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Accounting firms declare their independence

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In an accounting profession swirling with acquisitions and private equity investments, California-based Sensiba has decided to remain independent — a choice the Top 100 Firm makes over and over again.

"Every couple of years, it's a decision," explained managing partner John Sensiba. "Multiple offers a day come and partners always consider: Are we doing the right thing by our people and clients? So far the answer is yes."

A whole cohort of firms would answer the same way, continuing to grow their practices organically and through strategic acquisitions while opting out of the capital offered by private equity or larger firms seeking their own buying opportunities.

Most would also agree that not having access to the capital and resources provided by larger entities requires independent firms to be very strategic — continuously outlining, communicating and executing on plans — to remain competitive.

From left: Sensiba's marketing coordinator Aparna Rajan, employee experience assistant Diana Trinh, tax partner Cole Marr and senior tax manager Masha Herzbrun

At Bellevue, Nebraska-based leadership consulting firm ConvergenceCoaching, partner Tamera Loerzel and her team coach many firm leaders on just that.

"What we are learning and seeing from these firms, from managing partners, one of the things they tell us is, 'Are we the only ones; are we crazy? Are we insane for not looking at other options other firms are looking at?' [We say,] 'No, you are not the only one, you are not crazy,'" she shared.

Of course, many firms still do their due diligence on scoping out the current market. What they see is a trend of merger and acquisition activity and private equity investments into accounting firms — including many Top 100 Firms in recent years — that was kicked off by Top 25 Firm EisnerAmper's deal with TowerBrook Capital Partners in 2021.

Further highlighting the profession's new direction, research and advocacy group The Accounting MOVE Project released a report late last year on how private equity investment is impacting employees.

Firms that do accept private equity must set up alternative practice structures, splitting their attest and nonattest sides so the audit and assurance practice complies with state laws regarding CPA ownership.

This PE-dictated restructuring has been happening so often that the American Institute of CPAs' Professional Ethics Executive Committee set up a group, the Alternative Practice Structures Task Force, earlier this year to revise its independence rules, and recently released revised language for stakeholders to consider.

So while Loerzel validates her clients' sanity in remaining independent, she does advise that they keep an eye on the profession's changing dynamics.

"Having a really clear direction, unified approach, and linked arms in where they are headed, doesn't mean they are not going to have conversations and stay aware of what is happening in the market," she explained. "Partners wonder, 'Is this the right financial answer for us; if we get the right offer, do we take it?' Sometimes it's a blanket no. But [they should] pay attention to what the market is doing, it helps to focus, and know what their approach is. They need to be educated and have a clear vision and direction."

Large or in charge?

One potential drawback firms see in merging or receiving outside investment is giving up control.

"For us, we want to remain our own bosses," explained Sara Dayton, managing partner of Buffalo, New York-based Lumsden McCormick. "To us, that's our main focus."

One way the firm, which was founded in 1952 and currently has about $30 million in revenue and 145 employees, accomplishes this is with its mandatory retirement policy, according to Dayton.

"We've made it through a few generations, with a lot of young partners and a lot of energy," she explained. "We have a required 65-and-out on retirement. We don't have those older partners who are waiting to retire before the next level can move up. We have it in the partnership agreement, so there's an ability for younger people to become partner. It's made us stronger and led to a great plan for succession."

Succession is a top concern for any independent firm relying on an internal transition, including Houston-based Abip CPAs.

"There would be nothing better for me than to transition ownership to our staff, our current senior managers and partners who have helped build the firm," shared managing partner Scott Irvine. "I have a great leadership team behind me. Internal succession, for us, requires a lot of coaching, a lot of mentoring, a lot of faith in the people that are coming up behind us. It would be easy to talk to private equity and cash out a majority upfront. It's very safe, I get it — very attractive. There's an old adage of taking care of the people that helped you get here…. There's nothing better than having the firm continue to move forward under different leadership, for however long it can continue. That's the ultimate goal, to see if we build that team, those individuals, and get them ready to take on that challenge and responsibility."

Since the firm was founded in 2005, it has grown from eight people to over 200, and added four other Texas offices to its Houston headquarters location.

The firm's two decades in the burgeoning Houston market has given it a unique vantage point to PE's ballooning influence, where, according to Irvine, "The majority of our competitors that used to fight over the midmarket space have been gobbled up by national, regional firms or private equity."

