



HERBERT
SMITH
FREEHILLS

OUR 2019 UK PAY GAP REPORT



Introduction

We aim to be the leading global law firm for our diverse and inclusive culture. Our Leading for Inclusion strategy sets out a vision to reach that goal by deepening our understanding of people's experiences and challenges, and breaking down barriers to ensure everyone can achieve their full potential.

In the first year of Gender Pay Gap reporting, we welcomed the opportunity to outline our pay gap for employees. In year two, as public interest grew, we chose to go beyond the scope of reporting requirements to disclose our partner pay gap.

This year, I am pleased to include data on the ethnicity pay gap between BAME (Black, Asian and minority ethnic) and white employees and partners at Herbert Smith Freehills. Although we are not required to report these figures, doing so is an important step in enhancing transparency – a crucial part of improving ethnic diversity across our firm.

As we continue to take steps to improve both the gender and ethnicity balance in our partnership and across the firm, we also acknowledge that there is more to do. Our overarching objective is to ensure we're building an environment where everyone feels included and can thrive. This cuts across everything we do: without this sort of culture, specific programmes and initiatives can't succeed. However, there are still areas of diversity in which we are underrepresented as a firm and a sector. We have therefore developed specific action plans, including those focused on retaining and developing women and minority ethnic talent.

We will continue to review our initiatives to ensure we reduce the gender pay gap and ethnicity pay gap in the coming years.

Alison Brown

Executive Partner, West

Definitions

Gender pay gap vs 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 2019, and bonus data is based on payments made between 6 April 2018 and 5 April 2019.

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

In our previous reports, our analysis of different employee groups showed that we have a disproportionate number of women in jobs within the lower pay quartiles. This is an ongoing challenge for us, in particular because of the high percentage of female employees within Business Services and in secretarial roles. We believe this is the primary reason for our gender pay gap.

Our pay gap has increased slightly in the past year; we attribute this to changes in the composition of our workforce from year to year.

There has been a slight increase in the percentage of women in the lower two quartiles of our analysis; again, we have attributed this to population changes. While we continue to have a fairly even split of male and female employees in the upper-middle and upper quartiles, this does not balance out the overall impact on our gender pay gap.

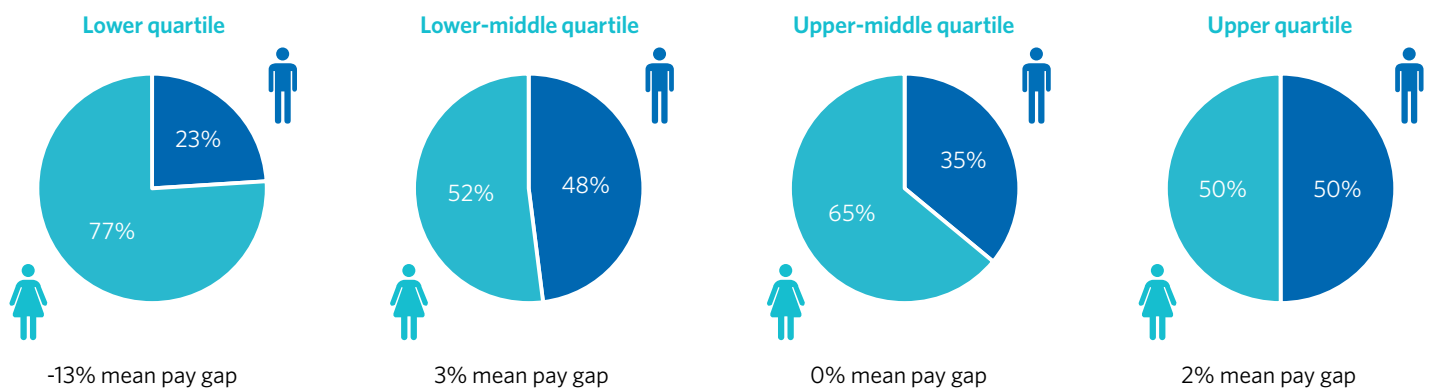
The pay gap at each quartile is significantly smaller than the overall pay gap and, in most cases, is either minimal or negative (in favour of women).

