employment.
4. The pooled data of Wave 1 respondents in each quarter of each year.

These are 'gross' differentials, and as with the correspondence testing and the analysis of job refusals and unfair treatment with respect to promotion, need to adjust for individual socio-demographic characteristics and geography (see Section 4.1.). This is done in Table 4.7, which shows the adjusted or 'net' figures.²

² In all three models, that is for men, women, and men plus women, ethnic minorities are significantly disadvantaged as compared with whites ($p < 0.001$). The results of the models are not presented here but are available on request. It is noted here that, in the adjusted figures shown in Table 4.7, we are not comparing ethnic minorities with whites but with the overall population. It is further noted here that in all following models from which the adjusted values are derived (Tables 4.9, 4.11 and the figures in Chapter 5) the ethnic minorities are significantly disadvantaged as compared with the whites at the 0.001 level.

Table 4.7 Adjusted trends in ethnic minority under-representation in the private sector, 2001-09

	<i>Percentage differentials</i>								
	2001	2002	2003	2004	2005	2006	2007	2008	2009
Men									
% (All-EM)	9.4	6.1	9.7	7.2	9.4	8.6	6.5	5.6	4.9
Women									
% (All-EM)	15.8	18.7	17.1	11.5	11.5	12.2	14.8	9.7	13.4
All									
% (All-EM)	12.3	11.0	12.8	8.9	10.6	10.3	9.9	7.5	8.6

Notes:

1. See notes to Table 4.6.
2. The adjusted figures are based on the predicted probabilities of private sector employment among the economically active derived from logistic regression models. The models control for age, age squared, gender, region, highest educational qualification and whether the qualifications were obtained overseas, marital status, number of dependent children, generation (1st versus 2nd or higher), and limiting long-term illness, with the values of the covariates set at their means. We ran separate regressions for men and women in order to take account of possible interaction effects with gender.
3. % (All-EM) refers to the differential between ethnic minority groups and the overall population expressed as $((\text{All-EM})/\text{All} \times 100)$. The figures indicate the disadvantages of the ethnic minority groups relative to the general population.

The net differentials turn out to be rather larger than the gross ones. This is not an uncommon occurrence in analysis of ethnic minorities in the labour market as their age profile means that they are at the peak ages for employment. Many ethnic minority groups, such as Indians, Chinese and black Africans, also have higher educational qualifications than does the population as a whole, while minorities are less likely to be resident in regions that have higher unemployment rates. The underlying extent of ethnic minority disadvantage can be masked by their high qualifications and concentration in high employment regions such as London.

Nevertheless, the adjusted trends tell the same story as the adjusted ones: there has been an improvement in ethnic minority employment in the private sector and the extent of under-representation was considerably reduced by 2009 from the 2001 level. (We have also checked the trends excluding young people under age 25, who are more vulnerable to unemployment. While the net differentials are somewhat smaller if we exclude young people, the trends are identical.) This narrowing of the differentials is also parallel to the trend shown in the official government figures on the ethnic minority employment gap.

A second outcome measure that we can construct is the differential access of ethnic minorities compared with the private-sector workforce as a whole to managerial positions in private-sector firms. For this comparison we take as our base only those people who are actually employed in private-sector firms. We then calculate what percentage of ethnic minority individuals who are private-sector employees are in managerial positions, and compare this with the overall percentage in such positions. In Table 4.8 we see that, in 2001, around 15 per cent of private-sector male employees overall were in managerial positions compared with only 12 per cent of ethnic minority private-sector male employees, yielding a gross differential of 22 per cent (12.1 being only 78 per cent of 15.5).

Table 4.8 Trends in ethnic minority under-representation in managerial positions in the private sector, 2001-09

	<i>Percentages</i>								
	2001	2002	2003	2004	2005	2006	2007	2008	2009
Men									
White	15.7	16.6	16.2	16.3	16.0	16.5	16.5	17.0	16.6
EM	12.1	12.9	11.9	11.5	11.1	12.1	13.8	12.4	13.5
All	15.5	16.3	15.9	15.9	15.5	16.1	16.2	16.5	16.2
% (All-EM)	21.9	20.9	25.2	27.7	28.4	24.8	14.8	24.8	16.7
Women									
White	10.9	10.9	11.1	11.9	12.0	12.0	12.2	12.0	12.3
EM	8.4	8.3	8.4	8.4	9.6	10.0	8.0	8.8	8.8
All	10.7	10.7	10.9	11.7	11.8	11.9	11.8	11.7	12.0
% (All-EM)	21.5	22.4	22.9	28.2	18.6	16.0	32.2	24.8	26.7
Men and women									
White	13.6	14.0	13.9	14.3	14.2	14.5	14.6	14.8	14.7
EM	10.5	10.9	10.4	10.2	10.5	11.2	11.4	10.9	11.5
All	13.4	13.8	13.7	14.0	13.9	14.2	14.3	14.4	14.3
% (All-EM)	21.6	21.0	24.1	27.1	24.5	21.1	20.3	24.3	19.6
<i>Base, All</i>	34,410	33,353	32,241	31,060	31,426	29,834	30,017	28,951	26,122
<i>Base, EM</i>	2,140	2,240	2,291	2,337	2,512	2,626	2,649	2,876	2,465

