MHPR Advisors

12-Point checklist: Is your Partner Remuneration Policy state of the art?

Is your Partner Remuneration Policy state of the art? Use this twelve-point checklist to find out.

Contents

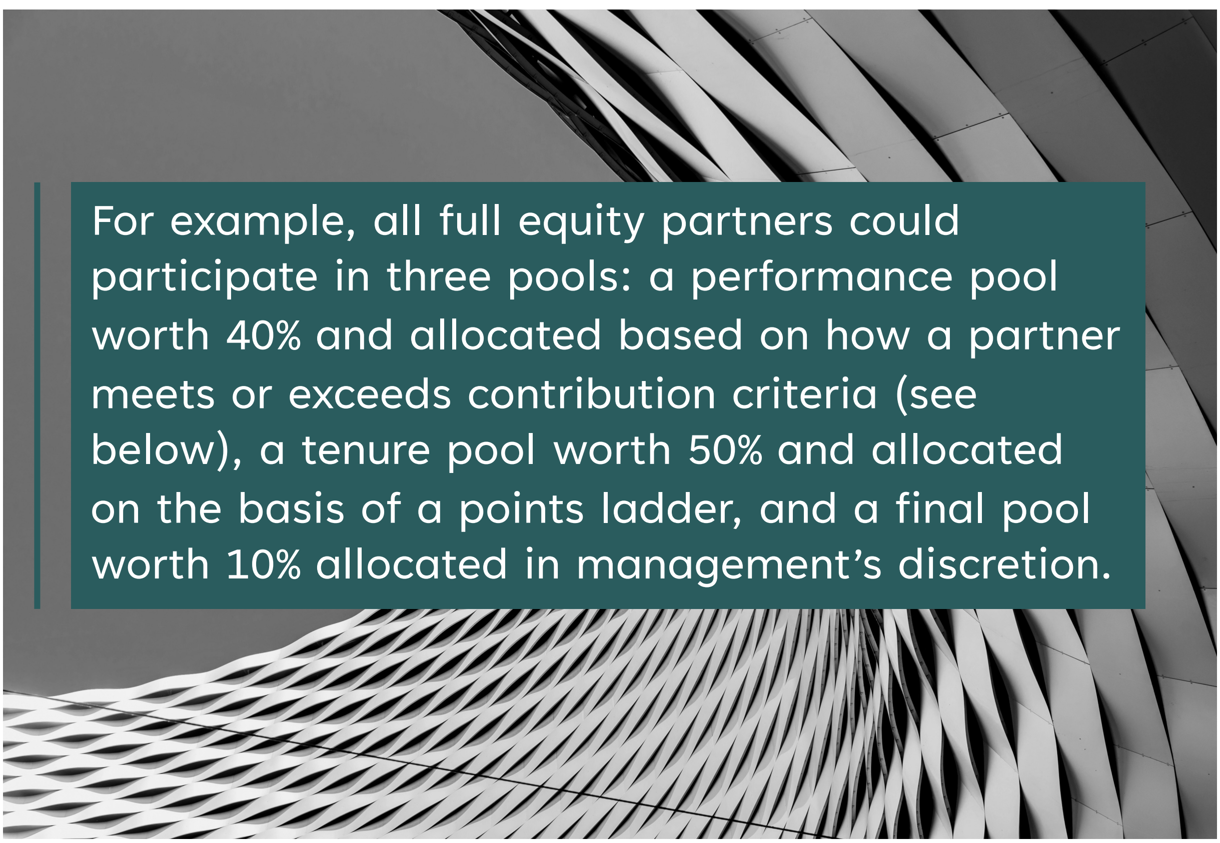
01

Your PRP explains your firm’s profit- sharing architecture

Each partnership is unique. For partners to understand what they are signing up to, this means that the Partner Remuneration Policy needs to clearly spell out the financial architecture of how profits are shared.