Pay gap: employees

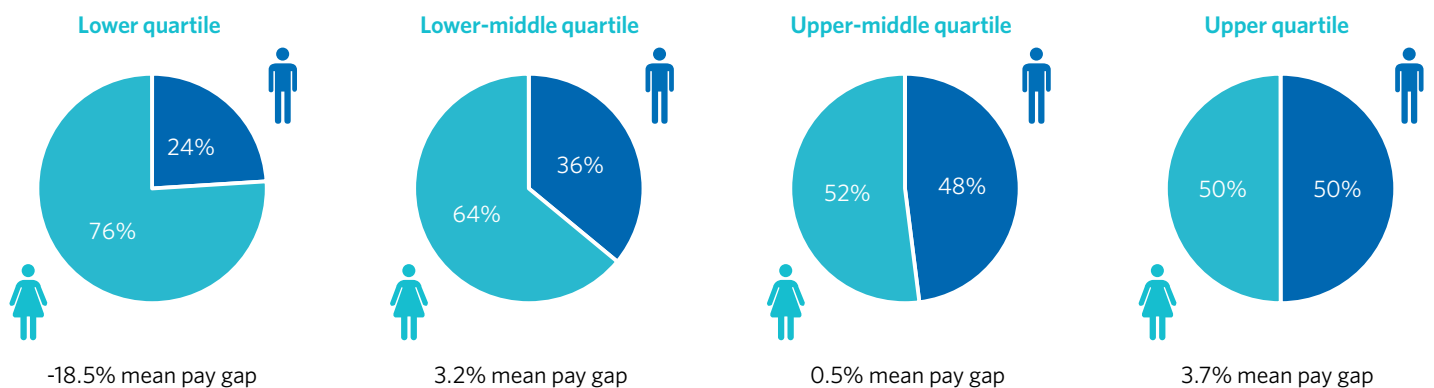
	2019	2018
Mean	19.0%	17.9%
Median	38.3%	37.4%

Pay quartiles: employees

2019



2018



Employees (continued)

Employee bonus gap

Women are more likely than men to receive a bonus, but the average bonus amount received by women is lower. As with the pay gap, our analysis shows that the primary reason for this is the high proportion of women in roles in the lower and lower-middle quartiles. In these roles, the salaries are lower. Because bonuses are awarded as a percentage of salary, the corresponding bonus amount is also lower.

In addition, legislation requires us to report statistics on an actual basis, rather than as a full-time equivalent bonus. About 22% of our female employees work part time (compared to 2% of male employees). This reduces the average bonus payment received by our female employees and therefore affects our bonus gap.

The bonus gap has decreased slightly in the past year. We attribute this to changes in our Business Services bonus scheme. This is a trend we expect to continue in the coming years.

Bonus gap: employees

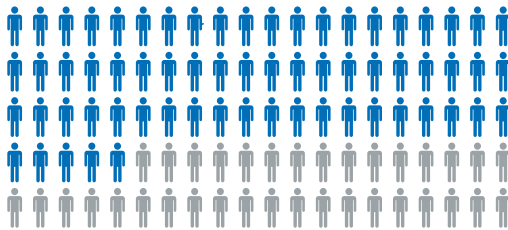
	2019	2018
Mean	46.7%	47.4%
Median	41.7%	42.7%



Proportion of women and men (employees) awarded a bonus in the reporting period for 2019

70.3%



65.1%



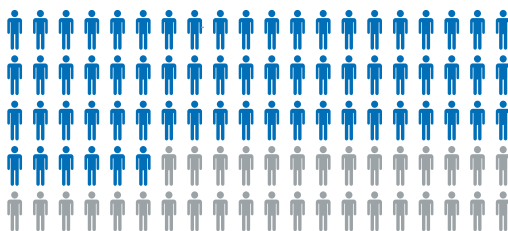
 Received a bonus
 Did not receive a bonus



Proportion of women and men (employees) awarded a bonus in the reporting period for 2018

76.0%



66.3%



 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 2019 only). This is the same approach we used in our 2018 report to allow for direct comparison.