"There are a lot of national firms and private equity wanting to get into Texas," he observed. "We have some of the fastest-growing cities — Austin, San Antonio, Houston, Dallas — we're looking to get into Dallas … Because of the consolidation of national firms and private equity coming in, it has widened the result to our benefit. There's a large gap in the area, the middle-market area we service. I see it more as an opportunity for firms like us. Our clients don't want to use a national firm, with national firm rates; they're not big enough, and they feel they don't get the service they get with a local firm."

In fact, a Top 25 Firm's acquisition of a Houston-based Top 100 Firm in 2021 directly benefited Abip.

"When [the Top 25 Firm] came into Houston and bought ... a very good local, regional firm, within one to two years, we had a lot of the legacy clients now onboarding in earnest," Irvine recalled. "With the [Top 25 Firm's] rates and model, they were jumping ship because they didn't feel they were getting the service they were used to; they didn't want to pay the national rates, and they were looking for options."

The wider market movement has also boosted the firm, Irvine reports. "We see that a lot with these acquisitions and mergers," he continued. "It really created a situation for us, both in Houston and San Antonio — we look back at accounting, the top 25 firms from 15 to 20 years ago, the majority of those outside the Big Four nationals here were large local firms. Now we look at it, and its predominantly national firms, and only a handful of large local firms like we are. It gives us, in my opinion, a competitive advantage in our local markets."

The pluses of private equity

The competitive bar has been raised in general for firms now contending with the influx of capital in the profession. "No doubt, private equity coming into our space has accelerated the pace of change because of the environment," said Stacie Kwaiser, CEO of Top 50 Firm Rehmann, which has remained independent. "It's not a bad thing.

We have to change faster to meet the needs of our workforce and clients. It's allowing us to stay focused on our culture and our values … It's a great thing for the profession; it's allowed us to believe we have the opportunity to change faster, and to change as a profession. To me, that's what they are promoting. I believe we have a strategy to move forward with change at a faster pace. I don't think private equity is a bad thing for us and the profession."

Allan Koltin, CEO of Koltin Consulting Group, shared a similar sentiment at Accounting Today's 2024 PE Summit, for which he was also a co-chair.

"PE firms raised the bar on our profession," Koltin said. "They're making it more competitive. They're making tougher decisions faster. They're taking the partnership model and making it work better."

Sensiba also refers to private equity as a motivating factor. "We're disrupting ourselves before disruption hits our profession in a more meaningful way," he explained, in outlining his firm's strategic priority, which was echoed by other independent firms: operational excellence. "We talk to friends who have taken investments and that's exactly what private equity does, they come in and try to make operations excellent, bring in the rigor and discipline to maximize profitability. We do that without outside investment."

Talent and tech

Talent and technology are foundational elements to these improvements, and for the first, independent firms can have the edge over higher-funded firms in attracting like-minded individuals.

"Partners are very strong in wanting to stay independent — it's a message we send to employees and future partners," explained Tom Johnson, partner at Minnesota-based Regional Leader Boulay. "It really has an impact on their decision; they want to be with Boulay. There's a certain person who wants to be closer to ownership and decision-making, a little more control over their careers. Why we are staying independent is the people factor, having the control over their ability to practice in the profession, and not having some foreign entity deciding what we are going to do."

While Boulay is a 90-year-old firm, its success over that near-century is due to embracing change, explained Johnson, though that's sometimes easier said than done.

He identified "willingness of people to change," as a top challenge to the firm's long independence. "The No. 1 challenge is partners being willing to dive into the change — changing their behaviors while changing firm behaviors."

For Boulay and its 315 employees across three offices, this is driven by its "process of moving from a compliance environment to a relationship environment," Johnson explained. "The technology is going to do more of the work, and we have a differentiation of the relationship: consulting, advice giving. Those are the main transformational things."

The wider availability of cutting-edge technology can also serve to level the playing field between independent firms and other firms' deeper pockets.

"The resources they have, what they can spend on technology, what they spend on personnel, their own R&D, looking at software specific to them — we can't do that," acknowledged Abip's Irvine. "We have to maximize every dollar and be very calculated.

It hasn't made us worse than our competitors by leveraging common brands out there — CCH, Thomson Reuters. They do a good job of continuing to advance technology, as AI becomes bigger and bigger."

Independent firms must also invest in their people, which many are doing through dedicated professional development initiatives.

"In terms of associate experience, we continue to build strong development programs for associates at all levels in all divisions of the firm, to continue to offer firmwide mobility," shared Rehmann's Kwaiser. "Just overall, we are continuing to invest in a culture focused on the values of putting people first."

Loerzel also stressed the importance of a people-first approach.

