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Accounting Firms Rethink Their Ownership Structure

From private-equity ownership to IPO plans, some of the world's biggest professional-services providers weigh overhauls to evolve

By Mark Maurer
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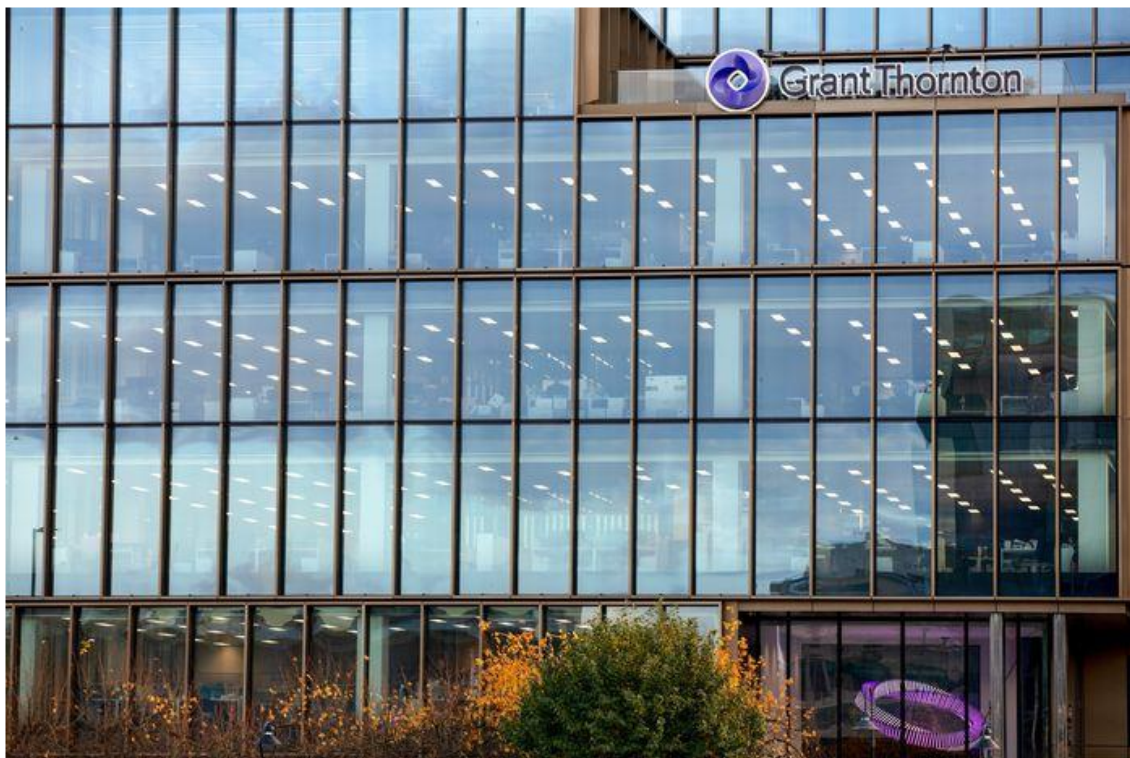
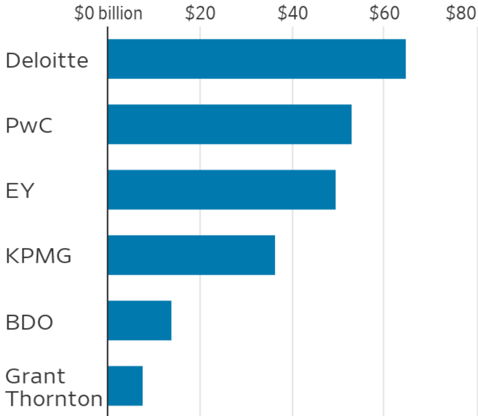


Grant Thornton in March said its U.S. unit agreed to sell a stake to private-equity firm New Mountain Capital, pending regulatory approval. PHOTO: PATRICK BOLGER/BLOOMBERG NEWS

Large accounting firms are re-evaluating their ownership structures as they face growing capital needs and struggle to recruit enough skilled workers, with some considering private-equity backing or the public listing of a business line.