Notes:

1. The figures refer to the occupancy of managerial positions in the private sector among those employed in the sector. The managerial positions are defined as being composed of NS-SEC 1, 2, 5, 6 in the full 35 category version, based on Rose and Pevalin (2003, pp. 8-9). The four categories refer to employers in large establishments (enterprises employing 25 or more people), higher managers, lower managers, and higher supervisors respectively.
2. In order not to make the table too crowded, the Ns for men's and women's overall and EM subsamples are not shown but are available on request.

Again, it is important to adjust for age, education, region and so on, and this is done in Table 4.9.

Table 4.9 Adjusted trends in ethnic minority under-representation in managerial positions in the private sector, 2001-09

	<i>Percentage differentials</i>								
	2001	2002	2003	2004	2005	2006	2007	2008	2009
Men									
% (All-EM)	26.2	23.8	29.9	32.3	33.3	30.8	22.1	32.9	26.1
Women									
% (All-EM)	28.0	26.2	27.6	31.6	24.3	20.0	37.6	27.5	31.1
All									
% (All-EM)	25.9	23.7	28.2	31.2	29.4	26.0	26.8	30.5	27.6

Notes:

1. The adjusted figures are based on the predicted probabilities of private-sector managerial employment among those employed in the private sector. The figures are derived from logistic regressions controlling for age, age squared, gender, region, highest educational qualification and whether the qualification was obtained overseas, marital status, number of dependent children, generation (1st versus 2nd or higher), and limiting long-term illness, with the values of the covariates set at their means. We ran separate regressions for men and women in order to take account of possible interaction effects with gender.
2. % (All-EM) refers to the differential between ethnic minorities and the overall population expressed as $((All-EM)/All*100)$. The figures indicate the net disadvantages of ethnic minorities relative to the private sector workforce as a whole.

Both the adjusted and unadjusted trends are somewhat ‘bumpy’, reflecting the smaller sample sizes used in this particular analysis. However, both sets of figures show very little change over time. There is no sign of the kind of improvement that was evident for employment, and indeed the adjusted trend is, if anything, in the ‘wrong’ direction while the unadjusted trend is essential flat. We can formally test, both for the adjusted and unadjusted estimates, whether the white/ethnic minority differential has changed over time, and in neither case is the 2001-09 change statistically significant.

Finally, we can also calculate gross and adjusted hourly pay differentials in the private sector. Tables 4.10 and 4.11 show the trends over time in mean hourly pay. We have not adjusted the values for inflation, but the figures for the percentage differential (which following our standard practice sets the earnings for all private sector employees to 100) essentially removes the need to adjust for inflation.

Table 4.10 Trends in mean hourly pay (£) in private sector employment by sex, 2001-09

	2001	2002	2003	2004	2005	2006	2007	2008	2009
	<i>Pounds</i>								
Men									
White	10.22	10.60	10.92	11.13	11.69	12.11	12.52	13.01	13.38
EM	9.15	9.11	9.07	9.62	10.23	10.12	10.67	11.40	11.67
All	10.15	10.50	10.78	11.01	11.56	11.93	12.33	12.85	13.20
% (All-EM)	9.90	13.20	15.90	12.60	11.50	15.20	13.50	11.30	11.60
Women									
White	7.52	7.79	8.09	8.25	8.78	9.05	9.44	9.75	9.92
EM	7.97	7.75	8.46	8.36	8.68	9.22	9.43	9.74	10.80
All	7.55	7.78	8.11	8.26	8.77	9.06	9.44	9.75	10.00
% (All-EM)	-5.60	0.40	-4.30	-1.20	1.00	-1.80	0.10	0.10	-8.00
Men and women									
White	9.07	9.40	9.71	9.91	10.47	10.82	11.22	11.65	11.90
EM	8.69	8.57	8.82	9.10	9.60	9.75	10.19	10.71	11.34
All	9.04	9.34	9.64	9.84	10.39	10.72	11.13	11.55	11.85
% (All-EM)	3.90	8.20	8.50	7.50	7.60	9.00	8.40	7.30	4.30
<i>Base, all</i>	20,518	20,372	19,293	18,362	18,178	17,786	18,867	18,159	16,486
<i>Base, EM</i>	1,060	1,203	1,195	1,198	1,322	1,405	1,515	1,611	1,391

Notes:

1. % (All-EM) refers to the differential between the whole sample and the EM sample in terms of hourly pay calculated at $((\text{All-EM})/\text{All} \times 100)$.