What this looks like is highly specific to your firm, yet generally includes information on partnership classes, different profit and bonus pools and how long-term investments are treated.

For each profit pool, the Partner Reward Policy wants to explain who is eligible and how shares in the pool are allocated.



> For example, all full equity partners could participate in three pools: a performance pool worth 40% and allocated based on how a partner meets or exceeds contribution criteria (see below), a tenure pool worth 50% and allocated on the basis of a points ladder, and a final pool worth 10% allocated in management’s discretion.

02

Your PRP establishes the distribution waterfall

Profit allocation is not the same as distributing cash: tax implications aside, it may be wise to retain cash to build working capital or to make future investments. The Partner Remuneration Policy should clearly spell out how distributable cash is determined and in what order it is distributed to each group of partners.

Assuming the firm pays monthly drawings as advances against profit shares, the waterfall spells out how drawings are determined and how shortfalls (overdrawing's) are addressed.

If needed, the payment waterfall also addresses priority returns based on capital contributed.

03

Your PRP reflects the value chain when explaining partner contribution criteria

It has become rare that partners in professional partnerships share profits purely based on tenure. Most professional services firms today allocate profit shares or performance bonuses on the basis of a partner’s merit.

A good Partner Remuneration Policy articulates where partners are expected to contribute, their relative importance, and how a partner’s contribution will be assessed. The best Partner Remuneration Policies align partner contribution to the professional services value chain: business development, service delivery and service innovation.

