



HERBERT
SMITH
FREEHILLS

OUR 2021 UK PAY GAP REPORT



Introduction

To deliver our Ambition 2025 strategy and achieve our vision of being a world-leading international law firm, known for our insights and our diverse perspectives, we must build a culture of inclusion, high performance and collaboration across our business.

Since the introduction of gender pay gap reporting, we have welcomed the opportunity to be more transparent. Each year, we've also gone beyond the scope of reporting requirements: we have included our partner pay gap since 2018 and our ethnicity pay gap since 2019 - and have reported both again this year.

Although we continue to make progress on the gender and ethnicity balance in our partnership and across the firm, there is still much to do. Creating an inclusive environment where everyone can thrive remains central to everything we do: without this, specific programmes and initiatives can't succeed.

People and culture are the heart of our firm's Ambition 2025 strategy - which aims to foster ambition, diversity, high performance and collaboration across our global network.

Our gender and ethnicity targets, underpinned by our 8 Drivers for Gender Equity and our 10 Actions for Change, focus on areas of diversity where the legal sector still needs to improve. We will continue to review our initiatives to ensure we reduce our gender and ethnicity pay gaps in the coming years.

Alison Brown

Executive Partner, West

Definitions

Gender pay versus equal pay

Gender pay legislation requires us to report on the difference in hourly pay and bonus payments between male and female employees across all roles at the firm. In accordance with the requirements, hourly pay data is taken on the snapshot date of 5 April 2021, and bonus data is based on payments made between 6 April 2020 and 5 April 2021.

Gender pay is different from equal pay. An equal-pay analysis considers whether men and women are paid equally for performing similar roles. We are confident that men and women are paid equally for doing equivalent jobs across our firm. We are also confident that men and women have an equal opportunity to earn a bonus.

Mean vs median

Mean: the mean takes the hourly pay for all male employees and adds the amounts together before dividing the total by the number of male employees to find an average. The same calculation is done for females. The difference between the two is then calculated by subtracting the mean female hourly pay from the mean male hourly pay. The number is then divided by the mean hourly pay for men and shown as a percentage.

Median: the hourly pay for males is ordered low to high, and the mid-point is selected. The same is done for females. The difference between the two mid-points is then calculated by subtracting the female hourly pay mid-point from the male hourly pay mid-point. The number is then divided by the median hourly pay for men and shown as a percentage.

Gender pay gap: employees

We continue to have significantly more women than men in the lower pay quartiles because we have a high proportion of female employees in Business Services and secretarial roles. This distribution – rather than an absence of women in the upper pay quartiles – is the primary reason for our employee gender pay gap.

Although the median pay gap reduced very slightly this year, the mean pay gap increased. This may be partly explained by population changes: the proportion of women compared to men in our lowest pay quartile has again increased. The proportion of women in our upper pay quartile has also decreased slightly. This affects our overall pay gap.

More significantly, because of the uncertainties caused by the Covid-19 pandemic, Business Services and secretarial employees had their pay frozen between the 2020 and 2021 snapshot dates. Lawyers, who appear in our top pay quartiles, received a salary increase during this time to align their remuneration with the market. Because more women than men work in Business Services and secretarial roles, the pay freeze had a disproportionate effect on female employees. Consequently, the pay gap widened.

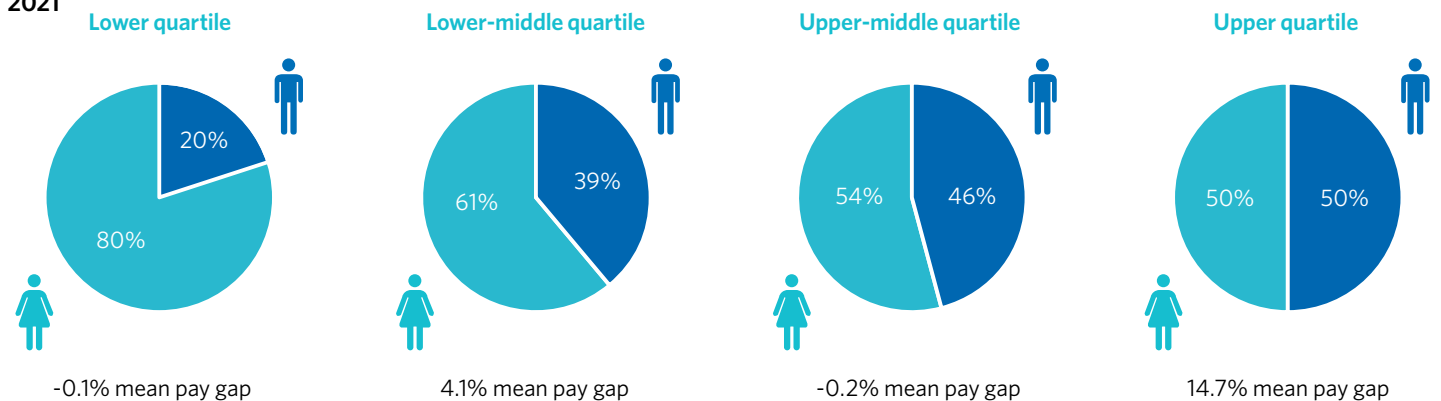
The median and mean hourly pay rates increased again this year for both female and male employees, but the mean pay rate has increased more significantly for men than for women. This is likely because there is a larger proportion of women in the lower pay quartiles, where salaries were typically frozen in the 2021 reporting period.