The most striking result in Table 4.10 is that ethnic minority women in the private sector appear to earn, in gross terms, slightly more than the white women. However, ethnic minority women are more likely to work full-time than are the white women, and the hourly earnings of part-time workers are generally rather lower than those of full-time workers. When we adjust for this (and for the other factors that we routinely adjust for), we find that the usual picture is restored, with ethnic minority women suffering a substantial pay disadvantage in comparison with women's earnings generally (see Table 4.11). Even so, it remains true that the adjusted earnings differential is greater for ethnic minority men than it is for women. This further implies that the gender pay gap is less pronounced among ethnic minority private-sector employees than it is among white employees.

However, it is important to recognise one caveat (which applies to some extent to all our measures), namely that there may be some unmeasured biases as a result of differential participation in the labour market. Some ethnic minority groups, especially women from a Pakistani or Bangladeshi background, have relatively low participation rates in the labour market and those who do participate may, therefore, be a particularly selective group. This kind of process could in part explain why ethnic minority women appear to be somewhat less disadvantaged than ethnic minority men, at least with respect to earnings. Various econometric techniques can be employed to attempt to deal with this issue of selection bias, but they depend upon strong and unverifiable assumptions and we have decided, therefore, not to apply them.

Table 4.11 Adjusted trends in mean hourly pay differentials in private sector employment by sex, 2001-09

	<i>Percentage differentials</i>								
	2001	2002	2003	2004	2005	2006	2007	2008	2009
Men									
% (All-EM)	19.9	20.5	23.3	24.1	23.5	24.2	26.7	24.1	23.6
Women									
% (All-EM)	16.0	16.3	13.9	14.6	17.8	14.1	17.7	15.4	8.5
Men and women									
% (All-EM)	19.3	19.5	20.4	20.9	21.4	20.7	24.2	21.2	19.3

Notes:

1. The adjusted figures are based on the predicted hourly earnings in private sector employment. The figures are derived from OLS regressions controlling for age, age squared, gender, region, highest educational qualification and whether the qualification was obtained overseas, marital status, number of dependent children, generation (1st versus 2nd or higher), limiting long-term illness, and full- or part-time employment (whether under or over 35 hours in basic usual work hours per week), with the values of the covariates set at their means. We ran separate regressions for men and women in order to take account of possible interaction effects with gender.
2. % (All-EM) refers to the differential between ethnic minority groups and the overall population expressed as $((All-EM)/All*100)$. The figures indicate the net disadvantages of ethnic minorities relative to the general population.

As in the case of access to managerial positions, both adjusted and unadjusted differentials for earnings show essentially no change over time. Once again, there is quite a lot of variation from year to year, but as with management the change between the change between 2001 and 2009 in the white/ethnic minority differential is not statistically significant.

5 Can the private sector's contribution to reducing the ethnic minority employment gap be measured with existing data sources?

5.1 Constructing a measure of how discrimination occurs

We believe that our review has indicated some useful tools that could be deployed in order to measure the private sector's contribution to reducing ethnic penalties, although in the absence of new data collection and indeed of new research on the effectiveness of the different practices, the tools currently available fall short of the ideal. In particular, there are weaknesses with all the tools for measuring the different components that contribute to ethnic penalties. We do not feel that it is possible at present, therefore, to construct a measure of how discrimination occurs or of annual figures enabling one to monitor direct discrimination by private-sector employers, their adherence to the statutory code and the extent to which they are proactive in working towards fair employment.

Firstly, the weaknesses of the Citizenship Survey (CS) items for measuring direct discrimination are that (a) they cannot be restricted to refusals or unfair treatment by private-sector employers alone, and (b) they are self-report measures and do not have the same validity as the correspondence testing. They are useful tools for monitoring one aspect of race inequality, especially as they are collected annually, but they could be criticised as components of a specifically private-sector measure.