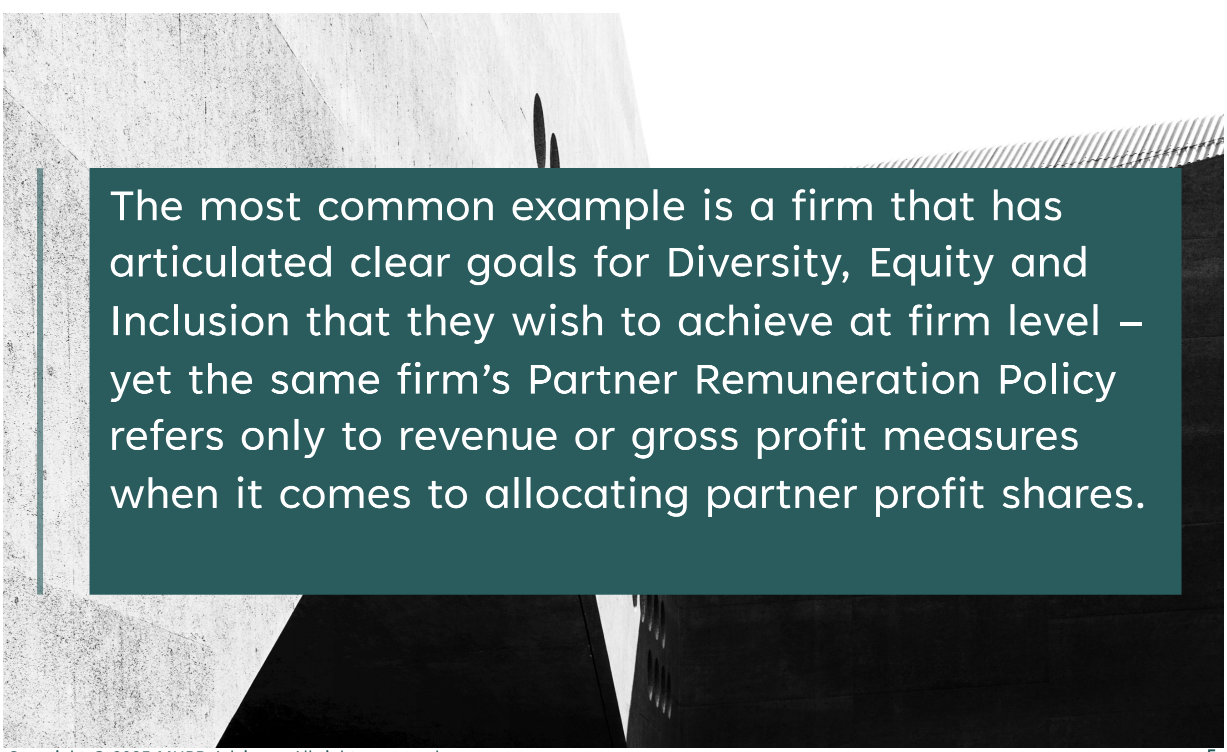
04

Meaningful partner-level KPIs are aligned to the firm’s KPIs

KPIs articulated in most firms’ Partner Remuneration Policies struggle in two ways.

First, many firms continue to rely on blunt financial production measures. The best Partner Remuneration Policies articulate partner-level KPIs that align across the contribution areas needed to drive the firm’s performance across the value chain (see above).

Second, partner-level KPIs in most firms are separate from the strategic, operational and financial KPIs that are articulated at firm level. The most common example is a firm that has articulated clear goals for Diversity, Equity and Inclusion that they wish to achieve at firm level – yet the same firm’s Partner Remuneration Policy refers only to revenue or gross profit measures when it comes to allocating partner profit shares.



The most common example is a firm that has articulated clear goals for Diversity, Equity and Inclusion that they wish to achieve at firm level – yet the same firm’s Partner Remuneration Policy refers only to revenue or gross profit measures when it comes to allocating partner profit shares.

05

Meaningful partner-level KPIs are aligned to the firm’s KPIs

The best Partner Remuneration Policies are flexible in three respects. First, they recognize that partners contribute differently. Not every partner will be a great business developer, and not every partner will ever become an internationally- recognized expert.

Great Partner Remuneration Policies allow partners to play to their strengths. Second, they recognize that some partners will not contribute to the business full-time. The best Partner Remuneration Policies establish clear guidelines on how part-time contributions translate to financial outcomes. For example, two partners may have the same size of client following, yet one works fifty percent and the other one hundred percent for the business – the PRP will want to answer the degree of any difference in reward outcome for the second partner.

Third, partnerships tend to accommodate different business models. For example, one business unit may achieve high profit margins with a relatively high professional staff to partner leverage, while another may achieve great margins with a partner-led, highly priced business model. The best Partner Reward Policies manage to integrate or accommodate all of the firm’s business models.

06

Your PRP explains how intangible contributions translate to profit shares

Often partners contribute in many ways, yet not all ways must automatically count towards a profit share. Clarity is more important than quantum here. For example, partners devoting all of their time on community affairs or pro bono also expect a profit share. The best PRPs articulate how profit is allocated to them.

07

Your PRP reflects the partnership's ethos on accountability for clients

All professional services firms have a culture about how clients are managed and shared; some have translated this culture into policies. Yet often the firm's Partner Remuneration Policy is silent on client accountability or reflects a policy that is different to how the firm operates day-to-day. For example, a firm may value having 2-3 partners leading the firms' most important client relationships.

If the firm's systems or the firm's Partner Remuneration Policy recognizes only one client relationship partner for a client, or if the PRP only values new clients acquired, the PRP could be in conflict with what the firm is trying to achieve. This sends mixed messages to partners and ultimately undermines firm performance.

The best Partner Remuneration Policy reflects the firm's approach to client management and is explicit about how client successes translate to profit shares.

08

Your PRP addresses partners who serve in formal management roles

Firm to firm, management and leadership means different things. While leadership generally comes with being a partner, some partners serve in formal management roles. The best Partner Remuneration Polices articulate how partner reward works for these partners.

It is perfectly ok for the PRP to state that management roles are voluntary and do not see any reward whatsoever – yet leaving this point unarticulated can lead to unmet expectations later.