"Firms being successful are really clear in moving forward with programs and investing in a flexible culture, an open culture, mentorship," she said, sharing an adage she believes holds true to thriving independent firms: "Culture is how employees feel on a Sunday night."

Lumsden McCormick follows that logic with its workplace flexibility. "In trying to keep people, one of the main things is to remain hybrid," Dayton shared. "There are no requirements for employees to return to the office if they want to work remotely. It has helped us bring in and retain people."

Growing forward

In a profession action-packed with M&A, independent firms are making their own acquisitions to keep pace.

"We want to grow," shared Dayton. "As part of that strategy, we are always looking if there are other firms to acquire."

Rehmann has also made a series of acquisitions over the last few years.

"The M&A market shut down for us for three to five years" due to private equity competition, said Sensiba, but, "It's really opened up in the last year or so for those that want the stability of an independent firm. No judgment one way or another, it's just a choice. We've had mostly organic growth over the last few years, and then were priced out of the [M&A] market because of private equity. But over the last year or so we are having meaningful conversations for significant additions to the firm."

Abip has conducted about 15 acquisitions over its 20-year existence, and Irvine identified some advantages that an independent firm has in that arena over larger would-be buyers.

"If they get with us, it's not the same as with private equity or national firms," he explained. "You are joining with a firm very similar to you, so the integration process, the transition for clients, is much easier. You can say, when joining another local firm, you have similar rates and values as we have, similar customer service, offer the same service lines. What regional and national firms are offering, it resonates with a lot of firms like us, they're worried about: 'Are clients going to go from A to C clients? Are they just buying us to get some clients and [get] the other ones out? What's going to happen to employees, are they going to be able to adapt to a national firm?'

There are a lot of unknowns in going with a national firm, or with private equity that is still in its infancy stage and unfolding. We can give the answers of how those unknowns can be resolved. I don't think national firms and private equity firms can."

One understood component of private equity ownership is financial accountability. "From a private equity standpoint, there is a lot of pressure to meet performance metrics, to invest in certain things," said Dayton. "We don't have those kinds of required goals in the same way that cause stress to our people."

Independent firms should broadcast these advantages, advised Loerzel. "There's lots of noise in the market, for talent and clients," she said. "If you don't have a real clear position and messaging, and are not communicating that in conversations, in writing, in recruiting documents, client communications, it can leave people wondering. Hire smart staff, smart team members who know what's going on and where to plant roots to build their careers. You have to be really clear about your position and where you're headed — it's a competitive differentiator. If you're not doing that, it leads to uncertainty."

Abip has successfully alerted clients and staff to its continued mission. "It is very possible to grow a firm independently without including a national firm or private equity, depending on the city," Irvine said. "What we've found is it's refreshing for clients, to stay independent … . We are giving the feel and touch that's more personal, in my opinion, than what a national firm can give. There's just no replacement for being local."

Loerzel also identified a common trait she's witnessed in independent firms.

"One of the big ones is being committed to leave a legacy," she shared. "They are about leaving something for the next generation, building something and really enjoying building something to leave something for the next generation of leaders. One characteristic attribute is generosity. It takes time and effort, blood, sweat and tears, and investment to build a firm like that and not take the dollar signs everyone is talking about with private equity and M&A. Generosity as a leadership team, often led by the managing partner, is something we see top down in firms committed to remain independent. They have a vision for their future and really know where they want to head."

Keeping options open

While committed to a vision, many independent firms advocate being open to possibilities and weighing the pros and cons of any option to merge or sell.

"You figure out, with all the benefits of private equity, there's a rigor to managing it," Sensiba said. "To treat the business like a business and less like a traditional services firm, where you are waiting for the phone to ring or growing because you exist."

While Sensiba continues to make the choice of independence, the decision is based on continual evaluation — which in itself can be a stressor.

"There's a psychological challenge: Why is everyone else doing it and not me?" shared Sensiba. "What am I missing? But beyond that, we've been so fortunate. It's been so good for all of us. As the market cools, it will really determine whether we have the steam to continue to grow as an independent firm. It's a good test for all of us."

And while the market looms large in any decisions, Sensiba reiterated the importance of staying true to the independent mindset guiding so many firms that have chosen that path.

"Everybody has different needs and desires — there is no right or wrong answer, but determine the right answer for yourself," Sensiba advised. "If you're the only one not doing the selling, you question: Is it the right thing? Don't let your values be determined by others' decisions."

Rehmann CEO Stacie Kwaiser *Ross Lindhout*

Danielle Lee Managing Editor, Accounting Today