Secondly, the strength of the Workplace Employment Relations Survey (WERS) measures is that they do directly tap some of the key requirements of the brief – how proactive are private-sector firms in tackling race inequality. They also have the great advantage that they can be directly related for the most part to practices specified in the Commission for Racial Equality's (CRE) statutory code of practice (although there are some important omissions). There are two problems, however, in that (a) the WERS is conducted only intermittently and does not, therefore, provide an appropriate vehicle for regular monitoring or for combination with other measures; and (b) the relative importance of the different WERS items for rectifying ethnic minority under-representation in private-sector firms is not well understood. The absence of items on the use of standard application forms and on the presence of an action plan specifying realistic targets and timetables is a pity. Nevertheless, the 2011 WERS will be a valuable tool for measuring trends since 2004 in how pro-active the private sector is and in determining whether the private sector is closing the gap with the public sector. It will, therefore, have an important monitoring function, even if it cannot be combined into a regular annual index.

Thirdly, the Fair Treatment at Work Survey (FTWS) in principle would be a valuable tool for measuring harassment and bullying at work. However, its weaknesses are (a) uncertainty as to whether it will be repeated and (b) our limited understanding of how important this particular component is for explaining ethnic minority under-representation. The British Social Attitudes survey (BSA) has the

34 Can the private sector's contribution to reducing the ethnic minority employment gap be measured with existing data sources?

advantage of being a regular annual survey, enabling trends in self-reported prejudice by co-workers to be monitored. But we think it could well be criticised on the grounds that, while prejudice is clearly an important topic in its own right, it is unclear how strong a relationship it has to harassment and bullying at the workplace. The sample sizes involved are also relatively small, leading to large sampling errors.

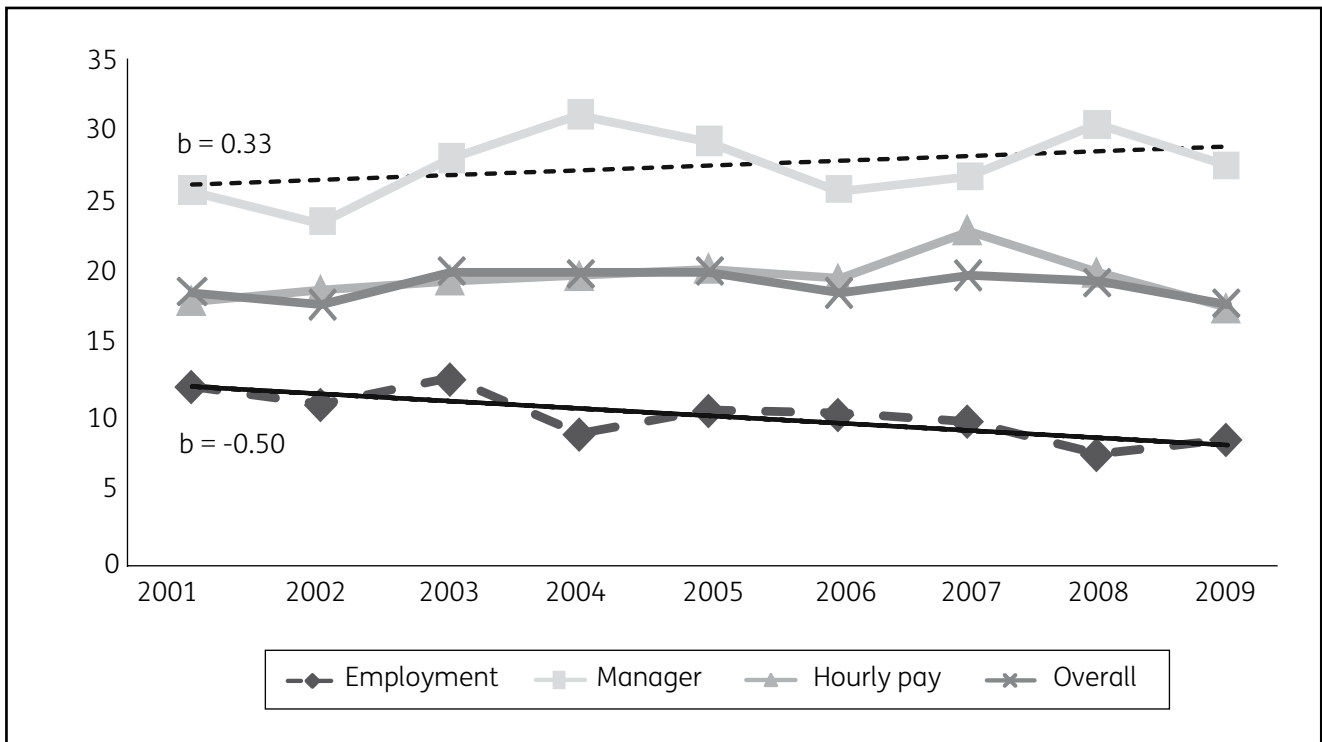
5.2 Constructing an outcome measure of fair employment

