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BENEFITS EXPECTED BY ACCOUNTING FIRM PARTNERS SELLING THEIR FIRMS TO PUBLICLY LISTED COMPANIES

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In the 1990s and 2000s publicly quoted companies acquired thousands of accounting partnerships in Australia, the United Kingdom (UK) and the United States (US). Little is known of why the partners sold. This study examines the benefits expected by partners who sold their practices to two Australian publicly listed accounting companies. The findings suggest that there were many reasons for selling and a range of expected benefits, with some partners seeing the sale as a ‘silver bullet’ solution to all of the challenges of operating a small to medium-sized accounting practice.

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Over the past 15 years there has been a trend of accounting firms in Australia, the UK and the US being acquired by publicly quoted companies. In Australia well over 100 firms have been acquired in the past dozen years. WHK Group acquired over 150 accounting and financial planning firms in Australia and New Zealand from 1997 to mid-2009. Count Financial Limited has been acquiring an interest in accounting firms through its subsidiary CountPlus, with the intent of taking CountPlus to an initial public offering in late 2010. Earlier in the 2000s now defunct companies such as Stockford Limited, Harts Australasia and Garrisons Accounting Group were active acquirers.

In the US, American Express and H&R Block acquired thousands of accounting firms (Shafer, Lowe and Fogarty 2002) with CBIZ Inc. also active in acquisitions. American Express divested its accounting division in 2005. Tenon PLC, Vantis PLC and the now failed Numerica PLC acquired dozens of firms in the UK.

Acquiring companies required many of the selling partners to stay on as employees post-transaction. The former partners often became shareholders in the company, accepting shares as consideration for their practices. The benefits expected by these selling partners are therefore likely to differ from those of sellers of other types of companies, such as manufacturing companies, where the seller exits the business and severs financial ties after the transaction.

Little is known of the reasons that these partners sold their practices to publicly listed companies or the benefits that they expected. Gaining an understanding of these is likely to provide insights both into the perceived attractiveness of selling to a publicly listed company and some of the challenges of running a small to medium-sized accounting practice. The issues of managing small to medium accounting firms have also been neglected (Ciccotosto,
Nandan and Smorfit 2008), with most research focusing on large accounting firms (Brock and Powell 2005).

This study examines the espoused motives and expected benefits of the partners of accounting firms selling to two Australian publicly listed companies in the late 1990s and early 2000s. The two companies had distinctly different models with one involving significant integration and centralisation, and the other retaining substantial autonomy in acquired member firms.

**Literature Review**

Despite the number of accounting firms acquired by publicly listed companies over recent years, there appears to be little research on the motivations of selling partners or the benefits that they expect. Shafer et al. (2002) refer to the now defunct Independent Standards Board’s (ISB 1999) discussion paper, which indicates that CPAs in the US were attracted by improved ability to recruit and retain professionals, to develop specialisations and access to funding to invest in computer systems, and to pay for partner retirements.

Literature was reviewed on divestitures in general, the unique nature of accounting firm sales, expected benefits from accounting firm mergers, issues faced by partners of small to medium accounting firms and the trend of professional service firms away from partnerships to other forms of ownership.

**Divestiture motives**

Literature on motivations for divestiture tends to focus on the divestiture of subsidiaries or business units by large corporations (for example, Kaplan and Weisbach 1992; Porter 1987). Selling motives identified in these studies include a change in focus or strategy, the unit is unprofitable, the prior acquisition of the unit was a mistake, financing further acquisitions through sale proceeds, antitrust reasons, to defend against a takeover and to obtain a good
price (Kaplan and Weisbach 1992). The rate of divestitures has been found to increase in industries where there is an increase in the degree of change in technology of an industry (Harrigan 1982; Jensen 1993) and in the institutional setting of the firm (Hoskinsson and Hitt 1990; Turk and Baysinger 1989). These studies do not cover accounting firm divestitures that have some unique attributes, as discussed next.

**Differentiating accounting firm sales**

The sale of accounting firms by their partners would seem to be significantly different than the organisations examined in the divestiture literature. After the sale of their firms to the acquiring company, many of the former partners retained an association with the company as employees and as owners. In professional service firms, the partners are the owners, managers and key workers of the firm (Greenwood, Hinings and Brown 1990). The partners also have substantial technical knowledge and client relationships that generate income for the firm (Empson 2001; Morris 2001).

To retain the value that they have purchased in the firm, acquiring company executives generally require most of the partners to stay on post-transaction as employees. In order to conserve cash and to align the interests of the former partners with those of the acquiring company, shares in the acquiring company are often used as consideration for the purchase. This results in the former partners having an ownership interest in the company. From the partners’ perspective, therefore, motives and expected benefits would be expected to be beyond those of a sale of the company and more like those of a merger.

**Expected benefits from accounting firm mergers**

Wootton, Wolk and Normand (2003) examine the growth of the Big Four and second tier firms in the US from small local practices to large international firms through hundreds of local, national and international mergers. Publicly listed accounting companies have also rapidly become large organisations through acquisition to become some of the biggest
accounting firms outside of the Big Four. For example, WHK Group Limited is the fifth largest accounting firm in Australia (Mills 2009, p. 33), RSM (a subsidiary of H&R Block) and the related McGladery& Pullen combined are the fifth biggest firm in the US (Accounting Today 2009, p. 18), and, after a recently announced merger, Tenon Group PLC will be the seventh largest firm in the UK (Tenon 2009).

Expected benefits of mergers have often been categorised according to the type of merger strategy embedded in the transaction. Table 1 summarises the findings of prior studies of accounting firm mergers utilising the professional services merger categories put forward by Maister (1997). Prior research on benefits expected by mergers of large accounting firms are relevant to this study as the publicly listed accounting companies have also grown rapidly by acquisition to be large firms, and the prior studies discuss the benefits expected by partners from both the major and smaller firms involved in the mergers. As many of the partners of the firms acquired by publicly listed accounting companies become owners and employees of the acquiring companies, the benefits expected by the acquirers are relevant to the selling firm partners who will also participate in the benefits.

