FROM PROFIT SHARE TO VALUE SHARE

HOW PRIVATE EQUITY OWNERSHIP REDEFINES PARTNER COMPENSATION IN PROFESSIONAL SERVICES FIRMS

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MHPR Advisors

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EXECUTIVE SUMMARY

Private equity is reshaping the economics of professional services.

Over the past decade, billions in capital have flowed into accounting, legal, consulting, engineering, wealth management and marketing firms, attracted by strong margins, recurring revenue and consolidation potential.

For partnerships, private equity offers funding for digital transformation and AI, acceleration of M&A, stronger competitive positioning and the chance to participate in equity gains.

In this paper, we examine what happens to partner reward, incentives and compensation when investor logic meets partnership logic.

Traditional partnerships reward annual profit contribution. Private equity reframes the equation around enterprise value creation over time. The focus moves from profit share to value share.

Base compensation and short-term incentives remain important. However, long-term equity participation, structured incentive plans and defined exit events become central.

For many partners, the most significant upside shifts from annual distributions to participation in future capital gains tied to enterprise value growth.

Investor involvement does not eliminate professional culture, but it does raise expectations. Performance becomes more tightly linked to measurable growth, margin improvement and scalability. Governance becomes more disciplined. Decision-making accelerates.

Even firms that do not plan to take on private capital cannot ignore these developments. PE-backed competitors offer liquidity, long-term upside and disciplined performance management.

To remain competitive, traditional partnerships may need to rebalance short- and long-term incentives, strengthen contribution frameworks and professionalize compensation governance.

Drawing on insights from professional services leaders with direct experience of private equity ownership, this paper outlines ten lessons for managing partners considering external capital.

The central theme is alignment: alignment of strategy, incentives, culture and investor expectations.

Firms that combine partnership identity with value-driven discipline will be best positioned, whether or not they ultimately choose private equity.

Private capital is already shaping the sector. The question is not whether it matters, but how deliberately your firm responds.

THE RISE OF PRIVATE EQUITY IN PROFESSIONAL SERVICES

A NEW ERA FOR PARTNER COMPENSATION?

Over the past decade, private equity investments in professional services have accelerated significantly. Across law, accounting, consulting, architecture, engineering, marketing and wealth management, consistently high margins have attracted private capital to traditional partnerships.

The scale is substantial.

The accounting sector has seen more than $30 billion in new private equity capital deployed since 2020, with PE-driven revenue multiples implying an aggregate enterprise value of more than $400 billion for the Top 500 CPA firm sector — a valuation reset of over $200 billion compared to traditional pricing norms. [1].

Recent deals include Grant Thornton (US and UK), Baker Tilly and UHY [2].

In the UK legal market, £534 million was invested in 2024 alone—a 42% increase from 2023 [3].

PE-backed law firms have grown revenues by 30% over two years, double the rate of the UK's top 50 [4].

Examples include BeyondLaw, LawFront and Stowe. This activity is facilitated by the UK's Legal Services Act 2007, which allows non-lawyer ownership through Alternative Business Structures.

Continental Europe remains restricted as most countries prohibit non-lawyer ownership at scale.

Australia is accelerating rapidly, with 2025 marking a turning point including PE-backed stabilization of Slater & Gordon and investment in Wotton + Kearney [5].

The US remains most restricted, though indirect models like Management Service Organizations are emerging. Regulatory sandboxes in states like Utah and alternative business structures in Arizona are also opening doors [6].

In 2025, the US engineering and construction sector saw over 37% of transactions originating from PE add-ons or PE Platform, the highest investment from private equity since 2021. [7].

Wealth management saw 322 M&A deals for Registered Investment Advisors (RIAs), in 2025, with PE investments in asset management surging to $27 billion [8].

In the global advertising and marketing sector, private equity firms accounted for 33.2% of all acquisitions in 2025 — up from 28.2% in 2024 — with deal volume rising 11.6% year-over-year to 636 transactions. In the media sector specifically, total announced deal value topped $107 billion in 2025 [9].

Private capital's interest challenges traditional partnerships[a] on two fronts.

The first is strategic: How can we achieve strategic aims better or faster with outside financing? Is it advantageous not to take on private equity if competitors do? What do we offer key partners when capital exits aren't available every five years?

The second - this whitepaper's focus - considers required changes within the partnership to make private equity work.

