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US accounting firms rethink global networks

Mid-tier outfits under increasing pressure to overhaul networks as more clients want international services

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Stephen Foley in New York, July 29, 2024

Grant Thornton is leading a charge by mid-sized US accounting firms to rethink their global operations in ways that could radically alter the industry below the dominant Big Four.

The tier of firms beneath KPMG, Deloitte, PwC and EY are racing to meet the needs of increasingly multinational clients while at the same time seeking to make better use of their global networks to spread the cost of technology and staff.

Grant Thornton's US business has proposed acquiring its UK and Irish arms, the Financial Times reported this month. The initiative comes after Grant Thornton US sold a majority stake earlier this year to a private equity firm, a deal that has handed it more firepower to expand.

Crowe, RSM and Baker Tilly are among the mid-tier but still large US accounting firms wrestling with how to make their global operations work more seamlessly and share the costs of new services beyond core auditing and tax.

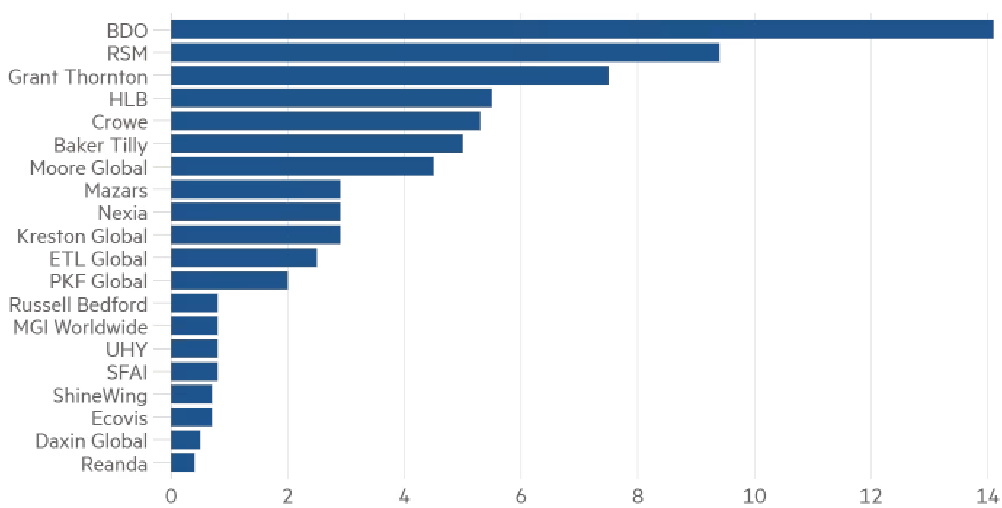
Building corporate advisory and digital transformation services can prove expensive, executives say.

“We are no longer a capital-light profession, we’re a cap-heavy profession,” said Francesca Lagerberg, chief executive of Baker Tilly International, whose 110 member firms had $5.2bn in annual revenue. “There’s an amount of spaghetti against the wall as everybody is trying different things, but no one wants to be the network that didn’t make the moves and wasn’t able to take advantage of the opportunities.”

The global accounting networks are made up of national firms that are legally separate entities owned by local partners but use a common brand, share work and impose minimum quality standards.

Beyond the Big Four: the next largest accounting firm networks

Fee income ($bn)



Source: International Accounting Bulletin World Survey 2024

Industry veterans say they are unsurprised that Grant Thornton US has floated the boldest plan so far to shake up its global operations, pointing to its decision in May to sell a 60 per cent stake to buyout firm New Mountain Capital for $1.4bn.

“Private equity money is the game-changer and Grant Thornton has an opportunity to crack the code,” said Allan Koltin, a Chicago-based consultant to multiple US accounting firms. “No client wants lots of different service providers. It is inefficient and frustrating.”

Under its proposal, UK and Irish partners would become minority shareholders in an international holding company led by Grant Thornton US. The UK and Irish firms have hired bankers to consider this and other options, including their own separate deals with private equity.

“I wouldn’t be surprised to see more than half of the top 10 become truly global firms over the next decade,” said Koltin.

The US accounting industry below the Big Four has been highly fragmented for decades, but has consolidated rapidly in recent years and many of the largest players are now pushing to use their brands internationally.

Steve Strammello, the incoming chief executive of Crowe, the 12th-largest US accounting firm by revenue and the leading one within the Crowe Global network, said the consolidation envisioned by Grant Thornton US could be replicated elsewhere.

“I think they stole the idea from me,” he said. “Our firm is collaborating more and more with other member firms, sharing resources, sharing intellectual property, sharing technology. There is a natural point in time where you say: ‘Maybe we should share capital, too.’”

Crowe had not so far pushed for mergers among the more than 200 member firms it has around the world, although it had suggested deals when leadership succession planning or other issues merit, said Kamel Abouchacra, Crowe Global chief executive. It was also encouraging joint ventures for the creation of new cross-border services, he said.

Strammello accepts there are hurdles to merging the firms in its network.

“Every member firm shares their profits differently among partners,” he said. “Economics will come into play. At some point there will have to be a conversation about how we are splitting the pie.”

The move by mid-tier firms to re-examine their global operations comes after efforts by the Big Four to revamp their networks were met with mixed success.

EY tried to merge the consulting arms of its 30 biggest national firms into a new company that would be floated on the stock market, but that project collapsed amid bickering over how to divide the businesses fairly.

Deloitte has already consolidated many of its national firms into mega-regions. In May, KPMG’s UK and Swiss firms agreed to merge again after a previous pan-European tie-up failed in 2007.

Mazars, which already operates as a single firm outside America, in June created a “network of two” with Forvis, one of the top-10 US firms, in what both claim should be a much simpler business to operate than a network with scores of members.

Tom Watson, chief executive of Forvis Mazars US, said that only two sets of executives have to agree on where to make investments and on the regions in which new services should be located.

The global landscape for mid-tier firms is also becoming more competitive as newcomers try to muscle in on demand from multinationals. Minnesota-based CLA has built a top-20 network by signing up more than a dozen member firms around the world in less than two years.

“Our clients know that doing business outside of your home country is hard,” said Jen Leary, CLA chief executive. “The best thing that we can do is create a network of people that we trust.”