As table 1 indicates there are a range of expected benefits from accounting firm mergers. These can include gaining services, scale and locations to efficiently address the needs of clients, but also to act on issues within the merging firms. The following section reviews the literature on issues faced by smaller firms.

**Challenges for small to medium-sized Australian accounting firms**

The accounting industry in Australia is extremely fragmented. In 2001/2002, of the 9860 accounting firms in the country, 97.3% had four or less partners/principals with 88.6% having
two or less (ABS 2003). Despite the number of small firms little is known of the issues faced by these firms (Brock and Powell 2005; Ciccotosto et al. 2008). Few relevant professional association and academic studies were identified.

Research reports by the two peak accounting bodies in Australia, the Institute of Chartered Accountants (ICAA) and CPA Australia, have identified a number of issues facing small to medium accounting firms. These include succession planning, IT systems, developing skills, obtaining staff, developing specialities and the development of marketing partnerships.

The ICAA (1998) identified realising a practice’s goodwill on retirement as a challenge for small firm practitioners. By 2004, a CPA Australia (2004, p.3) report concluded: ‘Succession is the biggest issue facing the profession’. Twenty-five per cent of the CPA Australia survey respondents indicated that the principal or at least one partner in their firms was planning to retire within the next five years. Nineteen per cent of respondents were intending to sell their firms and 19% seeking to merge their firms with other firms within the next five years. The report concludes that this is partially due to changing demographics with 69% of respondents over 40 years of age and 40% over 50.

Other challenges identified in the ICAA’s Vision 2020 Report (ICAA 1998) include obtaining capital and developing skills and knowledge to improve IT systems, keeping up with changing compliance regulations and developing new skills to introduce new services, competing for new staff and retaining existing staff against large firms that provide benefits such as ongoing training and career opportunities, developing specialties and new services and multidisciplinary alliances to develop brand equity. These remained issues in 2005, along with maintaining growth, improving productivity, winning and retaining clients, and succession planning (ICAA 2005).
A more recent exploratory study of issues facing small accounting practices in regional northern Queensland found that staffing, keeping up to date with technical changes, stress and potential conflict of interest in providing financial services to accounting clients were major challenges (Ciccotosto et al. 2008). As well as issues, deregulation and new technology can create opportunities for smaller firms to expand their market access globally, but will require these firms to develop specialised skills and market niches (Perera, Rahman and Cahan 2003).

It appears that the challenges for partners of smaller firms are numerous and there are calls for further research on the issues faced by these firms (Ciccotosto et al. 2008). It may be that the partners of some firms sold to publicly listed companies in part to respond to these issues. A specific action of some larger firms has been a moving away from the partnership structure.

**Move away from partnerships**

Accounting firms, along with other professional service firms (PSFs), have traditionally been established as partnerships. However, in recent years there has been a trend of large PSFs to alternative legal forms such as private corporations and publicly listed companies, with only 56% of the top 100 accounting firms globally remaining partnerships early in the 2000s (Greenwood and Empson 2003).

Greenwood and Empson (2003) suggest that there are a number of factors that may result in the move towards incorporation of PSFs. These include the growth in the size and complexity of firms, resulting in collegiate decision-making becoming more difficult and requiring the addition of further controls, the expansion in types of services offered resulting in professionals with different values joining the organisation and creating difficulty obtaining agreement, and the growing need for capital to fund increasing technology costs. Other reasons given by
Greenwood and Empson (2003) include changing regulation, increasing risk of litigation (Van Lent 1999), reduced incentives for professionals to aspire to partnership due to opportunities for greater rewards outside of partnerships and a preference for a balanced lifestyle. An inability to raise funds from the capital market to develop multidiscipline practices, liability for the actions of other partners of the firm, slow and resource intensive democratic decision processes and the aversion to risk by partners who have a significant portion of their wealth tied up in the partnership have been identified in the accounting literature as weaknesses of the partnership model (Perera et al. 2003). Limitations in the partnership form of ownership may therefore be a reason for partners of accounting firms selling to publicly listed companies.

**Gaps in the literature and objectives of this study**

There has been little research into why accounting firm partners sold to publicly listed companies or the benefits expected. As many selling partners remain with the acquirer as owners and employees (often titled principals post-acquisition) the dynamic is different from that studied in the general divestiture literature. It appears possible that partners sell to address issues of managing a small to medium-sized practice, inherent problems with the partnership form of ownership or to achieve other expected merger benefits. However, the literature in these areas in relation to accounting firms is sparse.

This study seeks to address these gaps by exploring a number of issues. One objective was to gain an understanding of the benefits selling partners expect from selling to a publicly listed accounting company. The second objective was to identify whether the sellers’ expectations were consistent with the overall benefits of consolidation expected by executives of the acquiring company. As different levels of planned post-acquisition integration could be expected to be related to different company benefits from the acquisition, a third objective was to explore whether expectations of the benefits of selling differed according to the business model of the acquiring company. That is, an understanding of whether expected
benefits vary across companies was sought. The fourth objective was to gain a greater understanding of the challenges of managing small to medium-sized accounting practices by understanding their reasons for selling.

**Methodology**

**Methods**

Due to the lack of existing knowledge of benefits expected by partners selling to publicly listed accounting companies this study was exploratory and therefore does not rely on statistical sampling. Data from multiple sources (Yin 1989), announcements/media interviews, researcher interviews and other publicly available information was triangulated to draw conclusions. Qualitative data were coded to types of benefits expected, and quantitative analysis performed on the types of benefits identified with the source qualitative data referenced to investigate findings. It was considered likely that the benefits expected from selling to a publicly listed accounting firm would differ according to the business model of the acquiring company and the degree of post-acquisition integration planned. Selling, partners’ motives were therefore examined for sales to one company planning substantial integration of acquired firms to achieve substantial synergies (Stockford Limited) and one where acquired firms retained substantial autonomy (WHK Group Limited). Both firms were of equivalent size (2002 revenues: WHK A$102million and Stockford A$111million), both were operating in Australia and New Zealand, and both acquired 50 plus firms, predominantly accounting firms.