Inviting an outside investor changes established dynamics of a delicate social system.

Since the early 1900s, partnership has meant apprenticeship, progression to partnership and profit-sharing based on individual contribution. Long-term value creation was implicit; "goodwill partnerships" are relatively recent.

External investors now introduce capital logic to partner reward, with value-creation targets and new metrics underpinning incentives.

This requires firms to rethink partner incentives and remuneration to align contribution with both the partnership's strategic vision and the investor's expectations. Opening the door to private equity means managing partners must anticipate challenges and prepare accordingly. Done well, private equity can accelerate strategic growth and catalyze longer-term value creation. For this white paper, we spoke with four professional services leaders who had led firms through private equity transactions and asked them about the lessons they had learned[b].

Professional services firms have entered what could be called the industrial era with strong pressure to scale both on the top and bottom end of the sector.

David Morley
Partner, Dejonghe & Morley, and Former Global Senior Partner, Allen & Overy (London)

a We refer to "partnerships" as the organizational form of equity owners driving relationships and client service, irrespective of legal form. Many professional "partnerships" operate through a corporate legal entity.

b Interviews were conducted with: Carlo Capè, Co-founder and former CEO, BIP Consulting (Milan); Malcolm Gomersall, Chief Executive Officer, Grant Thornton UK (London); David Kearney, Chief Executive Partner, Wotton Kearney (Sydney); David Morley, Partner, Dejonghe & Morley, and Former Global Senior Partner, Allen & Overy (London)

WHY PROFESSIONAL SERVICES PARTNERSHIPS TURN TO PRIVATE EQUITY

Three main reasons prompt partnerships to consider outside investors.

PRESSURE TO DIGITIZE AND CAPTURE AI BENEFITS TO REMAIN COMPETITIVE. AI promises to cut costs by automating complex tasks while enhancing service quality and consistency. But AI done well—and restructuring to leverage it fully—requires significant upfront investment exceeding most partnerships' funding capacity.

MARKET PRESSURE FOR CONSOLIDATION AND GROWTH DRIVING M&A ACTIVITY. Private equity provides cash and "true" equity, a currency that most partnerships do not provide that attracts high-performing partners and that can be traded with M&A targets instead of cash. Firms on acquisition sprees almost always benefit from the credibility private equity backing provides.

ENABLING PARTNERS TO WITHDRAW CAPITAL MORE TAX-EFFICIENTLY. In most countries, profit shares are taxed as ordinary income. Equity sales are capital gains, usually taxed at lower rates.

Private capital on board can mean the difference between prey and predator in fierce M&A markets. Together, these factors make outside investors increasingly attractive.

> **Acquisitions are the only way for professional service firms to grow internationally. To acquire a business, you need credibility, which is the crucial element private equity firms provide.**
>
> ***Carlo Capè***
> *Co-founder and former CEO, BIP Consulting (Milan)*

> **Bringing private equity on board is enabling us to grow our firm, invest in our client experience through digital transformation and has served as a catalyst for change.**
>
> ***Malcolm Gomersall***
> *Chief Executive Officer, Grant Thornton UK (London)*

WHY PRIVATE CAPITAL TURNS TO PROFESSIONAL SERVICES

For investment companies, professional services firms offer three main opportunities.

HIGHER MARGINS THAN OTHER INDUSTRIES. Net margins vary widely by PSF sector and firm size. Yet at the high end, normalized EBITDA margins can exceed 20% even after deducting competitive remuneration for “working” partners – often significantly more than in other sectors outside professional services.

GROWING THE BUSINESS SIGNIFICANTLY THROUGH ACQUISITIONS. Refocusing a high-margin business on rapid revenue growth enables “multiples arbitrage,”[c] paving the way for more attractive exit multiples as revenues grow.

STEADY DIVIDEND RETURNS BEYOND RAPID GROWTH AND SUBSEQUENT EXITS. Given relatively high net margins and stable revenue, investments can offer steady, substantial dividend returns. This is critical when private capital is flush with funds seeking stable, high-return investments.