Pay gap: employees

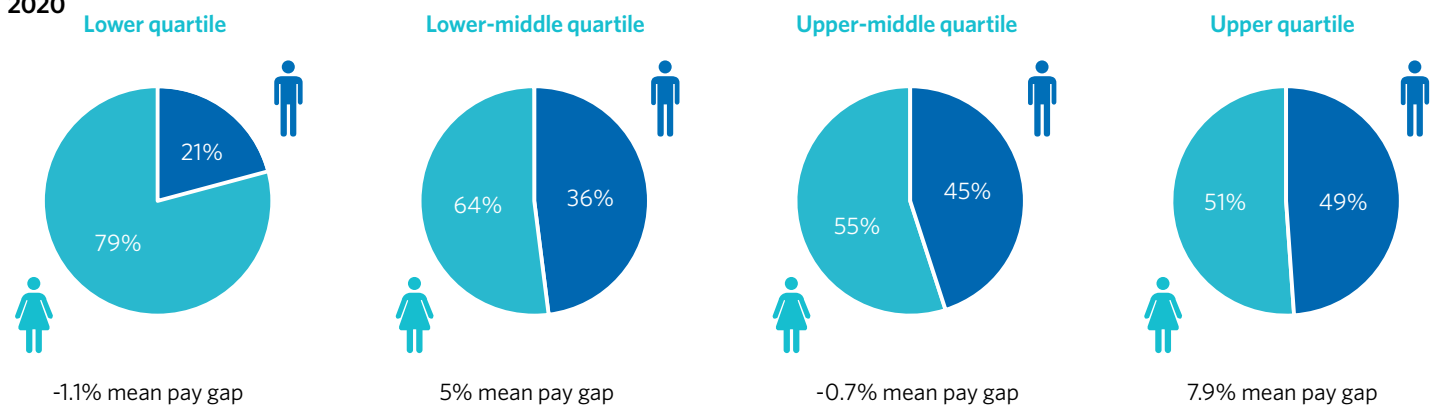
| | 2021 | 2020 |
|--------|-------|-------|
| Mean | 25.5% | 21.3% |
| Median | 41.2% | 41.5% |

Pay quartiles: employees

2021



2020



Employees (continued)

Employee bonus gap

The number of female and male employees receiving a bonus increased significantly in the 2021 reporting period. This is mainly because the firm made a one-off payment of 5% of salary – considered a bonus for reporting purposes – to the vast majority of employees in March 2021, which meant that more employees than usual received a bonus. The majority of employees who did not receive this payment were serving notice, joined the firm after the payment was made, or were in ineligible roles. It is therefore difficult to draw any meaningful conclusions from this data.

However, our analysis does show that more women than men received a bonus, and the mean and median bonus gaps decreased significantly this year. This is because the mean and median bonus received by female employees increased more significantly than the bonuses awarded to men.

Bonus gaps, although reduced, still exist. This is partly because we have a greater proportion of women in lower-paid roles. Given that bonuses for these roles are based on a percentage of salary, the average bonus paid to female employees tends to be lower than the average bonus paid to male employees. In addition, bonus amounts are reported as actual values, not full-time equivalent values. We have more women than men working part time (25% of women work part time, vs only 3% of men), and bonuses paid to women are more likely to be reduced to reflect long-term absences such as maternity leave. This affects the average bonus received by female employees.