We continue to have a significant pay gap in our partnership. As we explained in last year's report, this is a result of the fact that we have a high proportion of men within these roles (75% at the time of this analysis). 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.

The pay gap and bonus gap have increased significantly in the partner population since our last report. Again, we attribute this to changes in the population. Because the partner population is relatively small, even a small shift in the makeup of the partnership can cause the numbers to fluctuate significantly.

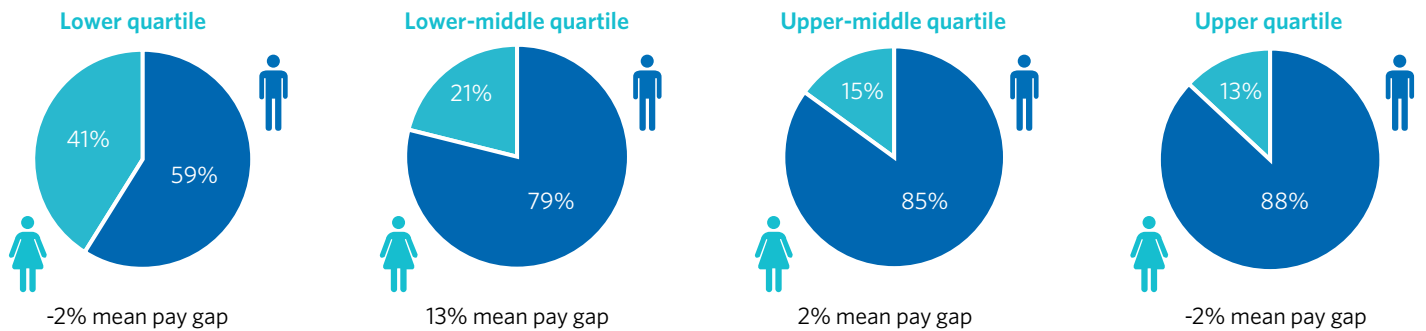
Although each of our pay quartiles is dominated by male partners, the pay gap at each quartile is significantly smaller than the overall partner pay gap and, in most cases, is either minimal or negative (in favour of women).

Pay gap: partners

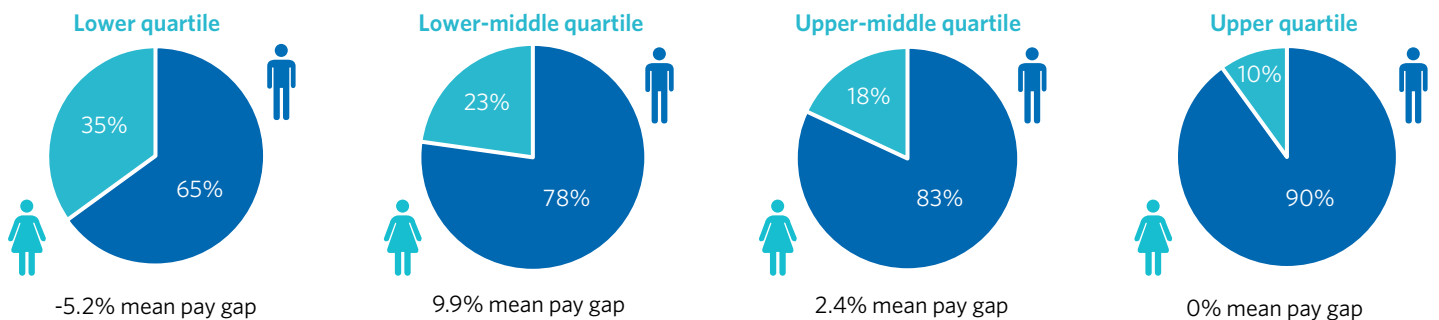
	2019	2018
Mean	27.2%	23.6%
Median	57.2%	49.7%

Pay quartiles: partners

2019



2018



Partners (continued)

Partner bonus gap

Female partners are more likely than male partners to receive a bonus. However, the median bonus is lower for female partners than for male partners, which results in a mean bonus gap. We believe that this is due to the fact that a large number of our female partners are at the lower end of the partnership structure. We anticipate that this gap will narrow over time as female partners move up the partnership ladder.

