Is private equity investment altering the landscape of accountancy business models?

In the ever-changing landscape of accountancy, private equity investment can reshape traditional business structures. From restructuring operational frameworks to changing office dynamics, transformative forces are entering the accountancy sector, but how this materialises and what the end game is remains uncertain.

How has private equity impacted the accountancy sector?
In the past few years, three of the top 30 US accounting firms have secured investment from private equity (PE) firms, with indication more are to follow. Most recently, Baker Tilly LLP, a prominent US advisory firm revealed they are selling a majority stake to Hellman & Friedman and Valeas Capital Partners (businesswire). This has led to Baker Tilly's model transformation of splitting audit and advisory, a highly publicised model that EY once also considered. Whilst the US seems to be the origin of this market trend, this could transform future models for UK accounting firms.

But why are PE firms interested in accountancy firms? Firstly, accountancy firms typically have stable revenue streams unlike other sectors that might be more susceptible to economic downturns. Secondly, "leveraging integrated technology is among the more popular approaches for firms looking to increase profitability" (Thomson Reuters), hence PE firms can be at the forefront of industry trends. Thirdly, by optimising capital structure, accountancy firms can help PE firms reduce their cost of capital and enhance overall financial performance.

Would your firm consider private equity investment?

Is the traditional partnership business model under pressure?
Traditional partnership models could face challenges adjusting to economic uncertainties and lead to a succession of partners being more hesitant about investing into their firm. According to Accountancy Age's UK report, they found that the average staff attrition rate in the accounting industry increased from 14.69% in 2021 to 17.89% in 2022. This might be due to conventional LLP structures lacking incentives for all employees.

Many firms have found moving to an Employee Ownership Trust (EOT) model has helped attract and retain talent. The total number of UK EOT firms towards the end of 2023 was c.1,400, an approx. 40% increase from 2022 (BDO). Perhaps the reason for this is the EOT model aligns the interests of all employees with the success of the firm and offers potential tax benefits for both business owners and employees.

What is your firm's strategy on retaining talent?

Are firms really going to change their business model?
Whilst traditional partnership models may be under pressure, they still remain relevant and successful in many sectors. "While in the UK, consolidation among smaller firms is beginning to attract more PE investment, there has been no change from the partnership structure among the large firms, so far" (ICAEW). An example being MKS, a top 10 UK accountancy firm, which secured PE investment but chose to retain its partnership structure.

Increasingly, sector leaders are building their understanding of the changing industry environment and putting focus into their firm's foundations. Accountancy Age ranks the top 100 UK accountancy firms by fee income and the table is still highly dominated by LLPs. When managed appropriately, the partnership model enables sustainable economic returns on the input of capital into the organisation and ensures the need of partners in accountancy firms.

Would your firm consider opting for an equity-based business model?

Closing thoughts:
As we enter this landscape of strategic change, it becomes evident that the impact of private equity investment extends far beyond financial considerations. Time will tell whether this transformation will be the next game-changer, including what opportunities and challenges lie ahead.

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