> **In professional services, investors often find relatively immature operations with pretty high margins and fairly sticky revenue.**
>
> ***David Morley***
> *Partner, Dejonghe & Morley, and former Global Senior Partner, Allen & Overy (London)*

> **Our investor was attracted by the prospect of a stable dividend yield from a minority investment rarely available at this level**
>
> ***David Kearney***
> *Chief Executive Partner, Wotton Kearney (Sydney)*

c By “multiples arbitrage,” we refer to the phenomenon where larger firms typically command higher valuation multiples than smaller ones. When a PE firm buys smaller companies at lower multiples (say, 5x EBITDA) and grows them through organic growth or acquisitions into a larger platform, that larger entity can be sold at a higher multiple (say, 8x or 10x EBITDA).

WHEN TRADITIONAL PARTNER COMPENSATION LOGIC MEETS INVESTOR LOGIC

Private capital investments offer an attractive capital and growth story but fundamentally change partner incentives. To make private equity partnerships successful, firms must anticipate these effects and adapt their reward systems. Firms choosing not to pursue private equity must understand these effects to keep compensation systems competitive.

Private equity ownership introduces a fundamentally different approach to partner reward. In traditional partnerships, remuneration is profit-sharing reflecting individual contribution linked to relationships, profitability and seniority. Investor logic is shaped primarily by value creation and measurable business performance.

When these worlds meet, pressure points become visible across all three elements of the **Partner Reward Trilogy™,** our tested framework with which we have designed more than one hundred partner compensation systems globally.

The **Partner Reward Trilogy™** breaks down partner reward systems into three interrelated elements:

- **Financial reward design** explains how partners share in firm gains (merit, managed lockstep, eat-what-you-kill), how partner tiers are composed (equity partners, fixed share partners, income partners) and the firm's capital structure (fixed capital, naked-in-naked-out, goodwill-based).
- **Contribution management** explains what partners must deliver for their reward, how leaders hold partners accountable for promised results and the processes and tools the firm uses to facilitate leadership conversations.
- **Decision-making governance** defines how firms tie partner contribution to financial reward design; this includes formal governance through committees (partner compensation and talent

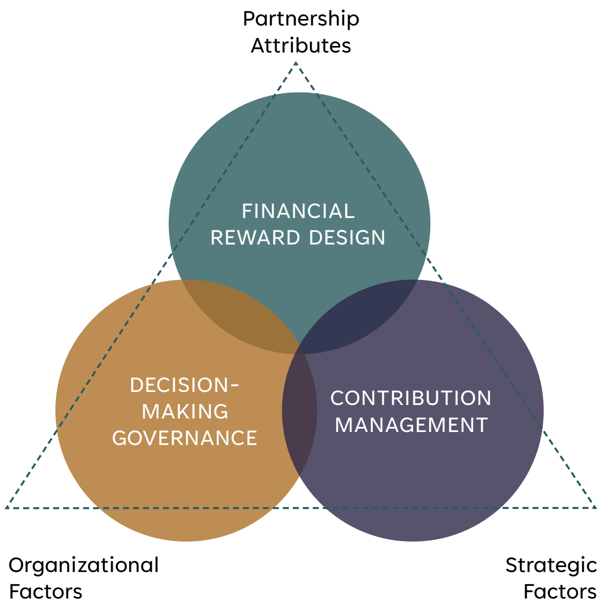

*Figure 1. The **Partner Reward Trilogy™***

committees[d]) and the actual decision-making that determines individual partner compensation.

A private equity investor fundamentally touches the first element and impacts the others.

1. HOW PRIVATE EQUITY CHANGES A PARTNERSHIP'S COMPENSATION STRUCTURE

In professional services partnerships, payout is traditionally determined by annual profits.

Remuneration is yearly profit-sharing based on individual contribution, financial or otherwise. Depending on approach, seniority and client following also play roles. This fosters an "income source mindset."

Capital owners expect partner reward to align with business plan execution and enterprise value creation rather than yearly profits. This shifts focus from maximizing annual bottom line to long-term top-line growth. Private equity-owned firms typically apply a refined reward architecture with three core elements:

Base remuneration

A fixed base provides income stability and predictability, establishing a foundation within a more meritocratic, performance-driven system. Often, the "draw" against profits is the starting point.

Profit-sharing as part of short-term incentives

A short-term incentive plan (STIP) ties to clearly defined annual outcomes for the business and individual partners. The amount available under STIPs usually depends on achieving yearly EBITDA targets.

For former equity partners, profit sharing often remains core to short-term incentives (whether separate or part of bonus schemes), the key difference being that less than 100% of profits are distributed to equity partners.