Bonus gap: partners

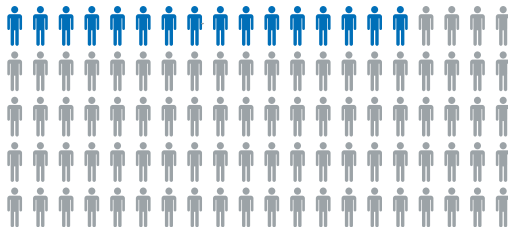
	2019	2018
Mean	11.3%	-7.3%
Median	0.0%	-50.0%

Proportion of women and men (partners) awarded a bonus in the reporting period for 2019

22.9%



16.4%



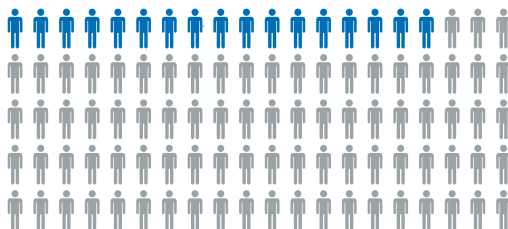
Received a bonus
 Did not receive a bonus

Proportion of women and men (partners) awarded a bonus in the reporting period for 2018

17.6%



17.3%



Received a bonus
 Did not receive a bonus

Gender pay gap: employees and partners combined

Reporting on the combined gap for employees and partners again falls outside of the Government’s reporting requirements. To produce the most meaningful picture, we have used gross actual salary on 5 April 2019 for employees to provide a representative figure of hourly pay entitlement that is consistent with the partner pay calculation. As a reminder, the partner hourly pay figures are based on annual pay entitlement because partners are paid differently from employees.

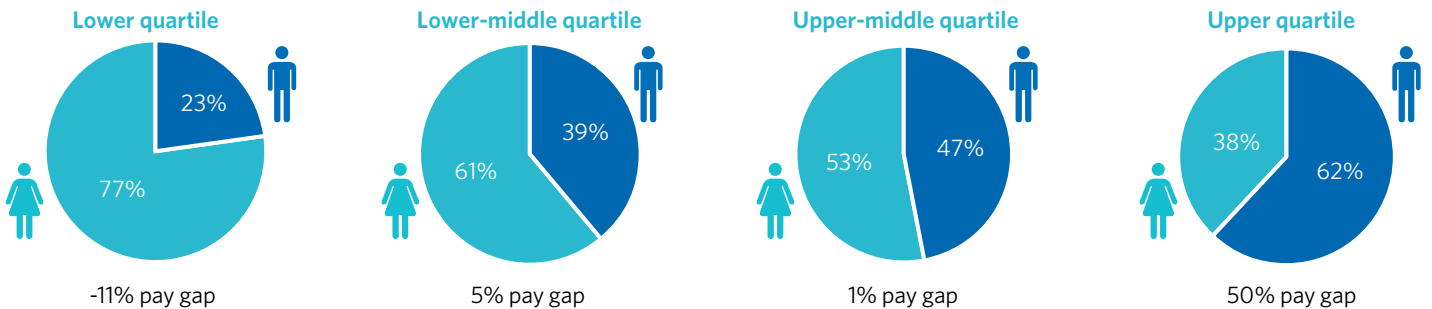
As we saw in our last report, including partners in the analysis significantly widens our overall pay gap. We have more men than women in the partnership – which means more men occupy our more senior roles and are therefore more likely to receive higher salaries and bonuses.

This is evident when looking at our pay quartiles. Because all our partners fall into the upper quartile, the pay gap is significant because the population of men is much higher in the top quartile; in each of the other three quartiles, the pay gap is minimal or negative (in favour of women).