**Sources of data**

Two main sources of information were utilised to identify benefits expected by sellers. The first source of information followed Kaplan and Weisbach (1992), and consisted of publicly available information such as media interviews with selling partners and acquiring company announcements that often included quotes by selling partners. Announced motives and/or
expected benefits from the sale were identified for 23 accounting practices (12 for Stockford Limited and 11 for WHK Group Limited (named Investor Group at the time of the study)). Announced benefits expected by sellers to Stockford related to acquisitions between November 2000 and February 2001, while the WHK Group seller announcements related to transactions from early 1999 to November 2003.

The average size of all of Stockford acquisitions was $2.5 million revenue, consisting mostly of small firms with few medium and large-sized firms acquired. WHK Group acquisitions averaged approximately $3 million in revenues with the larger average resulting from the acquisition of a greater number of medium-sized firms. The size of firms for which public announcements were identified are included in Table 2. These firms included all of the medium and large firms acquired by Stockford and seven of the smaller firms. The average size of the sample firms is therefore larger than that for the population of Stockford acquisitions.

**INSERT TABLE 2 ABOUT HERE**

At WHK, acquisitions were differentiated into member firms and ‘tuck-in’ acquisitions. Member firm acquisitions were generally medium to larger firms, with revenues in the vicinity of $5 million acquired by the corporate office where the intent was for firms to operate autonomously post-acquisition. ‘Tuck-in’ acquisitions were smaller firms acquired by the member firms with support from the corporate office, which provided acquisition advice and skills and funding to perform acquisitions. Member firm principals had final approval on ‘tuck-in’ acquisitions performed by their member firm and were responsible for the integration, management and performance of the ‘tuck-in’ firm acquired. Some ‘tuck-in’ firms acquired by the member firms were fully integrated into the member firms, while other ‘tuck-in’ firms were managed as separate offices by the member firms. The relationships between corporate office, member firms and ‘tuck-in’ acquisitions at WHK are shown in Figure 1. At Stockford, by contrast, all firms were acquired by head office without principal input and
firms were fully integrated. The WHK sample was representative of firms acquired as member firms, but does not reflect smaller firms acquired as ‘tuck-in’ acquisitions.

Announcements and media interviews as sources of information suffer from some limitations. The first is that the researcher is not in control of primary data selection, including firms and partners selected, questions asked or answers reported. It is also possible that announced reasons and expected benefits from the sale are influenced by the fact that the partners’ identities have been reported. There is therefore the potential that reasons perceived to be considered negatively by clients or the public, such as limiting personal liability, were excluded from announcements and media interviews. The positives for this source of data are that it is readily available and does not suffer from retrospectivity bias as the announcements/interviews were held at or around the time of sale.

In order to address the potential limitations in the public announcement/media interview data a second source of data was utilised. This consisted of interviews held in September and October 2003, with eight former partners from seven acquired firms. Interviews were utilised to determine whether the public announcements/media interviews omitted any benefits expected by sellers. Two of the interviewees had sold their practices to both companies, due to the collapse of Stockford and subsequent resale to WHK resulting in five interviewees per company. In both WHK and Stockford, senior client serving professionals, including many of the former partners of acquired firms, were titled principals. The role of principal is distinct to that of company executives who were generally located at head office and did not have client-serving responsibilities.

Interviewees from Stockford were from mid-sized firms with one interview with a former partner of a larger firm. WHK researcher interviews included one former partner from a
smaller firm, three from medium-sized firms and one from a larger firm. All of the interviewed WHK principals were from firms acquired as member firms as opposed to smaller ‘tuck-in’ acquisitions. These interviews were part of a broader research program examining the operations of publicly listed accounting companies. These interviews went for between 60 and 200 minutes, and a component of the interviews included open-ended questions such as:

- Why did you sell your firm to the company?
- What benefits did you expect to achieve by joining the company?

In addition, the interviewees from WHK were asked to rate a preliminary list of potential benefits for importance on a Likert-type scale of one to five, with five indicating the suggested benefit was very important to them selling their firm. This preliminary list of 17 items had been developed from analysis to that point. As data collection and analysis of public announcements progressed a further eight items were added to list. These were subjectively rated by the researcher based on his knowledge from WHK interviews.

The benefits from the acquisition program expected by executives of both companies were identified by reviewing publicly available information, such as media reports, company announcements and annual reports, and through interviews with two executives from each company. The focus was on benefits from the program as a whole, as opposed to comparing executive and selling partner expectations for individual acquisitions.

**Analysis**

An analysis of the former partners’ announcements and media comments on expected benefits from selling to the accounting company was performed by identifying themes from the literature and from the reports themselves, and by sorting comments and quotes into themes.
In some cases, comments included lengthy discussions of expected benefits while in others there was little explanation with many motives/expectations given in a single sentence. This analysis included a reason given as an expected benefit regardless of the amount of detail provided. A dominant motive for each acquisition was not identified. The findings were tabulated to enable analysis within and across the two acquiring companies. Outcomes from the researcher interviews and ratings by WHK principals were examined to determine the degree that they supported the announcements and to further explore findings.

Expected benefits of selling partners were compared to the espoused benefits of company executives to determine whether views were consistent. Finally, the benefits expected and general motives for sale were examined to identify challenges facing small to medium-sized accounting firms.

Findings

Descriptions of acquiring companies and executive benefit expectations

Stockford Limited

Stockford acquired over 50 firms in Australia and New Zealand in approximately one year between July 2000 and July 2001, with most acquisitions occurring between November 2000 and February 2001. These firms provided accounting firm services, such as accounting, tax and audit, financial services and wealth management services and products, information technology services and systems, and a range of other services such as bookkeeping, property management, business planning, practice management consulting and licensed legal services. The company performed an initial public offering in November 2000.