09

Your PRP explains what transparency partners can expect about their profit share

It is rare that a partner remuneration system is completely transparent on all aspects. In most firms, partners cannot expect, for example, to have access to all partner performance data. Yet they could expect a clear statement about what is transparent to them and what is not, what transparency they have over firm performance and their own performance data and, after the completion of a reward round, a communication about why they receive the profit share that they do.

The details depend on the firm's reward architecture and approach to contribution management generally – for example, a completely discretionary performance bonus cannot be and should not have to be explained.

10

Your PRP contains a clear remit for the firm's Remuneration Committee

Except where allocations are purely formulaic, most mature firms operate some type of partner committee that recommends or determines partner profit shares, even if they don' t call it a "Remuneration Committee."

The best Partner Remuneration Policies will clearly define the committee's remit, composition and calendar. The committee's remit includes whether it is advisory or determinative, how the committee gathers or receives partner information, and how the committee is responsible for evolving the Partner Remuneration Policy itself.

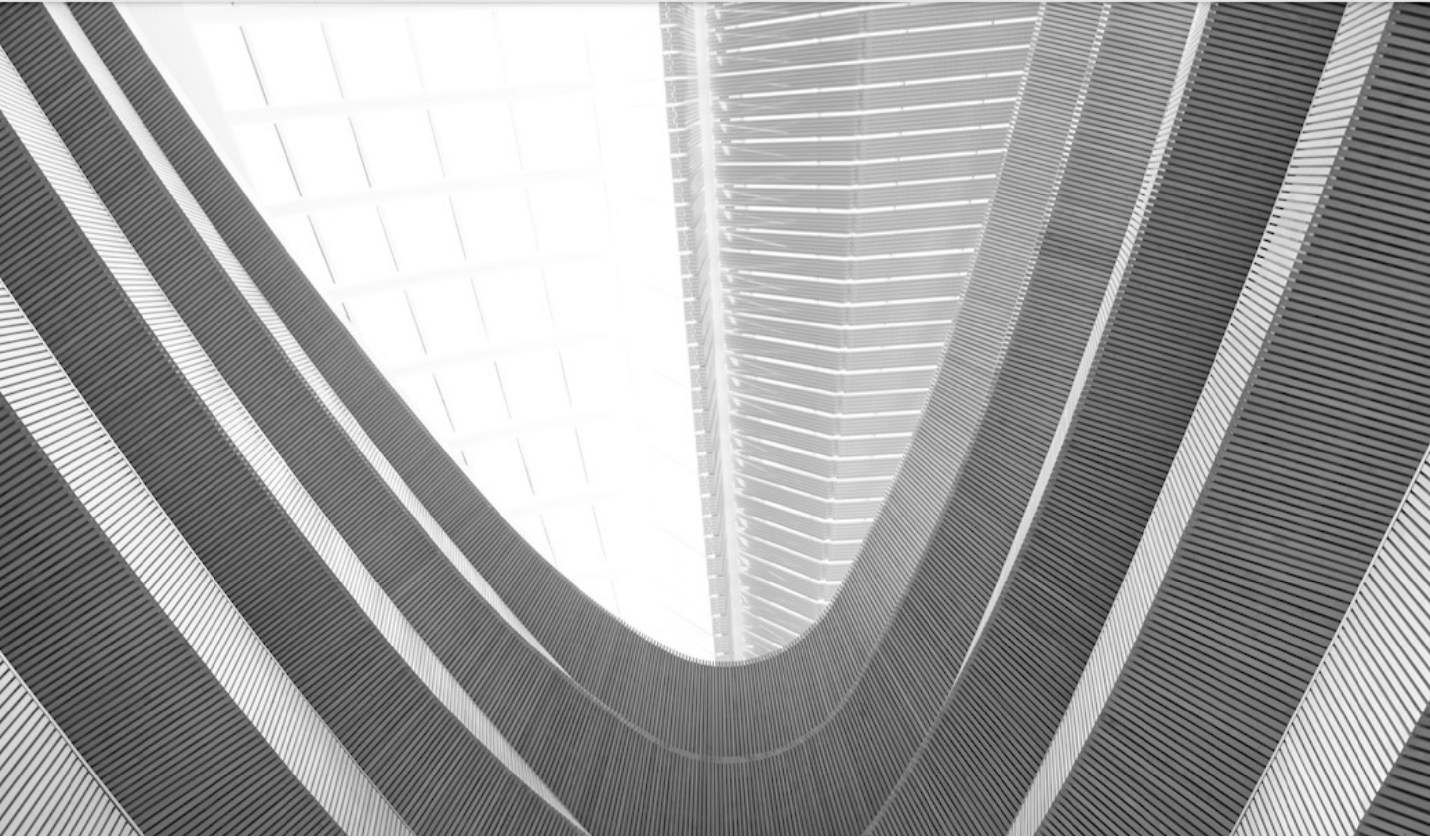
In most mature firms, the committee best is constituted with a mix of firm leaders and partners at large; purely elected committees tend to highlight wider problems in the firm's governance. The PRP also will outline, in broad terms, the committee's annual calendar and when partners can expect reward communications.