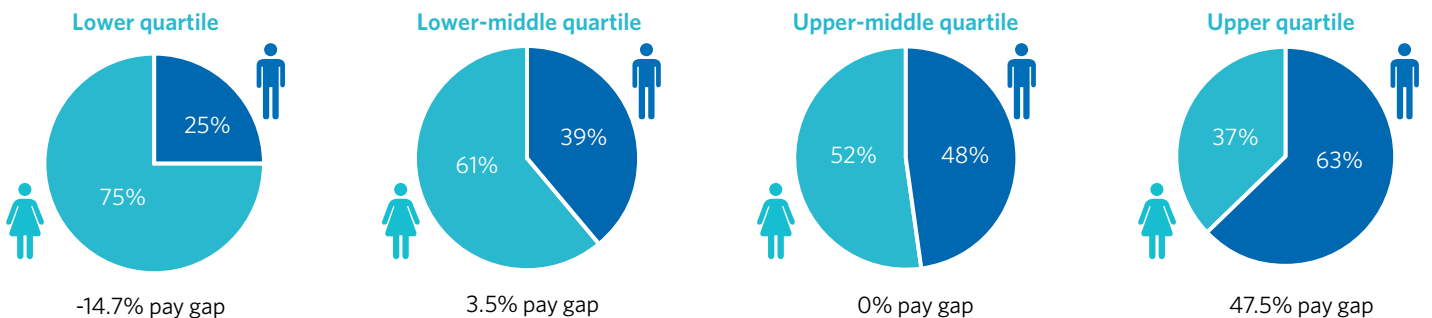
Pay gap: employees and partners

	2019	2018
Mean	60.7%	58.5%
Median	46.1%	43.1%

Pay quartiles: employees and partners combined 2019



2018



Employees and partners (continued)

Employee and partner bonus gap

Full-time equivalent bonus payments have been used where possible for both employees and partners. Taken collectively, female partners and employees are more likely than male partners/employees to earn a bonus. However, the median bonus is lower for female employees and partners than for males. This results in a gap. Again, we believe 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 in the more junior end of the partnership. We anticipate that this gap will narrow over time as we continue to improve the gender balance in our partnership and across the firm.

Bonus gap: employees and partners combined

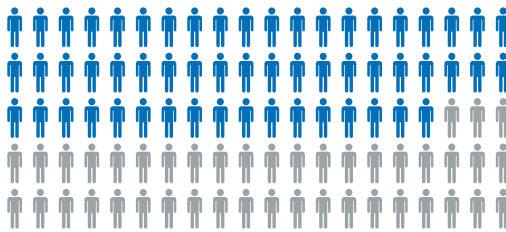
	2019	2018
Mean	56.0%	59.8%
Median	50.9%	48.3%



Proportion of women and men (partners and employees combined) awarded a bonus in the reporting period for 2019

68.6%



56.5%



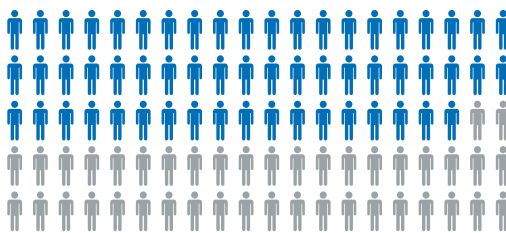
 Received a bonus
 Did not receive a bonus



Proportion of women and men (partners and employees combined) awarded a bonus in the reporting period for 2018

74.0%



57.5%



 Received a bonus
 Did not receive a bonus

Taking action on gender

We track gender diversity throughout the career lifecycle; this includes scrutinising promotions, pay decisions and performance reviews. While we are proud of how far we've come in recent years, we know we still have a lot of work to do. Targets are important to focus minds and drive progress, but we must also ensure we're creating a culture that's inclusive and that recognises the diversity of all our people.