The Stockford model was a centralised and integrated one. Executives expected significant cross sale of services, particularly to the clients of the acquired accounting firms. Building a national Stockford brand was expected to enhance the ability to attract new clients and enable
the increasing of charge rates. It was expected that the quality of specialist services could be improved by establishing national service lines, such as audit and assurance and taxation, to develop methodologies, training and support. Benefits were also expected from developing and selling new products and services. The centralisation of functions was expected to result in significant efficiency improvements and to free professionals to perform client work as described by director and founder Ian Davidson in August 2000:

‘We are not consolidators. I don’t believe they add value, they just acquire. Our own management system will involve heavily centralised back office and internet-based services and communication. Our centralised marketing, technology and human resources services will have more than 20 staff. They will allow our members to lift their heads up from the detail and work on strategy.’ (Thomas 2000a, p. 104)

Acquisition strategies performed included adding services (menu), gaining scale (bulk) and geographic expansion (dots) concurrently. The diversity of the acquisitions and pulling all of the acquired firms together could be considered an alchemy acquisition strategy creating a ‘one stop shop’.

Stockford ultimately failed to achieve expectations. This lead to the suspension of further acquisitions from mid-2001, the collapse of the company in early 2003 and the subsequent sale of previously acquired firms by company administrators.

**WHK Group Limited (previously known as Investor Group)**

WHK acquired over 50 accounting and financial planning firms between early 1997 and the end of November 2003. Services provided including accounting, tax, audit, business and corporate advisory and financial planning.
The initial strategy was to acquire financial planning firms to build scale for the company to create its’ own master trust. Accounting firms were soon identified as an ideal platform for distributing financial services and products to clients. Until early 2000, firms acquired were stand-alone member suburban and regional accounting firms with the main intent of building financial planning capability within these firms as indicated by Managing Director Kevin White in December 1999:

‘Our focus is on creating a huge distribution capability. The regional firms we have bought have all got a very large client base. We have the chance to leverage up those clients through our financial planning products.’ (Thomas 1999b, p. 132)

From 2000, opportunities were identified to enable these member firms to grow through ‘tuck-in’ acquisitions, with the company providing acquisition capability and capital, and through cross-selling new financial services such as insurance and lending. The potential to facilitate the sharing of best practice among the firms and to provide advisory functional expertise to support the practices was identified. In 2002/2003, potential benefits of building national brands and introducing common services and products across the member firms were announced.

Initially, acquisitions were predominantly geographic expansion (dots). When the company commenced assisting member firms with ‘tuck-in’ acquisitions, these consisted of financial planning firms to enable cross sales (menu), further geographic expansion into surrounding towns (dots) and building scale of practices (bulk).

WHK has continued with its’ acquisition program, acquiring around another 100 additional accounting and financial planning firms from the completion of this study in November 2003 to early 2010.
**Selling partner expected benefits**

Table 3 indicates that selling partners expected many different benefits from selling their firms to publicly listed accounting companies. Improving human resources, enhancing growth, and gaining access to infrastructure and support were the most mentioned expected benefits espoused by selling partners at the time of the sale of their firms. Expected benefits from changed ownership and improved management were mentioned less often. The right-hand column of Table 3 gives the assessments of importance of expected benefits by researcher-interviewed WHK principals.

**Human resources**

Seventy-eight per cent of the publicly announced expected benefits of sale included improving the ability to attract, retain and manage professional staff. A greater percentage of WHK-related announcements referred to people benefits (91%), compared to 67% of announcements of partners selling to Stockford. The following interview quote gives an example of benefits expected in this area by a Stockford principal:

‘We needed to grow the business bigger than it was. We were finding it difficult to compete with the Big 5 on recruiting graduates and experienced hires. Joining Stockford would give us the power to compete on a global scale. We would be able to bring up younger people who would be allocated shares’.

Researcher interviews and announcements suggested that the greater emphasis on human resources by partners joining WHK was largely related to the company’s focus on acquiring regional (or country-based) firms and the related difficulties in recruiting professional staff into these geographical areas and reducing the outflow of staff to the big cities.
The type of benefits mentioned differed across the announcements of partners joining the two companies. For those joining WHK, giving staff access to shares and options and career paths were often cited. This was also reflected in the assessments by WHK research interviewees. The ability to specialise and managing HR issues were infrequently mentioned by those joining WHK. This reconciled to the WHK business model, which retained an office-centric structure. It did not increase partner specialisation and also left management of staff with the acquired firms.

The ability to specialise and managing HR issues was more frequently mentioned by partners joining Stockford. This appeared to be related to the centralised Stockford model, which moved many human resource activities to head office and the national service line structure, which was expected to develop specialisation. The frequency of mentions also appeared to have been influenced by the smaller size of some of the firms acquired by Stockfords for which public announcements were available.

**Growth**

The ability to enhance growth was frequently mentioned by partners joining both of the companies, but more frequently by those joining WHK (82%) compared to those joining Stockford (58%). The difference was related to the greater mention of the ability to expand through acquisition and expected benefits of entering/growing financial planning by partners joining WHK. This corresponds with the WHK strategy of growing acquired member firms through performing ‘tuck-in’ acquisitions and in seeking to distribute financial products through the acquired firms. The ‘tuck-in’ strategy was introduced in 2000 after some of the firms had been acquired with the partners mentioning the ‘tuck-in’ strategy as a benefit joining the company after the strategy was introduced. These two expected growth benefits
and offering clients broader services were also ranked highly by researcher-interviewed WHK principals.

One partner selling to WHK explained expected growth benefits in a media interview as follows:

‘This move is an opportunity for our staff’s careers and our chance to diversify and achieve critical mass. We had been looking for growth paths through acquisitions, amalgamations or tighter associations. This route emerged last year to help us create breadth of service and strengthen our financial planning work’. (Thomas 1999a)

Of those joining Stockford, only 17% mentioned entering and growing financial planning, 8% mentioned attracting new clients through brand and 8% raising the benefits of national scope. This low rate of mentions was also reflected in the researcher interviews. This is surprising, given the emphasis placed by Stockford executives on cross-selling services and on introducing an integrated national brand and organisation. Researcher interviews suggest that this mismatch subsequently proved a problem. Interviewed principals suggested that many of the partners of acquired firms had no interest in financial planning or referring those services to their clients. This lead to substantial resistance post-acquisition as indicated by a Stockford executive:

‘The principals didn’t want to give away contact with their clients. They were meant to introduce others to their clients but didn’t. The wealth management guys were screaming that they weren’t getting any referrals’.
Principals also suggested that during the acquisition process they had been told that they could retain their firms’ identities, leading to further resistance and loss of trust in executives when the company immediately began re-branding firms.