11

Application of your PRP is appropriately supported by technology

A PRP for 12 partners could easily be implemented by spreadsheet without too much burden. Yet as the partnership grows, it is important to have state-of-the-art technology support a state-of-the-art remuneration policy.

If your firm has more than 25 partners and still drives partner profit sharing with a spreadsheet form finance, it could be time to invest in some technology to help make partner contribution discussions more productive and reward decisions more efficient.



12

Your partners broadly accept the results your PRP produces

Even if your PRP may not be state-of-the-art, partner acceptance goes a long way. It sometimes happens that the PRP is a formality, while management or RemCom just allocates profit based on what they think is fair and then retrofit the inputs to justify the results they want to achieve. It is important for any partnership to apply the PRP within the spirit it was intended – or to work with the partnership to update the Partner Remuneration Policy.

Ideally, your Partner Remuneration Policy is embedded in a comprehensive partnership charter that also addresses promotions, retirements and partner conduct.

MHPR Advisors

Partner Remuneration Committee Accelerator program

This course empowers senior leaders to become highly effective Partner Remuneration Committee members.

Learn more
Book a call with us

MHPR Advisors | Designing strong partnerships

Digital Solutions

- Partner Remuneration Committee Accelerator
- Understanding Partner Reward
- Partner Remuneration System Diagnostic
- Remuneration Committee Maturity Assessment Diagnostic

Advisory Services

- Partner compensation reviews
- Profit-sharing and governance for partnerships
- Retained services for Managing Partners, Partnership Boards and Partner Compensation Committees
- Strategy development for partnerships, alliances and ecosystems
- Legacy planning and succession development

About Michael Roch

Advisor to partnerships worldwide and Founder, MHPR Advisors

Michael Roch helps senior leadership teams envision and build exceptional partnerships that amplify each partner's strengths while creating entirely new opportunities for value creation.

His innovative frameworks (*The Partner Reward Trilogy*) and authoritative publications (*The Partner Remuneration Handbook*, 2022) are rooted in his unique combination of expertise that spans incentives and motivation, executive compensation management and the finance, law and taxation of partnerships.

With extensive entrepreneurial experience across London and North America, Michael guides organizations in creating collaborative partnerships that deliver sustained
competitive advantage, transforming partnership dreams into powerful business realities that drive long-term success and industry leadership.

Operating from Zurich, Switzerland, Michael serves clients worldwide.

Get in touch

UK: +44 20 8638 5712
CH: +41 55 556 3300
hello@mhpradvisors.com

MHPR Advisors GmbH
Ziegelwies 7, CH-8852
Altendorf, Switzerland

Join our community

Michael Roch
MHPR Advisors
mhpradvisors.com
MHPR Insights