This year, we reset our global gender targets to ensure they remain bold and aspirational, and continue to drive progress. By 2023, we want women to compose 35% of the global partnership, and 35% of leadership roles. Since originally setting targets in 2014, we've seen our global partnership grow: we now have over 50% more female partners than we did in 2014, and we have increased female representation in the partnership from 18% to 27% across those six years. Women now hold 25% of partner leadership roles, and made up 48% of partner promotions in 2020.

Our gender networks across the global firm focus on raising the profile of senior women for the benefit of our more junior talent; building on relationships with clients; offering opportunities such as informal mentoring; and ensuring support and role-modelling are available to women at key milestones in their careers. We're increasingly 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 and more broadly.

We want to ensure all working parents feel supported to play an active role in their children's lives, regardless of family structure, gender identity or sexual orientation. By demonstrating and reinforcing the idea that all parents can take time out for childcare without a significant effect on their income, we're hoping to challenge traditional family structures that see women taking on the majority of unpaid care. It is only by challenging these norms that we will ultimately achieve gender parity at work and in the home.

In our last report, we discussed a piece of research we were participating in with Murray Edwards College, University of Cambridge, investigating how men and women can work together to tackle gender equity. The key finding was that men and women have different perceptions about issues of gender and inequity within the firm. Discussions have led to action plans (including establishing gender champions in groups and developing more robust approaches to calling out incidences of bias). By doing this, we aim to foster a greater understanding of systemic cultural barriers, and explore how men and women can work together to improve gender diversity in the workplace.

Ethnicity pay gap: employees and partners combined

Last year, we set out to improve the quantity and quality of ethnicity data in our HR systems to allow for in-depth analysis, with an ethnicity lens, of recruitment, retention, engagement, performance management and attrition.

This exercise has also enabled us, for the first time, to report on our ethnicity pay gap. While there is no requirement to report these figures (or guidelines for doing this), we believe this is an important step in highlighting any potential issues we need to address to attract and retain the best people at Herbert Smith Freehills.

It is important to note that, for the date on which our data-analysis is based (5 April 2019), we hold ethnicity data for 65% of partners and employees. Disclosure is voluntary, and the fact that we don't have ethnicity data on 35% of partners and employees limits our ability to provide a full picture of pay and bonus data from an ethnicity perspective.

We have chosen to report based on the data we do hold. However, to protect the privacy of individuals in different groups (partners and employees), we are disclosing a combined employee and partner ethnicity pay gap.

We continue to focus on increasing our disclosure rates, in particular among new joiners to the firm, to help ensure that our calculations are reflective of our whole organisation and to allow us to better track year-on-year trends. Our aim for future years is to publish pay gaps for employees, partners, and employees and partners combined, and, subject to collecting a sufficient volume of data, look specifically at pay for Black employees.

Our analysis is once again based on mean, median and pay quartiles, and we have applied a similar methodology to that used for our gender pay gap reporting calculations.

We have used the same methodology as with our gender pay gap reporting, using gross salary on 5 April 2019 to provide a representative figure of hourly pay that is consistent with the partner pay calculation. We have again used full-time equivalent bonus payments where possible for both employees and partners.

Definitions

BAME (Black, Asian, and minority ethnic)

We believe it's important to acknowledge the limits of the term 'BAME' - as challenges and biases that affect access and progression for minority ethnic people differ depending on ethnic background, and can be compounded by factors such as social background, religion or gender (among others). This grouping also hides specific challenges and areas of low representation - for example, in recruiting and retaining Black people. Although we have used BAME here in reference to data, focusing on specific challenges facing individual ethnic groups is an important part of our approach to improving our ethnic diversity.

We believe, in simple terms, our ethnicity pay gap is due to the fact that BAME (Black, Asian, and minority ethnic) employees and partners are in fewer senior positions within the firm than white colleagues. This is particularly apparent within our pay quartiles. The distribution of BAME and white colleagues is fairly consistent across each of the quartiles, with the exception of the upper quartile - which is almost entirely populated by white individuals and is where all our partners fall.