Finally, we suggest that an index could be based on the three outcome measures outlined in Section 4.4, namely measures of ethnic minority under-representation in private-sector employment, under-representation in private sector managerial posts, and disparities in hourly earnings within the private sector. Such an index could be used to monitor trends over time and would thus fulfil one of the key requirements of the National Employment Panel (NEP) for regular monitoring. Such an index would have the advantages that it (a) is based on a highly-trusted source – the LFS; (b) can be calculated annually; (c) is based on outcomes rather than on procedures which may not be effective in practice, (d) covers outcomes that would widely be accepted as important, (e) is focused explicitly on the private sector, and (f) is easy to understand.

To construct such an index we would recommend using the three adjusted measures of the percentage differentials shown in Tables 4.7, 4.9 and 4.11. In all three cases we have set the figure for the population as a whole to 100 and then estimated the percentage difference between the ethnic minorities and the population. The simplest approach is then to give the three outcome measures equal weight. More sophisticated systems of weighting could also be explored. Take 2001 for example. The adjusted differential for employment in the private sector (after controlling for the socio-demographic and geographic factors age, age squared, gender, region, highest educational qualification and whether the qualifications were obtained overseas, marital status, number of dependent children, generation, and limiting long-term illness) was 12.3 per cent (see Table 4.7); for under-representation in managerial positions the adjusted differential was 25.9 per cent (see Table 4.9); and for hourly earnings it was 19.3 per cent (see Table 4.11). This then gives the value of 19.2 for our proposed index of race inequality in the private sector in 2001 $((12.3 + 25.9 + 19.3)/3)$.

Figure 5.1 shows the trends over time for the three individual components together with the overall index. We have also fitted linear trend lines for employment and access to management. Since higher scores on this index indicate greater ethnic disadvantage, we term this an index of race inequality.