Bonus gap: employees

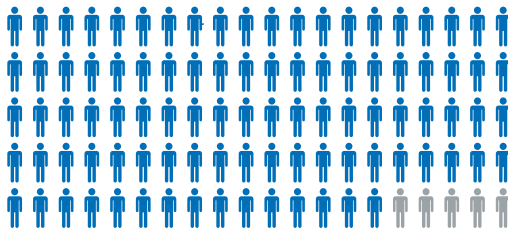
| | 2021 | 2020 |
|--------|-------|-------|
| Mean | 31.3% | 41.9% |
| Median | 24.1% | 57.8% |



Proportion of women and men (employees) awarded a bonus in the reporting period for 2021

97%



95%



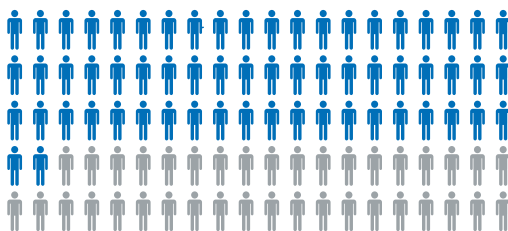
 Received a bonus
 Did not receive a bonus



Proportion of women and men (employees) awarded a bonus in the reporting period for 2020

56%



62%



 Received a bonus
 Did not receive a bonus

Gender pay gap: partners

Partners are paid differently from employees, and there are no guidelines for reporting partner pay (nor is there a requirement to report these figures).

Unlike employee pay, payments to partners are not made evenly over 12 months. Therefore, to determine an hourly pay rate for partners, we have based our calculation on full pay entitlement, rather than adopt the approach used for employees in the statutory reporting (which bases the calculation on the actual payments made in the month of April 2021 only). This is the same approach we used in our previous reports, to allow for direct comparison.

Our partnership continues to have a significant pay gap. This is because men make up a high proportion of these roles (in London, 76% in 2021 and 77% in 2020). As noted in previous reports, the more senior end of the partnership includes an even more disproportionate number of men, as men have historically made up a greater percentage of partners.

This year, the mean and median hourly pay gaps for partners increased slightly. This may be primarily because of changes in the partner

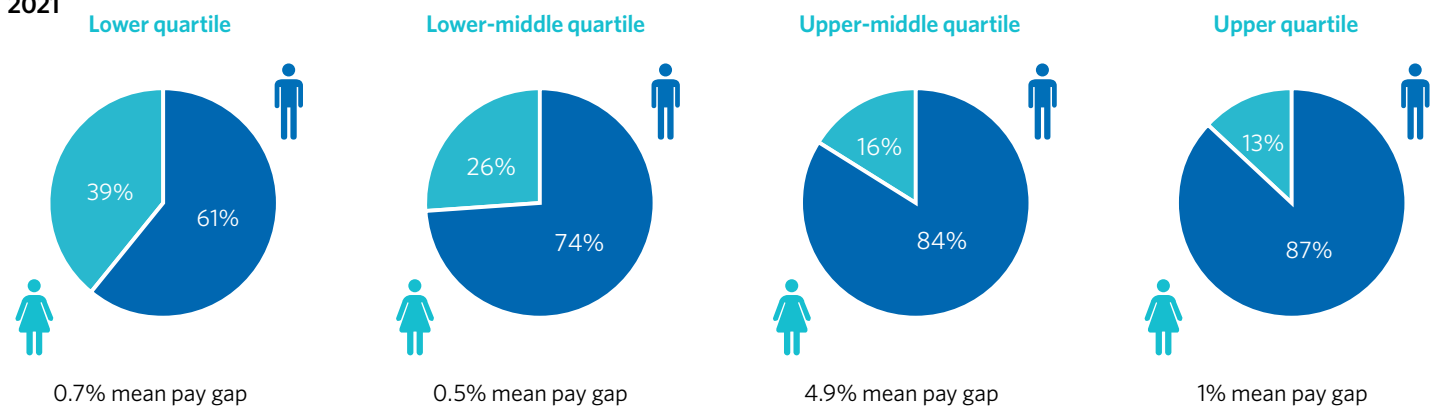
population: the proportion of men in the upper pay quartile increased, compared to last year, and the proportion of women in the lower two pay quartiles also increased. Because the number of partners in scope for analysis is relatively low, small changes can have a significant effect on the statistics. Therefore, the changes across any given year may not indicate a trend.