For those joining WHK, it is less surprising that attracting new clients through brand and the benefits of national scope were rarely mentioned in announcements. The company did not perform any joint branding or marketing until six years into the acquisition program. Acquired member firms were mostly regionally based, with small to medium-sized enterprises and predominantly single location clients, and therefore little perceived benefit of national scope. Attaining critical mass/diversifying client risk was ranked highly for importance (4 or 5 out of 5) by all of the WHK principals interviewed by the researcher, compared to only one in public announcements/media interviews, suggesting that this expected benefit was understated in public announcements.

**Infrastructure/Support**

Benefits in this area were frequently mentioned by partners joining both companies (WHK 64% and Stockford 58%). It is surprising that referencing by partners selling to Stockford was lower than those selling to WHK, with the much greater focus by Stockford executives on improving infrastructure through centralising administration and systems, implementing best practice processes and developing specialised service lines to provide support.

Research and media interviews suggested that the larger number of references to specialised skills by those joining Stockford was partially related to the smaller size of the firms acquired and difficulties keeping up with changes to legislation and accounting standards. A good illustration is the following press interview quote from a partner that sold a small country firm to Stockford:
‘Stockford has expertise in operating out of very small towns, with tight control of costs and the ability to handle tax and accounting complexities. In bigger firms, people can specialise, such as in MYOB software installations. But in the country, they have always had to know a bit about everything. Their expertise will help firms in small towns stay viable. With so many businesses deserting small towns, the accountant needs to be there to keep services running’. (Thomas 2000b)

A Goods and Services Tax had recently been introduced in Australia, putting further strain on partners’ ability to respond and provide specialised services. Access to information to enable the development of expertise and to enable the accountants to perform their job has previously been found to be important to Australian accountants (Stedham, Yamamura, Taylor and Nelson 2002). Ratings by researcher-interviewed WHK principals suggested that the number of references in announcements understated the importance of keeping up to date with technical issues to joining partners.

Best practice/benchmarking/shared ideas were noted more often in the public announcements/media interviews of those joining WHK than those joining Stockford. At WHK, this activity was not introduced until 2000, with all partners referencing the benefits of joining the company after the introduction. The approach to these actions was different across the companies. At WHK it involved the divisional CEO facilitating benchmarking and best practice identification to provide information for principals to improve their practices. At Stockford it was planned to centrally manage these activities and impose best practices across the company and measure performance using benchmarks.

Improving information technology was also raised as an expected benefit by many principals. The high cost of IT was described by one Stockford principal:
‘The cost of maintaining information technology was horrendous. We needed $500 000 to upgrade our systems, but we couldn’t afford it’.

The nature of the benefit expected differed across the partners joining the two companies. Most of those selling to WHK who expected IT-related benefits cited access to capital to invest in IT or assistance with IT skills as opposed to the provision of IT systems by the company. Expecting access to company-provided systems was more prevalent among those joining Stockford than those joining WHK.

**Ownership**

Fifty-two per cent of selling partner announcements indicated expected benefits of the change to a different ownership structure. Research interviews suggest that this may understate the expected benefits of moving away from the partnership form of ownership to a publicly owned corporation structure. For example, while none of the partners selling to WHK raised trading illiquid partnership ownership for publicly traded shares and potential capital gains in public announcements or media interviews, this was considered important for all of the WHK principals asked to rate the importance of expected benefits in the sales decision.

In researcher interviews, partner succession was rated as important by partners selling to both companies. Research and media interviews indicated that it was becoming more difficult to find professionals willing to pay up to $500 000 to buy in as a partner. This problem was particularly acute for regional firms trying to entice potential partners from the cities. The stage-of-life of potential partners seemed to be considered important, with many perceived to be facing the considerable investment in partnership while committed to substantial mortgages and school fees. With difficulties attracting new partners, funding the exit of older
partners was expressed as a challenge by some partners, both in public and researcher interviews. One WHK principal described the issue as following:

‘Succession planning was important to our joining. We had a senior partner with a large loan account and large client base. He was one centre of influence that created a significant risk if anything happened. We couldn’t fund the exit of this partner. By selling, the senior partner would get money to exit. The sale turned the mismatch of hard liability/soft asset (goodwill) into a hard asset’.

Selling to a publicly listed company was seen as a solution as future principals (company equivalents of partners from an operating perspective) would not have to buy in and a minority of partners would be able to retire with the pay out received from the sale of their share of the partnership.

Interestingly, removing the partner liability inherent in the partnership structure was seldom mentioned (by 9% of partners interviewed) as a benefit of selling in public announcements and media interviews with selling partners, and was only raised once in researcher interviews. One of those that did mention it as a benefit in the media was enthusiastic with the change, having been caught up in litigation in the past.

Management

Forty-five per cent of those joining WHK indicated in announcements/media interviews that retaining autonomy was an important motive for joining the company. All researcher-interviewed WHK principals ranked autonomy as important. This reflects an expected benefit of selling to that specific company versus other sales or merger options, but does not represent an expected benefit from moving away from independent ownership.
Retention of autonomy was not raised in announcements or media interviews by those selling to Stockford. This was consistent with the centralised Stockford model. However, principals interviewed for this study suggested that they were led to believe during the acquisition process that the firms would have greater autonomy than transpired. Only one of the principals indicated that expected autonomy was one of the expected benefits of selling to Stockford.

Overcoming limitations with decision-making in the partnership by implementing corporate structures was cited by 22% in announcements/media interviews as a benefit to selling to a publicly listed company. This was supported by research interviewees, with decision-making perceived to become more protracted as firms grew and consensus more difficult to reach. As suggested by one interviewed WHK principal:

‘We had started to corporatise the internal structure. We were having problems getting partners to meetings and engaging, which is a deficiency of the partnership form. The consensus model is ineffective and inefficient’.

Research interviews indicated that changing governance structures was found to be difficult by those attempting to implement prior to the sale of the firm.