Figure 5.1 The index of race inequality in the private sector 2001-09

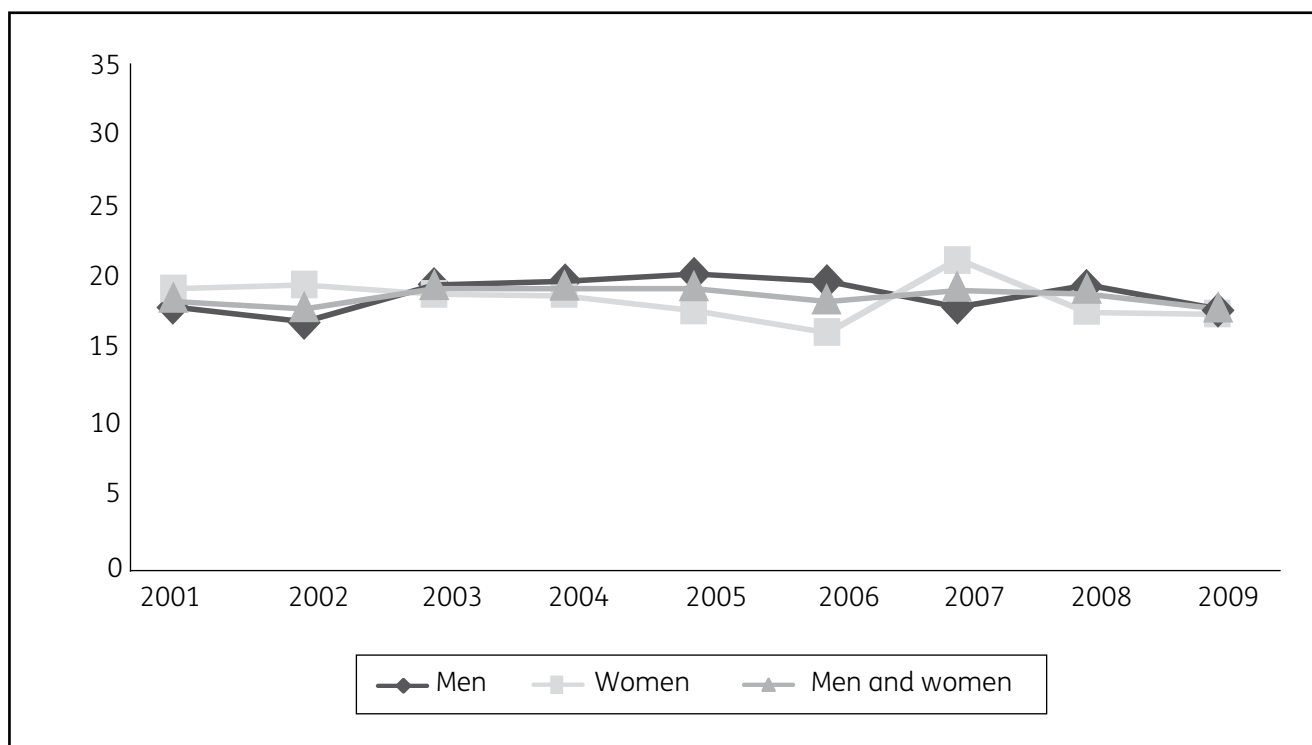


The graphs for employment, access to managerial positions and for hourly pay correspond to the adjusted figures shown in Tables 4.7, 4.9 and 4.11. As was explained in Chapter 4, there was evidence for some improvement with respect to employment, the differential falling by around 0.50 points each year. However, the trends for access to management was in the opposite direction, the differential increasing by 0.33 points each year, while that for hourly earnings was essentially flat. The overall index, in consequence, is also effectively flat with no overall improvement in race equality in the private sector between 2001 and 2009.

We can also see that the individual graphs for the three components are rather ‘bumpy’, fluctuating somewhat from year to year (due to the small sample sizes especially for ethnic minorities in managerial positions). However, these year-to-year variations to some extent cancel out when we combine them in a single index, and the overall index is as a result much less bumpy.

In Figure 5.2 we have calculated the index separately for men and for women. As we can see, there is no systematic difference in the levels of race inequality for men and women, and the trends over time are effectively stable for both. Again, the separate indexes for men and women vary quite considerably from year to year, partly because the sample sizes are effectively cut in half. Overall, we feel that it is better simply to produce a single combined index with the advantage of larger sample sizes.

Figure 5.2 The index of race inequality in the private sector by gender, 2001-09



The proposed index does, therefore, help to identify some clear patterns and real problems that need to be addressed:

- ethnic minorities continue to experience major disadvantages in the private sector with respect to employment, access to managerial positions, and earnings;
- there is some modest equalisation taking place over time with respect to private sector employment, but inequalities in access to managerial positions and in earnings show no sign of decline;
- both ethnic minority men and women experience these disadvantages, and do so more or less to the same extent.

However, we must emphasise that there are three potential weaknesses in this proposed index. Firstly, the weighting of the three components (employment, access to managerial positions, and earnings) is at present somewhat arbitrary.

Secondly, the adjustment method that we have used in order to match minorities and majority-group members for relevant individual characteristics and geography is not definitive. Plausible, but more complex, alternative methods of adjustment could be suggested, although we suspect that the alternatives would not change substantive conclusions about trends over time. (See Appendix B for a discussion of the adjustment methods.) A measure based on gross differentials rather than net or adjusted differentials would be simpler to explain and more transparent. It would also show very similar trends over time: an index based on the three gross differentials shows a decline from 11 per cent in 2001 to ten per cent in 2009. But such an index based on the gross differences would be open to criticism, in the same way that correspondence tests of discrimination would be criticised if they did not match majority and minority-group applicants for qualifications, skills and

experience. We, therefore, feel that it is preferable to adjust for relevant individual characteristics and geography. Moreover, adjustment is by no means entirely unfamiliar in index construction, as for example with the seasonal adjustment employed in many economic time series.

Thirdly, the index is derived from sample surveys, using a differencing approach, and is, therefore, subject to sampling variation. It is important to recognise, therefore, that the index should be used with caution when making judgements about year-to-year variations and is better suited at present for measuring longer-term trends. However, we have been able to check whether the changes in the three separate components are statistically significant, and this provides a useful check on the confidence we can have in the year-to-year variations of the overall index.

6 Conclusions

We do not recommend the construction at present of an index attempting to combine measures of direct discrimination, indirect discrimination and the chill factor. Instead we recommend that trends in direct discrimination should be monitored using the Citizenship Survey (CS) and that the Government should explore whether the CS questions could be modified so as to permit the identification of job refusals and unfair treatment in promotion by sector.

We recommend that, when results from the Workplace Employment Relations Survey (WERS) become available after the 2011 fieldwork, analysis should be undertaken of trends over time in firms' adherence to the statutory code of practice, of the factors that predict adherence to the code, and the association between adherence to the code and fair employment outcomes. Such an analysis would enable the Department for Work and Pensions (DWP) to fulfil some of the requirements of the National Employment Panel (NEP), specifically by measuring how pro-active the private sector is in tackling ethnic inequalities in employment and whether the private sector has been able to bridge the gap with the public sector in its adherence to the statutory code.

We recommend that the Government should explore the possibility of including questions on experience of harassment at work in a regular survey series, such as the CS, in order to monitor trends over time.