Pay gap: partners

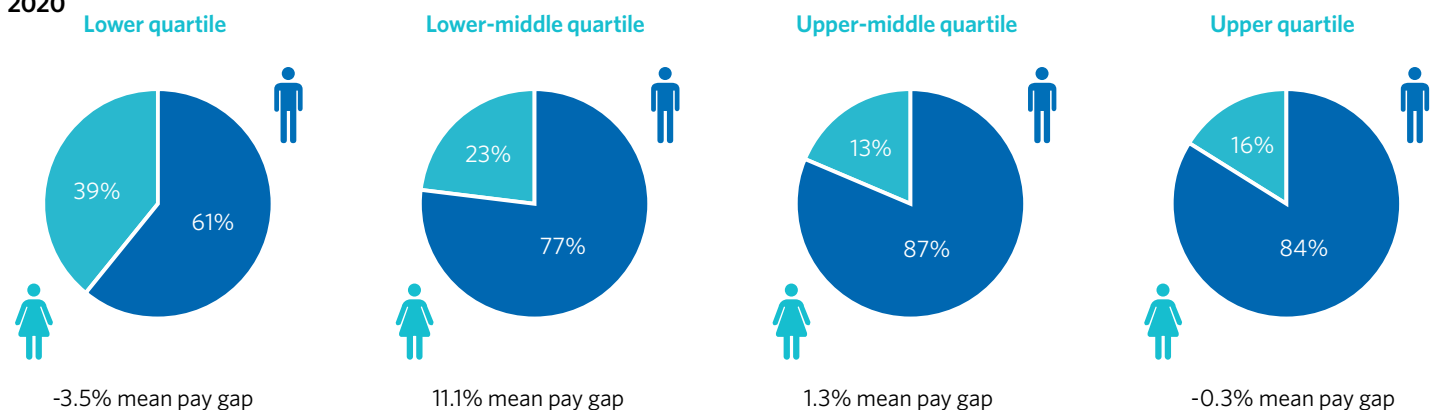
| | 2021 | 2020 |
|--------|-------|-------|
| Mean | 26.8% | 23.7% |
| Median | 39.6% | 39.5% |

Pay quartiles: partners

2021



2020



Partners (continued)

Partner bonus gap

A greater proportion of female partners received a bonus compared to their male counterparts, mirroring the results in 2020. However, the average bonus payment for female partners was also higher this year, resulting in a negative mean bonus gap (in favour of women).

Because the partnership population is relatively small, individual outcomes can skew the figures. We will therefore continue to monitor this data.

The median bonus gap remained 0%.

Bonus gap: partners

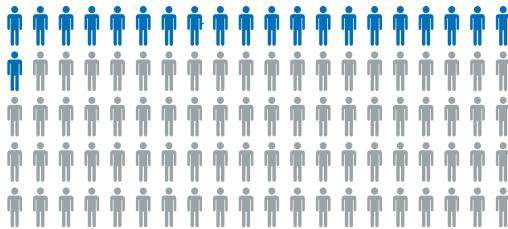
| | 2021 | 2020 |
|--------|-------|-------|
| Mean | -6.7% | 28.9% |
| Median | 0% | 0% |

Proportion of women and men (partners) awarded a bonus in the reporting period for 2021

25%



21%



Received a bonus

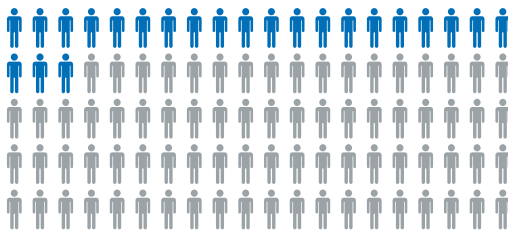
Did not receive a bonus

Proportion of women and men (partners) awarded a bonus in the reporting period for 2020

26%



23%



Received a bonus

Did not receive a bonus

Gender pay gap: employees and partners combined

Reporting on the combined gap for employees and partners goes beyond the Government’s requirements. As a reminder, partners are paid differently from employees. Therefore, to produce the most meaningful picture, we have used the statutory reporting method for employees, combined with the annual pay entitlement for partners.

As explained in previous reports, including partners in the analysis significantly widens the overall mean pay gap. Although the number of women in the partnership is increasing, there are still significantly more men working as partners. Because more men occupy our most senior roles, they tend to receive higher salaries and bonuses.

This is evident when looking at our pay quartiles. Because all our partners fall into the upper quartile, the population of men in the top pay quartile is much higher – which means the pay gap is significant. As was the case last year, the pay gap in each of the other three quartiles is minimal.