The proportion varies greatly depending on required working capital retention and private equity stake size. Even where PE owns the firm outright, a significant pool is "shared" among "partners" via an STIP.

For most partners, individual STIP awards continue rewarding execution and delivery against agreed short-term targets for client relationships, profitable service delivery and other objectives.

Private equity typically cares about money available for STIP allocation but doesn't get involved in individual allocations.

Base remuneration, short-term incentives and long-term equity incentives

For most equity partners, particularly those with significant client following or leadership responsibility, a sale to private equity isn't an "exit" but a transformation of role and economic interests.

d Among larger PSFs, the trend is towards Talent Committees whose remit is much wider than just partner compensation.

Initial transactions typically involve all selling equity partners receiving 60-80% of their firm's value in cash. Yet they won't see most of this cash in their bank balance.

Roll-over equity for all equity partners. A crucial deal component requires all equity partners to reinvest, or "roll over," a substantial part of proceeds into equity of the newly capitalized company with private equity participation.

This rollover equity (usually tax-deferred) is the cornerstone of the partnership with the PE firm. Depending on investor and partnership dynamics, partners not continuing may hold little or no roll-over equity.

Roll-over equity ensures equity partners retain significant "skin in the game," aligning financial interests with the PE sponsor's goal of achieving exponential growth and profitable future exit. All equity partners participate in valuation increases driven by top-line growth and corresponding multiples arbitrage.

Additional equity incentive for key partners. As part of transactions, compensation structures for management teams (and often other key partners) are re-engineered to drive value creation.

While base salaries and STIPs provide income security, the primary economic opportunity shifts to long-term incentive plans (LTIPs) earning the proverbial "second bite of the apple."

LTIPs are usually agreed as "sweet equity, a highly leveraged equity class. For instance, management might contribute 5% of total equity capital (through rollover) but receive 15-25% of total profits generated after the PE firm receives its initial investment back plus a pre-determined "hurdle rate," commonly around 8% annually. This ensures management laser-focuses on generating high-multiple returns, as sweet equity holds little value until the PE sponsor's primary return thresholds are met.

Ratchets. To further galvanize management teams and other key partners toward exceptional performance, deals may include "ratchet" mechanisms. Ratchets automatically increase management's percentage of equity gain if PE sponsor returns exceed certain high-water marks, such as 3x or 4x multiples on invested capital.

Secondary roll-overs. A "second exit" is the sale of the PE firm's stake to another PE fund or, if PE owns the firm outright, to a strategic buyer. Secondary exits typically occur after 3-7 year holding periods. Sale proceeds are distributed according to pre-defined "waterfalls." PE sponsors are paid first, receiving full invested capital and preferred return.

Remaining proceeds are split between investor, management team and all other equity-holding partners, accommodating LTIP sweet equity and ratchet provisions. Payouts are potentially very lucrative.

In secondary buyouts (sale to another PE firm), management, on behalf of all partners, usually negotiate to take a portion of exit proceeds in cash and roll over a portion again with the new investor until that investor exits.

Secondary buyouts offer the tantalizing prospect of liquidating value and taking another "bite at the apple" every 3-7 years.

Implications for traditional partnerships

Here, firms with private equity have a key advantage: unless their equity is good-will-based and coupled with an internal market for shares, traditional partnerships can only distribute allocated profits year-on-year.

Over time, their financial performance must significantly outmatch PE-backed peers for total returns to remain competitive with roll-overs' gain potential.

Combining equity-based compensation and performance-driven bonuses rewards both long-term growth and near-term execution.

Equity-linked incentives tied to enterprise value are mainly absent in traditional partnerships, where being an equity partner typically means earning profit shares, yet enterprise value isn't a compensation factor.[e]

Adding enterprise value as currency for partner reward changes the financial equation: yearly direct income still matters, but long-term value growth begins to matter more.

> **Private equity changes the economics for partners: instead of just sharing annual profits, they can now realise value from the capital they have built.**
>
> ***Malcolm Gomersall***
> *Chief Executive Officer, Grant Thornton UK (London)*

2. HOW PRIVATE EQUITY CHANGES PARTNER CONTRIBUTION MANAGEMENT

Contribution management explains what partners must deliver to earn profit shares and how leaders hold partners accountable for promised results.

Introducing a private equity sponsor changes what is expected of partners and infuses urgency in addressing performance problems.