We conclude that an annual index could be constructed, based on our three outcome measures of ethnic minority under-representation in the private sector, under-representation in managerial positions, and disparities in hourly earnings. We recommend that further statistical work should be undertaken, fine tuning the adjustment procedures in our suggested index, and that there should be consultation with stakeholders. We would also suggest that the name of the index might be reconsidered: the term 'race' has many undesirable connotations and a name such as 'ethnic diversity index' might now be more appropriate.

Such an index has some limitations. In particular, its reliance on sample surveys means that there is some 'bumpiness' evident in the trends over time, and the index would have to be used with caution when measuring year-to-year variation. It is better suited to examining medium-term trends and the extent to which the private sector is converging with the public sector. The index would fulfil the requirements of the NEP for monitoring trends over time in progress towards race equality. As the NEP emphasised, monitoring is essential in order to determine whether there is a need for additional measures, such as perhaps the strengthened use of public procurement to encourage firms to make greater progress towards fair employment.

Our calculation of the index for the period 2001-09 suggests that there has been little overall progress, improvement with respect to employment being counterbalanced by lack of improvement elsewhere. Moreover, most of the sources that we have reviewed – the CS, the WERS and the Labour Force Survey (LFS) all tell a similar story to the correspondence testing of discrimination, showing that substantial ethnic penalties remain. The one exception is the Fair Treatment at Work Survey (FTWS) which did not show evidence of major ethnic inequalities in harassment at work. The main sources for which public/private sector differences can be established also show substantial differences between the public and private sectors.

Appendix A

The National Employment Panel's index

The National Employment Panel (NEP) commissioned Ipsos-MORI to conduct an employer survey during 2006/07. The survey was telephone based and reached 1,108 private sector firms. The survey questions focused on organisations' equal opportunities practices, with particular respect to ethnic minority employment. The purpose of the survey was to gauge the current and potential impact of the primary levers and tools often recommended for use to push forward race equality in the private sector. They did not, however, attempt to assess the actual leverage these levers have.

The NEP designed a Race Equality index from the survey in order to draw general conclusions on how proactive businesses are to promoting race equality in recruitment, retention and promotion. The index used answers from the following eight questions to classify firms as high, medium or low performing:

- 1 **Written equal opportunities policy** – does this organisation have a formal written policy on equal opportunities or diversity?
- 2 **Employment of ethnic minorities** – does this organisation currently have any ethnic minority employees?
- 3 **Active awareness of local ethnic composition** – do you have any data on the ethnic composition of your local area?
- 4 **Employment in line with local labour composition** – and is the proportion of ethnic minorities in your workforce in line with that of the local area in which you operate?
- 5 **Equal opportunities training** – are any staff given training in equal opportunities?
- 6 **Active internal monitoring** – does your organisation collect and monitor ethnic minority employment statistics.
- 7 **Public reporting of ethnic monitoring** – does your organisation report publicly employment statistics and performance on employment of ethnic minorities/equal opportunities practices.
- 8 **Using positive action** – does your organisations currently use positive action to increase the recruitment, retention and promotion of ethnic minorities?

The NEP counted employers as low performing if they scored positively only in two or less questions; as medium performing if they scored positively in three or four questions, and as high performing if they scored positively in five plus questions.

Appendix B

Adjusting for geography and individual characteristics

In the case of reported refusals, reported unfair treatment in promotion, ethnic minority under-representation in private-sector workplaces, and under-representation in managerial occupations, we carried out logistic regression. In the case of hourly earnings, we carried out linear regression.

In all these analyses we controlled for the same variables, namely:

- age;
- age squared;
- gender;
- region;
- highest educational qualification;
- generation (1st versus 2nd or higher);
- marital status;
- number of dependent children; and
- limiting long-term illness.

In addition, we used a variable measuring whether the respondent's highest qualification was obtained in the UK or abroad in the analysis of the Labour Force Survey (LFS) data. This variable was constructed by using information on year of arrival in the UK, the respondent's age, and the average age for obtaining the highest educational qualifications. As no information is available in the Citizenship Survey (CS) on time or age of arriving in the UK, no such variable could be constructed for the CS. We also included a binary variable contrasting ethnic minority respondents (defined as all the non-white categories, including mixed and other) with white respondents. We did not fit interaction terms, e.g. with gender or ethnicity, as separate models for men and women were constructed wherever needed. In analysing earnings data, we also controlled for full versus part-time working.