Two factors were rarely identified as benefits by partners selling to both companies, either in announcements or research interviews: the removal of administration and the ability for former partners to focus on delivery of service to clients. This was in contrast to the heavy emphasis of the Stockford model of achieving these benefits. This lack of alignment of expectations subsequently caused friction with the former partners resisting the implementation of initiatives perceived to impact on their autonomy. Only one partner selling to WHK raised removal of administration as an expected benefit at the time of sale. This matches the WHK model, where most administration stayed with the acquired member firms.
However, surprisingly, all the researcher-interviewed WHK principals rated this as an important expected benefit of joining the Group after the fact. This suggests some potential retrospectivity bias in the researcher interviews.

**Conclusions**

This section summarises findings in terms of the objectives of this study and indicates implications, limitations and suggestions for further research.

**Benefits expected by selling partners**

This study suggests that there is a large and diverse range of benefits that selling partners expected to achieve by selling their practices to publicly listed companies. At a summary level these include improving the ability to recruit and retain staff, enabling the practices to grow, gaining access to infrastructure and technical support, benefiting from moving to a new form of ownership, and implementing corporate management with less administration to be performed by the former partners.

In general, each selling partner expected multiple types of benefits in selling. On average, 4.5 expected benefits per selling partner were coded from public announcements and media interviews. The research interviews suggest that this understated the number of benefits expected per selling partner, with WHK principals rating as important (4 or 5 on a scale of 1 to 5) a minimum of eight benefits each, and an average of 11.25 benefits important in deciding on selling. It appears that the selling partners each expected many benefits, including addressing numerous challenges currently faced in their small to medium-sized firms.

Many selling partners saw new opportunities in the future of the company. For example, Stockford acquired 47 firms at the time of the initial public offering, with selling partners showing confidence in the company and accepting the bulk of the consideration in shares of
the company ($109.4 million in $1 shares priced at 66 cents per share and only $3.6 million cash). Of course, the discounted value of the shares and the deferral of capital gains tax by rolling over their investment from the partnership to the company may have contributed. Many partners selling to WHK also accepted company shares for their practice, with a much smaller discount on the shares received.

Two common and one less common motivation identified in prior studies of accounting firm mergers did not emerge as important in this study. These included the need for national scope to service expanding clients (Greenwood, Cooper, Hinings and Brown 1993; Wootton et al. 2003) and becoming a large firm to be asked to bid for audits (Greenwood et al. 1993). This appeared to be due to the client focus of both companies and their acquired firms on individuals and small to medium-sized organisations, with few of the clients having operations in multiple locations limiting benefits from geographical expansion and growth. This may be different where acquired firms are niche firms providing specialised services to large companies. Neither company targeted poorly performing firms, nor did survival emerge as a motivation of selling partners.

**Consistency of seller and acquirer expectations**

The publicly announced motives and expected benefits of partners selling to WHK were generally consistent with the benefits that company executives expected from the acquisition program. Both groups expected acquired member firms to operate with a large degree of autonomy, but with corporate office providing increasing levels of support. This support was in the form of helping the introduction and growth of financial planning, facilitating the identification and sharing of best practice processes and systems, and increasing coordination of member firms as well as providing functional expertise on an advisory basis and capital for expansion. The announced motives of selling partners changed as the acquisition program progressed, reflecting the increasingly active role of head office and greater coordination
between member firms. This suggests that for researchers examining selling motives the
timing of acquisitions within an acquisition program is important.

Both public announcements/media reports and researcher interviews indicated that there were
substantial differences between selling partner and company executive expectations of
benefits at Stockford. On the revenue side, entering/growing financial services, attracting new
clients through branding and the benefits of national scope appeared much less important to
the partners than to the executives. Removing administration, implementing best practices and
access to information technology were important to the Stockford model, but were mentioned
by relatively few partners as benefits of joining the company. Corporate actions to achieve
these benefits created substantial change for the selling partners who actively resisted.

**Consistency of expected benefits across acquirers**

The potential benefits expected by Stockford executives differed substantially from those of
WHK executives. Stockford executives anticipated a much more active role of head office in
realising potential benefits. Benefits were expected from building a national brand,
centralising many activities to improve efficiency and free professionals for client service,
identifying and imposing best practices and encouraging the cross-selling of multiple services
to accounting clients.

There were some differences in the motives of partners selling to the two companies. This
appeared somewhat related to their different business models. WHK was very focused on
growing financial planning, leaving autonomy with member firms and the growth of the
member firms through ‘tuck-in’ acquisitions. These benefits were mentioned much more
often by partners selling to WHK. Likewise, the higher benefits expected by Stockford
principals in areas such as access to specialised skills and a virtual network and managing HR
issues reflected the centralised Stockford model. It was surprising that other infrastructure
support benefits were not raised more often by Stockford principals, given Stockford’s focus in this area.

The nature of firms acquired also appeared to impact the differences in benefits expected across companies. WHK’s focus on acquiring regional firms and the difficulties recruiting in the country were reflected in the much greater emphasis on human resources by partners selling to WHK.

**Challenges of managing small to medium-sized firms**

Many of the benefits expected by selling partners reflect numerous challenges for those in small to medium accounting partnerships. The issues identified in this study were largely consistent with those identified in prior studies (Ciccotosto et al. 2008; CPA Australia 2004; ICAA 1998 and 2005). In public announcements, media interviews and interviews performed for this study, principals indicated that they found attracting and retaining professional staff difficult; keeping up with and training staff in rapidly changing legislation and regulations hard; implementing, maintaining and upgrading technology costly; and requiring specialised expertise and growth through adding services and/or acquiring firms difficult without knowledge or capital.

The partnership structure itself was perceived to have some inherent issues. For some firms, partners were heading towards retirement and succession difficulties were being experienced in finding new partners willing to invest in partnership. Existing partners had a significant portion of their wealth tied up in their partnership investment, an illiquid asset that was difficult, if not impossible, for partners to partially divest. Decision-making was found by some partners to be increasingly difficult as the firms got larger, but attempts to introduce more corporate-like structures were a challenge to implement. These partnership-related
issues were not identified in the Ciccotosto et al. (2008) study, potentially due to the smaller size of practices they studied.

To many partners, selling into a publicly listed company appeared to be thought of as a ‘silver bullet’ that would address virtually all of the above-mentioned issues in one transaction.