Changing expectations of partners

For traditional partnerships, depending on culture and ethos, partner-level contributions tend to include:

- A narrow set of production-type financial measures, such as hours, billings, new revenue acquired or "originations"
- A broader spectrum of results-based contributions recognizing results in business development, service delivery, mentorship, collaboration and firm citizenship, each with measures across balanced scorecards or similar instruments
- Discretionary factors
- Seniority (tenure) or other non-meritocratic values

Most firms recognize a complicated combination of these. In larger firms, overall success of partners' primary business units (service lines, teams, offices, countries,

e Some professional services firms express profit shares as "point value" or "unit value", yet these only reference what proportion of profits a partner is entitled to. In this case, "value" does not reflect enterprise value.

regions) tends to drive contribution outcomes; in smaller firms they factor to varying degrees.

In private-equity owned firms, expectations change, but maybe less than partners might think.

Expectations are more structured and tightly connected to financial performance, growth, margin improvement and scalability. Non-financial contributions still matter but must connect clearly to strategic or commercial impact. Rather than maximizing individual client billings, contributions to collective value creation move into focus.

Private equity is less interested in how much money a partner brought in last year and more interested in how that partner contributed—and will contribute—to longer-term business building.

> **For an investor, the crucial question is not how many bills you wrote last year. It's what you did and are continuing to do to build the business long-term.**
>
> ***David Kearney***
> *Chief Executive Partner, Wotton Kearney (Sydney)*

For partners, this means greater clarity and accountability—but also fewer places to hide.

PE drives accountability and urgency

Beyond expectations, processes ensuring partner accountability for promised results change in two main ways visible to partners.

First, the long-term incentives outlined above help ensure leadership teams have rigorous accountability processes to ensure goals aren't missed.

In most smaller firms, partner contribution management is often largely self-executing to minimize effort for leadership and managing partners.

Larger firms and PE-backed firms normally have more formal processes to:

- Periodically agree objectives with partners
- Conduct in-flight check-ins to ensure partners remain on track and adjust objectives as business context changes
- Ensure these feed into formal contribution evaluations feeding into advancement and compensation decisions

Generally, investor involvement introduces greater need for evidence and comparability across cohorts. Partner contribution won't run on spreadsheets; investors insist on fit-for-purpose technology, such as *PerformanceLeader* [10], helping leaders hold partners to account.

Second, private equity firms infuse urgency into major and minor decisions.

Traditional partnerships tend to ignore underperformance (however defined) too long. Depending on financial compensation design, this either socializes underperformance costs (in managed locksteps) or asks compensation systems to absorb problems they were never designed to absorb (financial merit or formula systems).

Investors hold management to addressing underperformance with high urgency. Yet the best firms don't wait for private equity to sort out partnerships: those not needing or wanting private equity readily apply robust partner contribution management to ensure partners reach long- and short-term targets.

Those that do will clean house well before canvassing possible private capital sponsors.

I knew private equity moved fast, but I was struck by how quickly decisions were made without sacrificing rigour. As the stakes rise, the pace increases – while standards and risk discipline remain uncompromised.

Malcolm Gomersall
Chief Executive Officer, Grant Thornton UK (London)

3. HOW PRIVATE EQUITY CHANGES INDIVIDUAL PARTNER COMPENSATION DECISIONS

Our **Partner Reward Trilogy's™** third element ties partner contribution to financial design for how gains are shared; this includes formal governance and actual decision-making, alongside the processes that support them, determining individual partner outcomes.

A private equity sponsor introduces maturity into compensation setting processes. But they care more about the big picture and generally stay out of individual compensation allocations.

Introducing rigor into partner reward allocations

Traditional partner compensation processes often rely on discussion, judgment and shared understanding built over years or decades. Where firms have established formal partner compensation committees, overall governance maturity often remains at early stages at extremes:

- Either partner remuneration committees serve to question and consent ("rubber stamp") management team proposals

- Or they serve as very powerful shadow management teams, reviewing partner business plans and addressing with partners how they can improve performance

While truth is often somewhere between these extremes, even in larger firms, we still often see political or representative committee appointments, insufficient induction, few robust decision-making processes and spreadsheets as sole tools supporting decision-making.

Firms recognizing the strategic impact of partner remuneration invest in partner compensation committee members and ensure committees operate year-round to properly own partner compensation agendas[f].