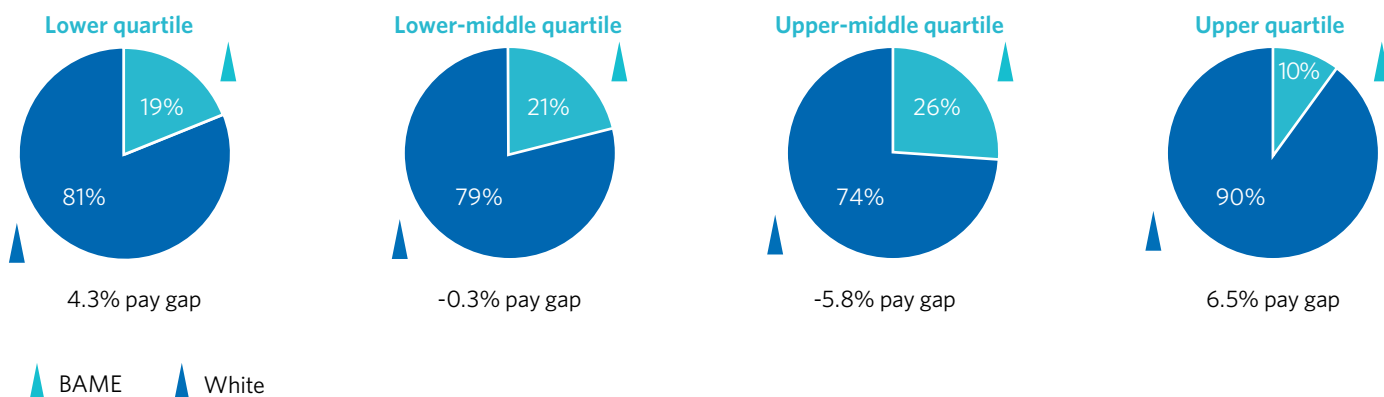
The pay gaps at the other quartiles are all either low or negative (in favour of BAME colleagues).

Pay gap: employees and partners

	2019
Mean	54.8%
Median	7.0%

Pay quartiles: employees and partners

2019



Employees and partners (continued)

Bonus gap

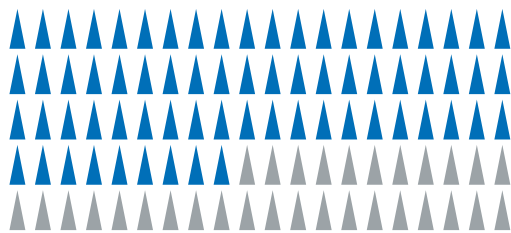
BAME employees and partners are equally as likely as white colleagues to receive a bonus. However, the average bonus is lower for BAME colleagues. Again, we believe this is because we have a larger population of white colleagues in the upper quartiles of our pay structures, where salaries (and corresponding bonuses, as a percentage of pay) are significantly higher. Under-representation of BAME colleagues within senior roles is an issue in and of itself, and we must address this more effectively.

Bonus gap: employees and partners

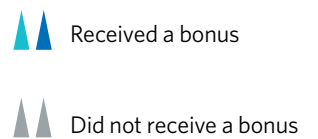
	2019
Mean	31.2%
Median	3.6%

Proportion of white and BAME employees and partners awarded a bonus in the reporting period for 2019

White: 68.8%



BAME: 67.1%



Taking action on ethnicity

The ethnic make-up of our London office isn't where we want it to be, or where it should be.

Earlier this year, we committed to a step change and developed a plan for doing that. Since then, conversations about race and ethnicity have gained momentum globally. The Black Lives Matter movement has made it even clearer that we need to commit unequivocally to addressing the deep-seated issues facing our Black colleagues.

We are taking a number of steps to accelerate change in our firm.

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

For our London office, we have set a 10% target for the proportion of minority ethnic partners by 2025, up from 6% now. The proportion of minority ethnic trainees retained as newly qualified lawyers will be at least the same as the proportion of minority ethnic trainees in each intake. And we have committed specifically to improving Black representation across all practice groups and functions.