**Implications for practitioners and researchers**

This difference of executives’ expectations across the companies suggests that publicly listed accounting companies are not all the same and that partners considering selling should identify the company that best meets their needs.

The large range of benefits expected by selling partners creates a potential challenge for acquiring company executives to meet these expectations. This is particularly an issue where the difficulties faced by selling partners are industry driven, such as shortages of professional staff and a rapidly changing legislative environment. Both of the acquiring companies started the acquisition programs with little structure, systems or brand recognition to realise expected benefits. These would need to be created in order achieve expectations.

Conflict at Stockford suggests the need for agreement between acquiring company executives and selling partners on expected benefits prior to acquisition. There are further potential conflicts between the expectations of different partners selling to the same company. For example, introducing corporate structures and implementing best practice processes may impinge on the autonomy of partners. The executives of both companies expected benefits from sharing knowledge across acquired firms. Research suggests that this is not easy within accounting firms, requiring the creation of an appropriate culture, processes to capture and share information, motivation and incentives, as well as appropriate technology (Gibbins and Wright 1999).
For researchers, this study suggests that expected benefits of partners selling to publicly listed accounting firms is quite complex, with many different motives and numerous benefits expected for each sale. Expectations can also differ based on the timing of an acquisition in the acquisition program. From a methodological perspective, the variances identified in selling partner expectations of benefits between the publicly available data (announcements and media interviews) and researcher interviews/principal ratings supports the triangulation of data from multiple sources. The differences noted could be due to sample variation, expected benefits being omitted from individual announcements, or due to retrospectivity bias in researcher interviews.

Limitations and further research

This research suffers from some limitations. The sample size was not large, limiting the statistical conclusions that could be drawn. There were indications that size of the firm and its geographical region (for example, country versus city) impacts on the issues faced by the partners and potentially the benefits expected from the sale. However, sub-samples were too small to analyse these variables in a meaningful way. Sole practitioners were underrepresented in this research and may have some different reasons for selling. For example, the release in 1999 by the Institute of Chartered Accountants of guidance requiring sole practitioners to make arrangements to cover for the death or incapacitation of the sole practitioner (ICAA 2009) may have contributed to the decisions of some to join a larger company. Large-scale research through questionnaires could be used to attempt to address these issues and further explore firm size and geography variables, but care is required due to potential retrospectivity bias.

This study utilised data from public announcements, media interviews, researcher interviews and former partner ratings of the importance of expected benefits. A limitation was the obtaining of former partner ratings from partners joining only WHK and not Stockford. A
further potential limitation is the time passed since data collection in late 2003. However, the continuation of acquisitions by WHK and the recent research on issues faced by small firms (Ciccotosto et al. 2008) suggest that the findings of this study are still relevant.

This paper focused on the expected benefits of partners selling their accounting practices to publicly listed companies. Many selling partners expected the sale to enable them to grow their practices and to benefit from the growth and increased value of the acquiring company. It also appears that many selling partners saw the transaction as the answer to many of the challenges of running a small to medium-sized accounting practice. Further research is required to determine whether expected benefits are achieved and whether selling to a publicly listed company is indeed a ‘silver bullet’ to selling partners’ issues. Research is required to establish whether the acquiring companies achieve the expectations of the company executives and to evaluate the performance of these companies. Of further interest is how the publicly quoted company structures and integrates acquired firms, and the implications for selling partners as well as the former partners’ responses to these changes.

Finally, as many of the benefits expected by selling partners related to addressing issues experienced in small to medium-sized firms, further research could consider alternatives such as franchising or joining a network.

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### Table 1: Prior research identified merger motives/expected benefits

<table>
<thead>
<tr>
<th>Strategic type of Merger (Maister 1997)</th>
<th>Description (Maister 1997)</th>
<th>Findings on accounting firm merger motives/expected benefits</th>
</tr>
</thead>
<tbody>
<tr>
<td>Menu</td>
<td>Merging firms that provide different services. Provide a broader range of services to cross-sell to clients.</td>
<td>Gaining access to specialised skills in industries or specialities in which a firm is weak (Wootton et al. 2003). Entry into non-traditional areas, such as consulting and law firms (Wootton et al. 2003).</td>
</tr>
<tr>
<td>Bulk</td>
<td>Bigger is better to get onto the client list of firms to be considered, and to be able to deliver large projects that a smaller firm can’t.</td>
<td>Increased efficiency through economies of scale in areas such as training (Wootton et al. 2003) and other managerial overheads such as marketing, information technology and litigation (Greenwood et al. 1993). Smaller firms do not always have the financial resources or leadership for required investments in training or technology (Wootton et al. 2003). The largest firm is perceived to automatically be asked to bid for an audit engagement (Greenwood et al. 1993). Increased client bases through acquiring firms with prestigious clients (Wootton et al. 2003). Gaining critical mass in a range of services and specialist skills in small offices (Wootton et al. 2003), including industry specialisation (Greenwood et al. 1993).</td>
</tr>
<tr>
<td>Dots</td>
<td>Combines similar firms in different locations and named from putting dots of a firm’s office locations on a map. Maister suggests that there is more client benefit where work needs to be performed simultaneously in different jurisdictions.</td>
<td>Gaining offices to service the needs of increasingly national and international clients (Wootton et al. 2003; Greenwood et al. 1993). Smaller local firms struggle to retain clients that go public or expand geographically or to obtain clients with geographically dispersed operations (Wootton et al. 2003). Smaller specialist firms seek to leverage their expertise across the large firms’ networks (Wootton et al. 2003).</td>
</tr>
<tr>
<td>Alchemy</td>
<td>Creates something new. For example, multidiscipline firms. The benefit is not just providing a range of services, but coordinating and integrating specialists.</td>
<td>Consolidating tax practices and business law services to provide a legal and financial planning package to clients (Wootton et al. 2003).</td>
</tr>
<tr>
<td>Crisis</td>
<td>The greatest benefit is the disruption that enables significant managerial changes that could not be achieved pre-merger.</td>
<td>Survival of troubled firms (Wootton et al. 2003).</td>
</tr>
<tr>
<td>Non-merger strategy specific</td>
<td>Enabling partners of smaller firms to retire (Wootton et al. 2003). Providing greater security for partners and staff of smaller firms (Wootton et al. 2003). Spreading risks of personal liability with increasing litigation (Wootton et al. 2003).</td>
<td></td>
</tr>
</tbody>
</table>
Table 2: Size of accounting firms for which seller’s expected benefits were announced