Partner compensation decisions typically become more mature under private equity ownership. Investor logic requires transparent,

f Among larger PSFs, the trend is towards Talent Committees whose remit is much wider than just partner compensation.

documented and repeatable decisions withstanding external scrutiny. Remuneration committees gain importance, and firms must articulate rationale behind partner reward outcomes.

Firms with mature reward governance won't feel much difference once private equity is on board.

Private equity's focus remains on the big picture

There usually is one difference, though. Typically, private equity sponsors have observer seats on partner remuneration committees. Yet they have little appetite for getting into the nitty-gritty of allocating individual rewards.

What investors usually care about is (a) whether equity pools are sized appropriately and (b) that awards are allocated based on the right KPIs.

> **Private equity increases the pace of reward decision making with investors pushing for relentless execution.**
>
> ***David Morley***
> *Partner, Dejonghe & Morley, and Former Global Senior Partner, Allen & Overy (London)*

Together, the meeting of traditional and investor logic reshapes partner experience.

For some partners, clearer expectations and shared value-creation goals translate into stronger motivation, while others feel loss of the old, more collegial model.

Partners in medium-sized firms often fear loss of control as organizations move away from traditional owner-operator models. Partners in large firms are typically used to having control over their own practice while devolving firm-wide decisions to others.

Private equity's impact on transparency

Partner compensation transparency operates on a continuum; most partners refer to systems being "closed" (where other partners' performance and compensation data is confidential) and "open" (where it's available for all partners to see).

In our view, partners are entitled to their own performance data, but making all partner data available across large partnerships is often counterproductive.

Irrespective of transparency level, more maturity in how compensation decisions are made leads to greater consistency and fairness. But overall transparency doesn't automatically increase with private equity ownership. Often only small groups of partner executives have full view of capitalization tables.

For firms traditionally operating open reward systems, this selective transparency can be difficult to reconcile with existing norms, whereas firms with more closed traditions may find the shift easier to absorb.

Ultimately, firms integrating strengths of both logics—a partnership's professional identity and private capital's value-driven discipline—are best positioned to succeed irrespective of whether they take on private equity partners.

RESHAPING PARTNER COMPENSATION FOR A PRIVATE EQUITY WORLD

Using the **Partner Reward Trilogy™**, we outline changes and adaptations professional services firms can make to reward and contribution systems—either before working with investors or to compete with competitors who have taken on private equity.

6 WAYS TO RESHAPE PARTNER REWARD

1. **Set aside a portion of yearly profits for long-term value creation or a war chest for long-term investments.** Manage that war chest like an investor would (with return hurdles and payback periods). This makes it somewhat easier to later introduce investors.

   Convincing partners to accept giving up part of future annual profit-share in return for future value (true equity) as a second step typically requires intensive discussions, underpinned by sound financial modelling using sensible assumptions.

2. **Calibrate a mix of short- and long-term incentives.** Pair scaling back partners' annual profit share with new long-term equity incentive plans to create attractive upside while welding key partners to future value creation.

3. **Tie all incentives at least in part directly to revenue growth, but don't eliminate profit sharing.** The most successful PE-backed firms have retained significant profit shares for partners.

   This retains focus on the bottom line, keeps entrepreneurial spirit existing in most healthy partnerships and avoids turning partners into employees with bonus plans.

4. **Design reward systems that work for partners at all levels.** Allow new partners to participate in value growth early, provide strong incentives for existing partners to stay and offer perspectives for partners nearing career end.

5. **Introduce liquidity through internal markets for shares.** The single biggest competitive advantage of PE-backed firms is ability for partners to partially exit and roll-over equity across multiple buyouts.

   Internal markets for shares—through which partners can trade equity with each other and by which firms can self-liquidate partners' holdings—is the best alternative for self-funded partnerships.

6. **Strike balance between driving enterprise performance and keeping professional ethos.** This isn't a compensation point, but important: most partners love their

chosen profession. They do things because they want to (intrinsic motivation), not because a "financial incentive" motivates them to.

The best firms across the PSF sector both maintain high professional ethos and drive top and bottom line for the long-term—not year-to-year.

Beyond partners, consider how everyone in the organization ties to future firm success. At minimum, this includes adding firm-wide success factors to staff bonuses and providing equity to all key members of the management team, yet could also include extending equity plans to the entire organization.