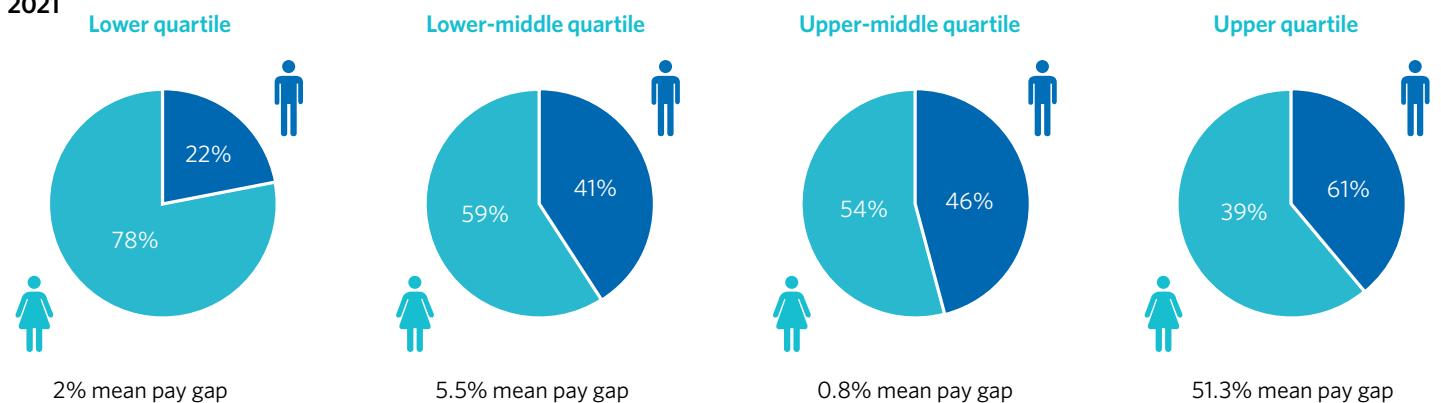
There has been a slight decrease in the median pay gap but an increase in the mean pay gap. This is likely because employees and partners in the upper pay quartiles received pay increases in the reporting period, while, because of the freeze on Business Services pay, the majority of employees in the lower pay quartiles did not. Because there are more women than men in the lower pay quartiles, the Business Services pay freeze had a greater impact on female colleagues and therefore widened the overall pay gap.

Pay gap: employees and partners

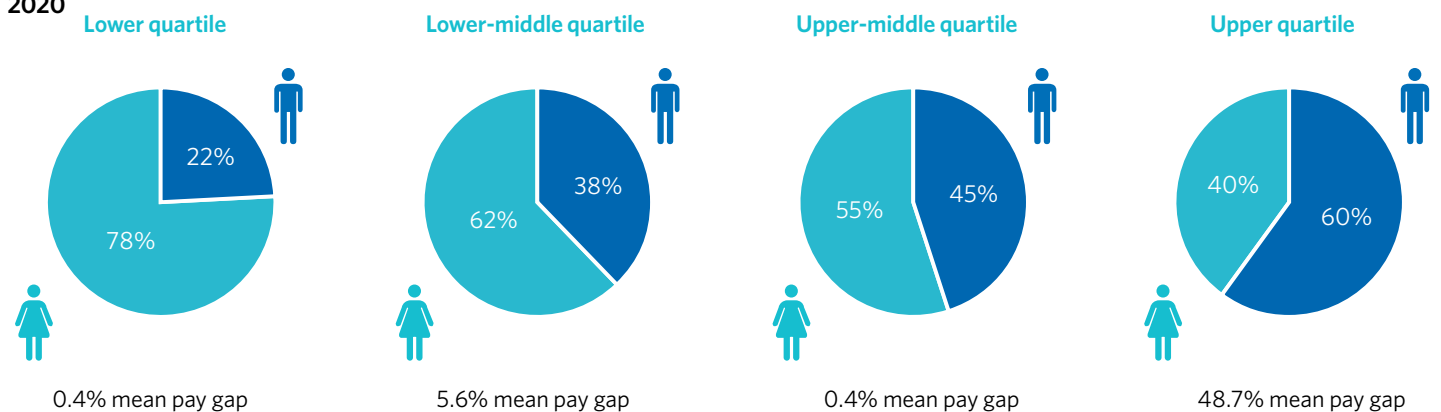
| | 2021 | 2020 |
|--------|-------|-------|
| Mean | 62.1% | 58.5% |
| Median | 40.7% | 41.5% |

Pay quartiles: employees and partners

2021



2020



Employees and partners (continued)

Employee and partner bonus gap

As explained, the percentage of male and female employees receiving a bonus increased significantly this year because of the one-off additional payment the firm made to employees in March 2021. Overall, more women than men in the firm received the one-off payment (which is treated as a bonus in our calculations). Because partners were not eligible for the one-off payment – and there are more male than female partners – fewer men, overall, received a bonus this year compared to women.

Although the effect of the one-off payment makes it difficult to compare the year-on-year bonus gaps, it is evident that the bonus gaps decreased this year.

However, the average bonus remains higher this year for male employees and partners than for females. Again, this is primarily because female employees occupy a higher proportion of roles within the lower and lower-middle pay quartiles, and there are more women at the more junior end of the partnership. In addition, more women than men work part time and therefore receive pro-rated bonus payments.