The combination of partner retirements and funding extensive technology investments while spending to attract and retain workers during an accountant shortage has strained some firms, spurring them to explore whether the traditional partnership structure still works best.

"Attracting talent is a real issue for everybody in this category," said Daniel Goelzer, a former acting chairman of the Public Company Accounting Oversight Board, the audit regulator. "Other kinds of compensation models or equity models might become necessary in order to attract talent. The need to invest in technologies is only going to increase and that takes money."



Global accounting and consulting networks—including Deloitte, Ernst & Young, PricewaterhouseCoopers, KPMG, Grant Thornton and BDO—have explored various tactics to address these challenges. They are structured in each country as separately owned entities. Equity partners hold shares or units in the firm, generating returns and giving them a piece of the business.

Some firms are working to streamline their organizational structure, in part to boost efficiency and reduce costs. Deloitte, for example, is trimming its five global business lines to four, with its consulting, financial advisory and risk advisory divisions rebranding into two new businesses, it told partners on March 18. Deloitte's "modernization is all about driving growth and vibrant career paths for our people," a spokesman said. PwC made a similar rearrangement in the U.S. in 2021, combining its tax and accounting businesses into one unit called trust solutions, with the remaining revenue stemming from consulting solutions.

While EY last year gave up on a plan to split its advisory and audit arms into separate businesses, two of the bigger players outside of the Big Four, Grant Thornton and BDO, are pursuing new models that accounting and consulting professionals are closely watching. Here's a look at changes three firms recently made—or tried to make.

Grant Thornton

2023 Revenue: $7.5 billion

Strategy: Grant Thornton in March said its U.S. unit agreed to sell a stake to private-equity firm New Mountain Capital, pending regulatory approval—the largest accounting firm to strike such a deal.

Advantages: Such transactions give accounting firms such as Grant Thornton an opportunity to use private equity to become a more formidable competitor in consulting and audit by allocating the capital toward more acquisitions and investments in tech and personnel.

Private-equity firms in recent years have stepped up their deals for accounting firms due to stable business models and profitable exits. The Grant Thornton deal followed Baker Tilly's agreement to sell a stake to Hellman & Friedman and Valeas Capital Partners.

"Whether it be private equity or an IPO, this discussion with most firms is at the highest level today," said Allan Koltin, chief executive at advisory firm Koltin Consulting Group. "More of this is going to continue in 2024."

Why Other Firms Might Not Pursue: Private-equity firms will likely continue to take sizable stakes in these firms, but not the Big Four, because their structures are too complex for such an arrangement and because of independence concerns, academics and advisers said.

Regulators also have concerns about private-equity backing of accounting firms. Paul Munter, the Securities and Exchange Commission's chief accountant, in 2022 urged accounting firms to exercise caution in receiving investments from private equity due to any possible conflicts of interest that could impair the objectivity of the firms' auditors.

BDO

2023 Revenue: $14 billion

Strategy: BDO's U.S. arm last year set up an employee stock ownership plan, or ESOP, giving 10,000 employees a direct stake in the firm. It shifted its legal structure from a partnership to a professional-services corporation, which reduced its taxes. Employees received a stake in the firm through an annual allocation of shares, based on their salary and tenure. BDO's partners gave up their pensions, and sold about 42% of their shares to the trust, retaining the rest. Some partners took a cut to their compensation.

The firm raised private debt to fund the creation of the ESOP and restructure existing debt obligations, obtaining roughly $1.3 billion in private debt from funds managed by affiliates of alternative-asset manager Apollo Global Management and others. A smaller firm, Grassi, adopted an ESOP in November.