4 WAYS TO REDEFINE PARTNER CONTRIBUTION

1. **Focus on both revenue and profit.** Replace individual billings, hours, originations and the like with metrics capturing contribution to overall value creation, such as new clients and work streams generated, overall client profitability, margin improvement, pricing discipline or scaling of service lines.

2. **Value partners beyond production.** Too much emphasis on individual metrics can be problematic. Hours and billings can still have a place for non-equity partners, but equity partners need to fully focus on entrepreneurial goals, such as creating life-long client relationships, innovating services, building teams and developing new markets.

3. **Design contribution systems to strengthen partner collaboration.** Focus on metrics rewarding contribution toward shared goals in pursuit of overall strategic vision and hold partners accountable together for initiatives they share accountability for[g].

4. **Emphasize leadership.** Compensation alone cannot align partners. Accountability and strong group leadership are essential. Even top rainmakers must lead by example because performance without culture drives exits.

3 WAYS TO ELEVATE PARTNER COMPENSATION DECISION-MAKING

1. **Establish and invest in high-performing partner compensation committees.** This includes rigorous induction processes and regular meetings to shape partner compensation policy and processes year-round[h].

2. **Ditch the spreadsheets.** Effective partner compensation models can grow very complex very quickly. Luckily, technology is available to support decision-making processes, such as *RemCom.ai*, a tool developed by our partner firm *PerformanceLeader* [10].

g For an in-depth view on partner collaboration, see our whitepaper Introducing SmarterReward™: The Top 10 ways your partner compensation system undermines collaboration and how to fix them, co-authored with Harvard's Dr. Heidi Gardner and Ivan Matviak (Smarter Collaboration).

h The MHPR Advisors Remuneration Committee Maturity Assessment lets you determine if your compensation committee is fit for purpose.

3. **Incorporate external voices.** Most of the largest professional services firms have at least one external, non-executive director on partnership boards. As part of compensation committees, such persons can hold groups accountable for objectivity and serve as links to investors.

In a traditional partnership setup, there is often no financial incentive for a partner to stay in the firm. By requiring alignment with longer-term value-creation targets, the entry of a private equity investor may change that and, in doing so, strengthen partnership culture.

David Morley
Partner, Dejonghe & Morley, and Former Global Senior Partner, Allen & Overy (London)

Applying transformations like these not only makes engaging outside investors easier - they are critical for firms to compete if they don’t take on external capital.

Even before inviting private capital investors to the table, it can be helpful to audit current partner compensation systems and related management and governance practices.

MHPR Advisors’ *Partner Remuneration Diagnostic™* offers a good start to conduct such pre-deal partner compensation due diligence.

PARTNERING WITH PRIVATE CAPITAL

10 LESSONS FROM FIRMS THAT HAVE DONE IT

Adapting a partnership's compensation system to work well with outside investors requires at least two things.

First, partnerships and investors must align on a clear understanding of the future firm's shared mission and goals.

Far too many professional services firms pursue "plain vanilla" strategies leaving them virtually indistinguishable from immediate competitors. Many are far too general to guide partners on what constitutes desirable business.

> **From the moment you start to work with private equity, there will be an imperative to grow. There will be no going back, because you won't be able to buy back the firm once its value has increased significantly.**
>
> ***Carlo Capè***
> *Co-founder and former CEO, BIP Consulting (Milan)*

Private capital investors spend significant resources researching and testing how firms' propositions fit into current portfolios, how partners intend to deliver on specific strategic and operational goals and how milestones are established.

Investors will help shape future strategy, yet first need convincing that current strategy is sound before expending energy refining it.

Second, partnerships need clarity about the type of investment and investor sought. Outright sales are fundamentally different from minority investments. And not all investors are created equal.

Some private equity firms focus on accelerated value creation followed by exits while others view engagement as opportunities to add steady sources of reliable, long-term returns to portfolios.

Whether investors acquire majority stakes or enter as minority shareholders influences the extent to which partner reward and contribution systems need adjustment.

Our Top 10 list offers lessons and key points on partner compensation for managing partners to consider when negotiating with potential investors or planning to take on private equity in the future.

1. **Choose an investor based on strategic fit and experience.**

   Working with the right investor can make or break business cases. Experts we spoke to stressed importance of a shared vision for the business.

Choose private equity firms with people businesses in their portfolios and track records of taking them to the next level. That is the type of expertise to look for rather than simply acquiring passive capital.