Bonus gap: employees and partners

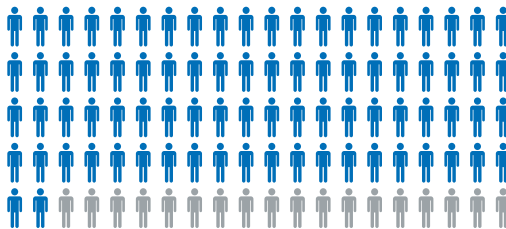
| | 2021 | 2020 |
|--------|-------|-------|
| Mean | 40.3% | 54.8% |
| Median | 26.2% | 61.4% |



Proportion of women and men (employees and partners) awarded a bonus in the reporting period for 2021



94%



82%



  Received a bonus

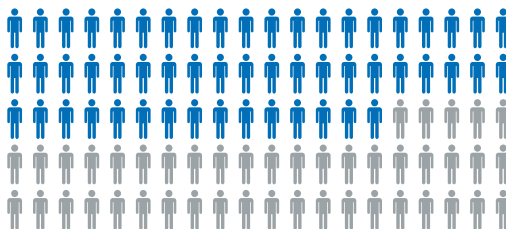
  Did not receive a bonus



Proportion of women and men (employees and partners) awarded a bonus in the reporting period for 2020



55%



55%



  Received a bonus

  Did not receive a bonus

Ethnicity pay gap: employees and partners combined

In 2019, we disclosed our ethnicity pay gap for the first time. Although there is no requirement to report these figures (nor are there guidelines for doing this), we believe doing so is an important step in highlighting any potential issues we need to address to attract and retain the best people at Herbert Smith Freehills.

When we published the 2019 report, we had ethnicity information on only 52% of our partner and employee population. For the 2020 report, we increased that significantly, to 71%. Although we were pleased with that progress, comparing data for 2019 and 2020 was difficult, given the difference in the ethnicity data we held for those periods. We now have data for 74% of our population, which allows us to compare the data for 2020 and 2021 more easily.

To protect the privacy of individuals in different groups (partners and employees), we are disclosing a combined ethnicity pay gap for employees and partners. We have used the same methodology as with our gender pay gap reporting to provide a representative figure of hourly pay that is consistent with the partner pay calculations.

Both the mean and median pay gaps increased this year. As was the case in the past, the ethnicity pay gap exists because we have fewer minority ethnic employees and partners than white colleagues in senior positions. The pay quartiles again demonstrate that the distribution of minority ethnic and white colleagues is fairly consistent in each of the quartiles except for the upper quartile - which is again almost entirely populated by white colleagues.

Definitions

Minority ethnic

We believe it's important to acknowledge the limiting effect of terms such as 'minority ethnic' - as the specific challenges and biases that affect access and progression for ethnic minority people differ depending on specific ethnic background, and can be compounded by factors such as a person's social background, religion or gender (among other things). This grouping also hides specific challenges and areas of low representation for organisations. In addition, many of our people are telling us they don't necessarily identify with the term minority ethnic. For example, our higher-level stats mask significant challenges in recruiting and retaining Black professionals. Unpicking this term is crucial to our ethnicity action plan.

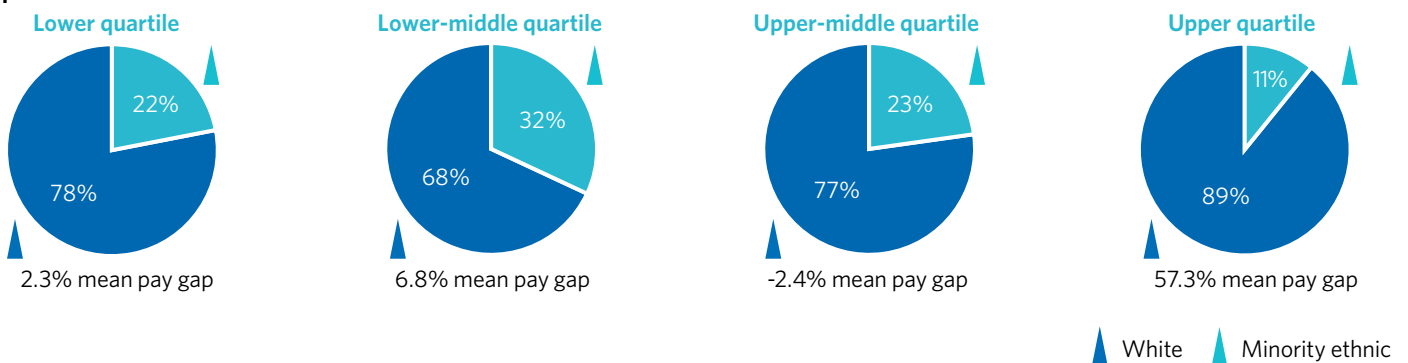
The Business Services pay freeze affected minority ethnic and white employees. However, the majority of affected employees were in the lower two pay quartiles - and there are more minority ethnic employees in the lower two pay quartiles than in the higher quartiles. Therefore, the pay freeze had a greater effect on minority ethnic colleagues. This helps explain the increase in the pay gaps this year.