The rationale for including these variables is that they have all been shown in previous research to be significant predictors of labour market outcomes. Age and age squared are used as proxies for experience in the labour market (which cannot be directly measured in these datasets), age squared being included because of the well-known curvilinear relationship with some outcomes such as unemployment or earnings. There are of course well-known gender differences in labour market outcomes, and regional differences in for example unemployment rates. This is particularly important because of the important regional differences in the distribution of ethnic minorities.

Highest educational qualification is perhaps the single most important predictor of labour market outcomes, and is a key aspect of the human capital model. Additional measures of skills and training would have been desirable but are not available. Generation has also been shown to be important for ethnic minorities, with the second generation having generally better outcomes with respect to occupational position (although not with respect to unemployment) than the first generation.

Marital status has well-known associations with labour market outcomes, although the precise mechanisms involved are not well understood. Number of dependent children is an important constraint for women's participation, while health status is important for both men and women. However, it could be argued that some of these variables are 'endogenous', that is they are consequences of labour market outcomes rather than causes. For example, unemployment may increase the risk of divorce, rather than the other way round. It could perhaps be argued, then, that marital status, number of dependent children and limiting long-term illness should not be included as control variables because of this possibility of endogeneity.

The adjusted figures are based on the predicted probabilities of whites and minorities respectively obtaining the given outcome, setting all other predictors to their overall mean values. To obtain the predicted probability for the population as a whole we took the weighted average of the white and ethnic minority predicted probabilities. In carrying out the adjustment, we allowed the effect of ethnicity to change from year to year (and tested for the significance of these changes) but assumed that the effects of the control variables remained constant over time as we do not have any theoretical reason for expecting these to change over this relatively short period.

There are several issues that are potentially problematic in our adjustment procedure and which would need to be explored in more depth.

Firstly, there are some additional individual-level predictors such as fluency in the English language that it would be desirable to include but which are not available in our datasets. The best we can do and have done in the analysis of the LFS data is, as explained above, to use information on British or overseas qualifications as the latter might not be viewed by employers as having the same productive potential as a British qualification. Holders of British qualifications are also very likely to have fluent English.

Secondly, there may well be interaction effects, for example between gender and other predictors, or between generation and various predictors. Previous research has suggested that the first generation minorities obtain lower returns on their education than do the second generation, who obtain similar returns to the white British with regard to class attainment (Cheung and Heath, 2007; Li and Heath, 2010). This probably reflects lack of language skills and/or foreign qualifications, so restricting the samples to those with British qualifications might be a good idea but the downside is that it would further reduce the sample size for the minority ethnic groups. On balance we feel that including a control for foreign qualifications is the best solution available given present data limitations but it would be desirable to check whether there are further interaction effects. In order to deal with gender interactions, we have run separate models for men and women when estimating the outcome models using the LFS.

Thirdly, there are some issues of selection, notably where we select only those respondents who are economically active for the analysis of employment profiles, or who are currently employed in the analysis of managerial positions or hourly earnings. One possibility would be to fit Heckman selection models. Again, there is no ideal approach, as Heckman selection models would require the inclusion of so-called 'identifying variables', namely, variables that affect the respondents' decision to enter the labour market but have no role to play once they are in the labour market. In analysis of race relations or in sociological analysis in general, it would be difficult to think of such identifying variables as our discussion of direct, indirect discrimination and of the chill factor has shown.

There are also questions about whether, when estimating the adjusted differentials, we should be using predicted probabilities, setting control variables to the overall mean, or whether we should be using average marginal effects.

In practice, we suspect that these issues are likely to affect the absolute values of our index rather than the estimates of the trends over time.

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Ethnic minorities have long experienced substantial disadvantages in the labour market. Following recommendations from the National Employment Panel, the Department for Work and Pensions commissioned 'correspondence tests' for the presence of racial discrimination by employers when recruiting staff. The research showed significant levels of net discrimination against ethnic minorities and significantly higher levels of discrimination in the private sector than in the public sector. The Department therefore commissioned the present report to explore the feasibility of constructing a race equality index in order to understand, in detail, how discrimination is happening, how proactive businesses are in promoting race equality in recruitment, retention and promotion, and to monitor trends over time in order to determine whether new measures to promote race equality should be introduced by government.

It is not at present practicable to construct a regular annual measure that captures all the separate employer-side mechanisms that contribute to ethnic minority disadvantage in the private sector. However, an index based on the Labour Force Survey and covering the three outcome measures of ethnic minority under-representation in the private sector, in managerial occupations, and pay disparities can be constructed. Our proposed index involves adjusting for individual characteristics and geographical region, just as the correspondence tests for discrimination involve the matching of ethnic minority and majority group applicants. The index shows that, overall, the inequalities have been fairly stable over time, although among the separate components there is clear evidence of some equalisation with respect to employment.

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