BDO's U.S. arm last year set up an employee stock ownership plan giving 10,000 employees a direct stake in the firm. PHOTO: KRIS TRIPPLAAR/SIPA USA/REUTERS

Advantages: By giving current and future employees beneficial ownership in the company over time, the ESOP is aimed at helping recruit and retain workers, which in turn could improve consistency in service and strengthen client relationships. Employees don't have to put money in to receive shares, in contrast with a partnership, whereby people buy in upon being accepted and, over time, purchase additional shares if allocated to them based on performance. "With an ESOP, we were able to keep people at the heart of our business, retain control of our destiny, and support our commitment to investors and the capital markets—all while investing in quality, growth and operations," BDO USA CEO Wayne Berson said.

Why Other Firms Might Not Pursue: Most accounting firms likely have avoided adopting an ESOP to appease partners who don't want to give up their pensions or share ownership with nonpartners, academics said.

Ernst & Young

2023 Revenue: $49.4 billion

Strategy: Ernst & Young last year abandoned an ambitious plan to split its advisory and audit arms into separate businesses. Under that plan, EY would have raised billions of dollars by borrowing and selling a stake in an initial public offering.

Ernst & Young last year abandoned a plan to split its advisory and audit arms into separate businesses.
PHOTO: PETER NICHOLLS/REUTERS

Under the former plan, consulting partners would have received shares they could sell over several years while receiving lower net salaries. Partners in the audit-centric business were set to receive hefty cash payouts funded by debt and equity that the consulting business would raise.

Advantages: EY's plan to separate audit and advisory businesses would have helped the firm avert potential threats to auditors' independence as well as netted multimillion-dollar windfalls for its partners. EY had said the plan would have enabled the consulting business to grow faster and opened up both the audit and advisory sides to a wider array of clients.

Why Other Firms Might Not Pursue: A handful of EY's U.S. audit partners complained that the consulting business was receiving the majority of its lucrative tax business.

The other three Big Four firms expressed no interest in such a split. Deloitte's global CEO, Joe Ucuzoglu, in March 2023 criticized the EY plan, saying "it's easy to get swept up in deal fever but this has actually never once played out as intended." Roughly two decades ago, all of the Big Four but Deloitte shed their consulting practices and regrew them. KPMG spun out its consulting arm—which went public and later filed for bankruptcy—and EY and PwC sold theirs to Capgemini and International Business Machines, respectively. Following the cancellation of the split, KPMG's global CEO, Bill Thomas, said its "multidisciplinary model is essential to best serve clients."

"The stakes are big," said Douglas Carmichael, accounting professor at Baruch College, referring to EY and others' efforts to make structural changes. "The problem is always having happy partners afterward."

Grant Thornton, EY, PwC and KPMG declined to comment.

Barriers to change

The traditional model for a professional-services firm, in which individual partners own it, poses several challenges that prevent certain structural changes. Certified public accountants need to represent the primary ownership of a firm, ranging from 50% to fully owned depending on the state, according to CPA licensing laws in the U.S. That restriction generally makes it hard for firms to raise equity from sources other than partners, said Jeffrey Johanns, accounting professor at the University of Texas at Austin, and a former partner at PwC. The capital that can be provided by individual partners is inherently limited and may not be sufficient to fund expansion into service areas such as consulting, he said.

SEC rules further hamstring business growth because firms can't provide many consulting services to their audit clients or enter into joint-venture business agreements with clients. Consulting demand tends to weaken or surge depending on the economy, whereas audit is a generally steady business line because of the reporting requirements for public companies.

While firms are looking to maintain their global revenue growth, they are also, in some cases, laying off consultants and other personnel to address slowing demand for certain services.

These moves could also signal bigger swings by the largest firms as demands around investing in technology and a shortage of skilled workers grow further.

"The profession is in for a significant structural change one way or another in the foreseeable future," said Jim Peterson, an attorney and former senior in-house counsel at Arthur Andersen.