Pay gap: employees and partners

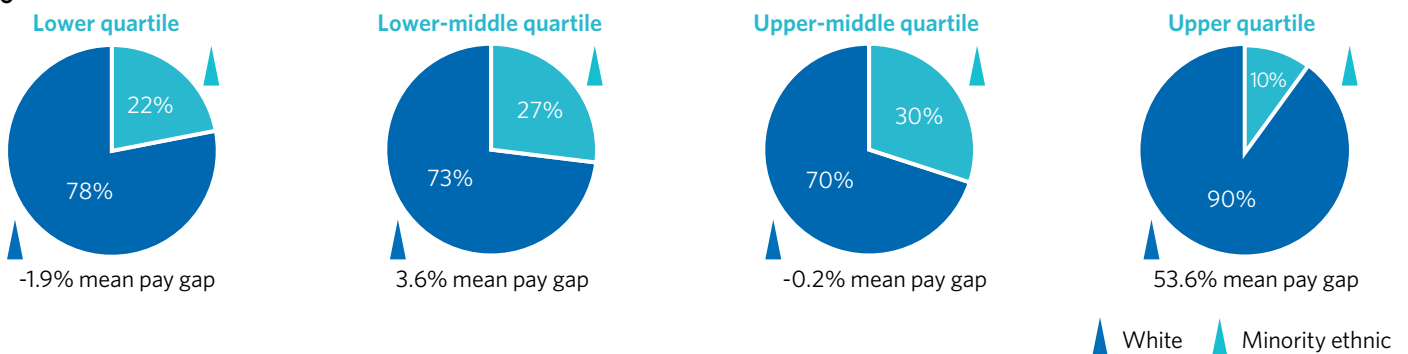
| | 2021 | 2020 |
|--------|-------|-------|
| Mean | 58.5% | 52% |
| Median | 34.8% | 22.5% |

Pay quartiles: employees and partners

2021



2020



Employees and partners (continued)

Employee and partner bonus gap

The percentage of employees and partners receiving a bonus this year was significantly higher as a result of the additional 5% payment to employees (considered a bonus for our calculations) in March 2021. More minority ethnic employees and partners received a bonus than white colleagues. Because partners were not eligible for the additional 5% payment - and the majority of partners are white - fewer white employees and partners were eligible to receive a bonus.

The average bonus for minority ethnic employees is still lower than the average bonus of white employees. However, the gap reduced significantly between 2020 and 2021.

The gap that does exist is because we again had a larger proportion of white colleagues in the upper pay quartiles, where salaries and bonuses are significantly higher.

Bonus gap: employees and partners

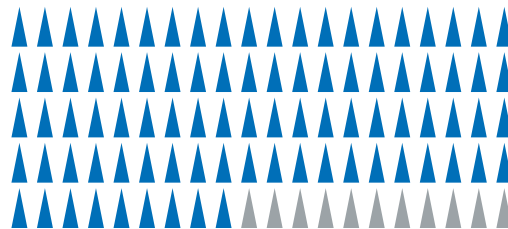
| | 2021 | 2020 |
|--------|-------|-------|
| Mean | 27.3% | 42.2% |
| Median | 21.6% | 35.9% |

Proportion of white and minority ethnic employees and partners awarded a bonus in the reporting period for 2021

Minority ethnic: 96%



White: 89%



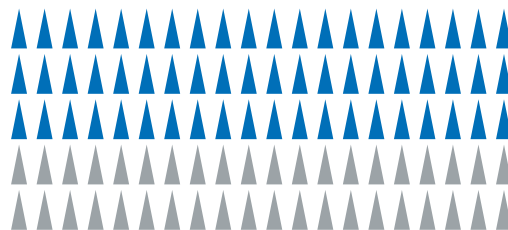
▲ Received a bonus
▲ Did not receive a bonus

Proportion of white and minority ethnic employees and partners awarded a bonus in the reporting period for 2020

Minority ethnic: 52%



White: 60%



▲ Received a bonus
▲ Did not receive a bonus

Taking action on gender and ethnicity

People and culture are at the heart of our Ambition 2025 strategy – which seeks to foster ambition, diversity, high performance and collaboration across our global network.