2. **Expect compensation to be a main part of investor negotiations**

   It pays to closely examine your firm's partner compensation system across the Partner Reward Trilogy™ (financial reward architecture, contribution management, decision-making governance) before entering discussions with investors.

   Long-term equity will be raised sooner rather than later. Several interviewees recalled that debates about compensation system alignment took up well over half of negotiations.

3. **Alignment, alignment, alignment**

   Expect bringing interests of partners and investors in line to be a crucial theme in every aspect of your negotiation.

   This applies specifically to the design of incentives and partner reward systems. Every type of reward, metric and incentive will have to align with the strategic vision for the firm.

4. **Get the mix of short- and long-term incentives right**

   Elements of short-term profit sharing, combined with deferred gratification tied to long-term value creation, create remuneration models attractive to partners at all stages of professional journeys while aligning their interests with investors' strategic vision.

5. **Make sure the numbers add up for partners**

   In the end, reshaped reward and contribution systems need to offer attractive propositions to partners.

   There must be demonstrable upside for them to trade perceived certainty of annual profit distribution for possibility of longer-term reward.

6. **Focus on the cultural shift**

   Changes in culture are typically harder to implement than changes in metrics and KPIs. But without the former, new approaches to reward and contribution will never gain the acceptance needed for success.

   Fostering an ownership culture centered on building value over the long term is key.

7. **Involve all partners in the process**

   For our interviewees, bringing in investors added value to firms and helped firms develop in positive directions. But to get journeys off the ground, partner buy-in was crucial.

   Partners need convincing that benefits outweigh risks. Focus on ensuring they have all the facts, and make plenty of room for discussion despite the urgency of getting the deal across.

8. **Let supporting functions participate**

   In many professional partnerships, participation in financial success is reserved for people working in core professions.

   In the future, business success will require close collaboration between professionals and other experts, such as technologists, data scientists or business managers. Your firm's reward system should cover these key roles as well.

9. **Brace yourself for a faster pace and relentless execution**

   Investors typically won't need a say in every aspect of the compensation processes. When it comes to reward decision making, they may leave work to management.

   However, investors won't tolerate long-winded processes and will push for speed, because they consider time another form of capital.

10. **Be true to yourself**

    Professional services partnerships come in all shapes and sizes. Some operate with cultures tightly focused on annual remuneration and have little appetite for change. That is not necessarily bad, as some firms are doing well without external capital.

    The crucial point for managing partners is to know exactly where their firm stands today and where it is headed in the future.

> **I wouldn't understate the challenge of convincing partners to transition from the partnership model but it's hard to overstate the benefits which flow from an entrepreneurial mindset once the transition occurs.**
>
> ***David Kearney***
> *Chief Executive Partner, Wotton Kearney (Sydney)*

THE ROAD AHEAD

We expect private capital activity in the professional services sector to continue speeding up over the next five years.

More partnerships will face questions of how reward and contribution management can align with long-term value creation.

Successful firms will find ways to reshape partner compensation into opportunities to foster their ownership culture and strengthen collaboration among partners.

This, in turn, will allow leaders to create something much larger than the sum of individual partner contributions.

On the back of this trend, the traditional partnership model must continue to evolve. As firms grow, even those not seeing the need for external capital today must periodically rethink their own balance between operating as traditional partnerships and adopting more delegated approaches.

Most large professional services firms have already devolved decision-making. The defining challenge is how to best drive long-term business discipline without sacrificing the unique shared values that underpin partnership success.

The most successful partnerships in the sector will bring on board the best private capital has to offer (value-based equity, unequivocal focus on growth, execution discipline) even if they don’t take the final step of inviting an external investor as their ultimate partner.

Firms mastering this balance will define the next generation of highly successful businesses in this sector.

THE ROLE OF MHPR ADVISORS

MHPR Advisors advises professional services firms worldwide on partner compensation, incentives, mergers and succession. We help firms prepare, execute and integrate external investors.

By clarifying how private equity engagement will affect partner compensation, performance and governance, MHPR Advisors helps pave the way for successful investment cases.

Schedule a call with our team if:

- You are unsure about how private capital could accelerate your partnership
- Your current negotiations with your investor are stuck on the question of partner incentives
- You would like to future proof your firm without inviting external investors into your firm

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MHPR Advisors | Designing strong partnership

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.

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