<table>
<thead>
<tr>
<th>Acquiring company</th>
<th>Average firm revenues ($ m)</th>
<th>Median firm revenues ($ m)</th>
<th>No. of small firms (revenue&lt; $3m)</th>
<th>No. of medium firms (revenue $3m to $7m)</th>
<th>No. of larger firms (revenue $7m or more)</th>
<th>Total no. of firms’ announcements identified</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stockford</td>
<td>4.0</td>
<td>2.4</td>
<td>7</td>
<td>4</td>
<td>1</td>
<td>12</td>
</tr>
<tr>
<td>WHK</td>
<td>5.4</td>
<td>5.0</td>
<td>1</td>
<td>9</td>
<td>1</td>
<td>11</td>
</tr>
<tr>
<td>Total sample</td>
<td>4.7</td>
<td>3.65</td>
<td>8</td>
<td>13</td>
<td>2</td>
<td>23</td>
</tr>
</tbody>
</table>
Table 3 Announced selling partner expected benefits and assessment by principals

<table>
<thead>
<tr>
<th>Expected benefits</th>
<th>Number of selling partners mentioning (announcements/media)</th>
<th>% of partners mentioning (announcements/media)</th>
<th>WHK principal assess</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Stock-</td>
<td>WHK</td>
<td>Total</td>
</tr>
<tr>
<td></td>
<td>ford</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Human resources</td>
<td>1</td>
<td>7</td>
<td>8</td>
</tr>
<tr>
<td>Staff access to shares and options§</td>
<td>2</td>
<td>2</td>
<td>4</td>
</tr>
<tr>
<td>Attracting and retaining staff</td>
<td>2</td>
<td>7</td>
<td>9</td>
</tr>
<tr>
<td>Career paths for staff</td>
<td>2</td>
<td>7</td>
<td>9</td>
</tr>
<tr>
<td>Ability to specialise</td>
<td>2</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td>Managing HR issues</td>
<td>3</td>
<td>0</td>
<td>3</td>
</tr>
<tr>
<td>Media interviewees mentioning HR(†)</td>
<td>8</td>
<td>10</td>
<td>18</td>
</tr>
<tr>
<td>Growth</td>
<td>0</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>Provide ability to expand through acquisition</td>
<td>4</td>
<td>3</td>
<td>7</td>
</tr>
<tr>
<td>Offer broader services</td>
<td>2</td>
<td>6</td>
<td>8</td>
</tr>
<tr>
<td>Enter/grow financial planning</td>
<td>3</td>
<td>0</td>
<td>3</td>
</tr>
<tr>
<td>Cross referrals</td>
<td>1</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Attract new clients through brand</td>
<td>1</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Benefits of national scope</td>
<td>0</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Media interviewees mentioning growth(†)</td>
<td>7</td>
<td>9</td>
<td>16</td>
</tr>
<tr>
<td>Infrastructure/Support</td>
<td>5</td>
<td>2</td>
<td>7</td>
</tr>
<tr>
<td>Access to specialised skills</td>
<td>3</td>
<td>0</td>
<td>3</td>
</tr>
<tr>
<td>Access to Internet virtual network</td>
<td>3</td>
<td>4</td>
<td>7</td>
</tr>
<tr>
<td>Access to information technology</td>
<td>3</td>
<td>5</td>
<td>8</td>
</tr>
<tr>
<td>Best practice/benchmarking/shared ideas</td>
<td>0</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Media interviewees mentioning infrastructure/ support(†)</td>
<td>7</td>
<td>7</td>
<td>14</td>
</tr>
<tr>
<td>Ownership</td>
<td>3</td>
<td>0</td>
<td>3</td>
</tr>
<tr>
<td>Give firm owner a liquid asset/capital gain</td>
<td>1</td>
<td>7</td>
<td>8</td>
</tr>
<tr>
<td>Staff access to shares and options§</td>
<td>2</td>
<td>0</td>
<td>2</td>
</tr>
<tr>
<td>Remove partner liability</td>
<td>2</td>
<td>3</td>
<td>5</td>
</tr>
<tr>
<td>Partner succession</td>
<td>2</td>
<td>2</td>
<td>4</td>
</tr>
<tr>
<td>Provide capital for growth/infrastructure</td>
<td>5</td>
<td>7</td>
<td>12</td>
</tr>
<tr>
<td>Media interviewees mentioning ownership(†)</td>
<td>0</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>Retained autonomy</td>
<td>1</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Remove administration/focus on delivery</td>
<td>2</td>
<td>3</td>
<td>5</td>
</tr>
<tr>
<td>Ability to implement corporate structures</td>
<td>3</td>
<td>8</td>
<td>11</td>
</tr>
<tr>
<td>Media interviewees mentioning management(†)</td>
<td>12</td>
<td>11</td>
<td>23</td>
</tr>
<tr>
<td>Total number of firms with published expected benefits</td>
<td>12</td>
<td>11</td>
<td>23</td>
</tr>
</tbody>
</table>

Notes

(†) The number of partners mentioning a category is less than the total of those mentioning individual expected benefits as some partners raised multiple benefits within a category.

(‡) Assessed by the researcher based on researcher interviews.

(§) ‘Staff access to shares and options’ has been included in two categories: Human resources and Ownership.

(¶) Graded low by the researcher as the benefit was not raised in any researcher interviews with WHK principals.

(±) Graded relatively low by the researcher as only mentioned in one interview by a WHK principal.

(#) Graded relatively highly to reflect the importance of capital to fund acquisitions (growth by acquisition was rated 3.75 by principals) and the mentioning of funding development of specialties/services in interviews.
FIGURES (Designer, an edited version is in the 6 AUAR 95_Figure 1.ppt file)

Figure 1    WHK Group – Member firms and ‘tuck-in’ acquisitions
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