Guided by our People & Culture Advisory Board – with input from our regional People Forums – we aim to create a culture where everyone feels valued and supported.

We run programmes to address unconscious bias, promote inclusive leadership and develop a diverse talent pipeline. We integrate prompts to counteract bias in key people processes, including during partner promotions and pay discussions. And we scrutinise decisions – performance ratings, bonus and salary, for example – with gender and ethnicity in mind.

We've also put more structure around opportunities such as sponsorship and mentoring, as we know an absence of structure can make access more challenging for those from minority ethnic backgrounds.

Gender

Since we set gender targets in 2014, we've increased female representation in the global partnership from 18% to 28% – and the number of women partners has increased by 67%. Women hold 25% of our key partner leadership roles, compared to 16% in 2014.

We're pleased with our progress – but we have a long way to go to reach our target of having 35% women in the global partnership by 2023.

To create greater transparency and consistency, we've created a global framework that brings together existing and new areas of focus – 8 Drivers for Gender Equity. In the same way the 10 Actions for Change help guide our work to improve our ethnic diversity, the 8 Drivers create focus and accountability in the effort to improve gender balance in our business and the legal sector.

To support this work, our gender networks focus on raising the profile of senior women for the benefit of more junior talent – by showcasing career paths of female partners, for example, or running 'HERD' circles where women share experiences and support each other. The networks build on relationships with clients; offer opportunities such as informal mentoring; and ensure support and role-modelling are available to women at key career milestones.

We're also focused on ensuring we're representative of all women in our firm – for example, looking at the specific experiences of LGBT+ women in the workplace.

We've also enhanced our policies. To enable all parents to play an active role in their children's lives, our leave policy for co-parents/secondary carers offers up to 24 weeks at full pay to welcome a new child.

Through the Circle In portal, we provide parents with personalised tools and resources. Our Family Network frequently organises events for parents and carers, and publishes a regular newsletter.

Crucially, we work with each practice group – which allows us to scrutinise individual pipelines and respond to specific challenges and opportunities.

Ethnicity

Our [10 Actions for Change](#) set a global framework for improving ethnic diversity across all our offices.

Education and conversations are core to the 10 Actions – and over the past year, we've:

- continued rolling out a global programme of anti-racism workshops
- run additional unconscious bias training
- seen another 500 colleagues attend sessions on building knowledge and conversations about systemic racism
- delivered unconscious bias e-learning to interviewing panels and trainee supervisors. We've also launched a new suite of tools to help people better recognise and address their own biases, including in key people processes such as performance conversations and remuneration decisions.

We're undertaking more robust data collection and analysis, to enable us to apply a sharper ethnicity 'lens' when examining remuneration, promotions, attrition and other processes. Data analysis also helps foster focus and accountability – particularly among senior leadership.

In London, we've set a target to have 10% minority ethnic partners by 2025, up from 5.6% when we established targets in 2020. The proportion of minority ethnic trainees we retain as newly qualified lawyers will be at least the same as the proportion of minority ethnic trainees in each intake. And we've committed to improving Black representation across all practice groups and functions.

As a founding member of [Rare's Race Fairness Commitment](#), we're taking decisive steps to ensure we better recognise and discuss issues of race and racism – including at every induction and exit interview. We are monitoring and, where appropriate, publishing our rates of offers, retention, pay and promotion. We're also ensuring that our recruitment efforts continue to attract and support minority ethnic candidates. And we will keep developing our processes to ensure minority ethnic representation in our training contracts and in newly qualified lawyer roles.

Taking action on gender and ethnicity (continued)

On average across our 2019/20 recruitment pool, 48% of hires were from a minority ethnic background, including 15% from Black backgrounds (up from 35% and 8%, respectively, the previous year).

We're proud of our progress – but we're also clear that we need to further improve retention of ethnic minority employees (particularly junior talent) and improve progression into partnership.

Helping support and lead this work, the firm's internal Multiculturalism Network and our BAME Trainee Committee allow people to share experiences, support each other, develop contacts and engage with clients. Open to anyone interested in improving ethnic diversity or learning about different cultures or religions, the networks are a thriving part of our firm.

We are committed to building on these activities. And we are confident our efforts will not only help us reduce our pay gaps, but, importantly, build an environment that feels more inclusive and supportive for all our people.



Alison Brown
Executive Partner, West



Julie Cupit
HR Director, UK and EMEA

For a full list of our global offices visit [HERBERTSMITHFREEHILLS.COM](https://www.herbertsmithfreehills.com)