To support us in achieving the targets, we are focusing on understanding and challenging systemic biases and improving retention and progression for colleagues from minority ethnic backgrounds. In particular, we will:

- develop a greater fluency and confidence in discussing race, (including through reverse mentoring; internal education and awareness-raising; and education about bias)
- look at decisions (performance ratings, bonus and salary, for example) through an ethnicity lens to understand and challenge systemic biases
- create better access to sponsorship and mentoring.

Accountability is key. As a founding member of Rare's Race Fairness Commitment, we have publicly committed to taking decisive steps to ensure race and racism are better recognised and talked about internally, including at every induction and exit interview. We are also monitoring and, where appropriate, publishing our rates of offers, retention, pay and promotion.

We will also ensure that our recruitment efforts continue to attract and support diverse candidates, and we will keep developing our processes to ensure minority ethnic representation in our training contracts and in newly qualified lawyer roles.

On average across our 2018/19 recruitment pool, 32% of hires were from a minority ethnic background, including 8% from Black backgrounds.

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

We've evaluated our pool of target universities to focus more on those with higher numbers of minority ethnic graduates. In addition, we have introduced mentoring opportunities for all vacation-scheme students and trainees, with mentors from across our London Diversity & Inclusion networks. We're focusing on recruitment of Black people in the London office; this includes participating in Aspiring Solicitors' inaugural mentoring scheme for Black students with an interest in a legal careers.

Helping support and lead all this work, the firm's internal Multiculturalism and BAME networks allow people to share experiences, support colleagues and develop personal networks. The organisations also engage with our clients and help raise awareness of minority ethnic issues internally and externally.

The networks are open to anyone interested in improving ethnic diversity or learning about different cultures or religions, regardless of background or ethnicity – and are a thriving part of our firm.

We know there is a great deal of work to do: we won't dismantle systemic racism overnight. It's incumbent on each of us to commit unequivocally to doing more and being better, personally and in our workplace. We are doing exactly that – and we are determined that, together, we will make tangible, lasting change.

Diversity and inclusion at Herbert Smith Freehills

Initiatives alone aren't enough to bring change. We are relentlessly focused on ensuring our programmes operate in an inclusive organisation, where the wellbeing of all our people is a key priority.

We want our clients to benefit from the diversity of our people, and we are increasingly engaging with clients with the aim of building more diverse client teams. While internal support systems and initiatives to improve diversity are important in improving the make-up of our firm, we must ensure everyone has equal access to high-quality work and client exposure – the foundation of progression in a law firm. We hosted a roundtable with a number of key clients to understand what more we can do, and we have tasked client-relationship partners with ensuring that matter teams are more representative.

As part of our work to create a culture where everyone feels valued and supported, we run a range of initiatives to address unconscious bias, promote inclusive leadership and develop a diverse pipeline of talent in our business. In addition to running specific unconscious bias-awareness workshops, we integrate prompts to counteract bias into key people processes, including during the partner-promotion process and pay discussions.

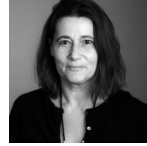
Our UK Executive participated recently in our reverse mentoring pilot, where mentors share experiences of being women, or from a minority ethnic or lower socioeconomic background, with the top leaders in our UK business. Feedback has been overwhelmingly positive, and we're extending this more broadly, among other senior leaders in the firm. We're also developing sessions focused on better equipping people to have discussions about race and ethnicity in the workplace, and to understand anti-racism and true ally-ship.

We know that opportunities such as sponsorship – which are usually based on informal networks and affinity biases – disproportionately benefit men, or those in majority groups. We've therefore built a more structured approach to sponsorship, focused on junior partners, with the aim that everyone should receive quality sponsorship.

Our people-led diversity networks – which focus on gender, ability, LGBT+, multiculturalism and family – help strengthen inclusion and engagement within the firm, and with our clients.

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

Alison Brown and Julie Cupit



Alison Brown
Executive Partner, West



Julie Cupit
HR Director, UK and EMEA

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