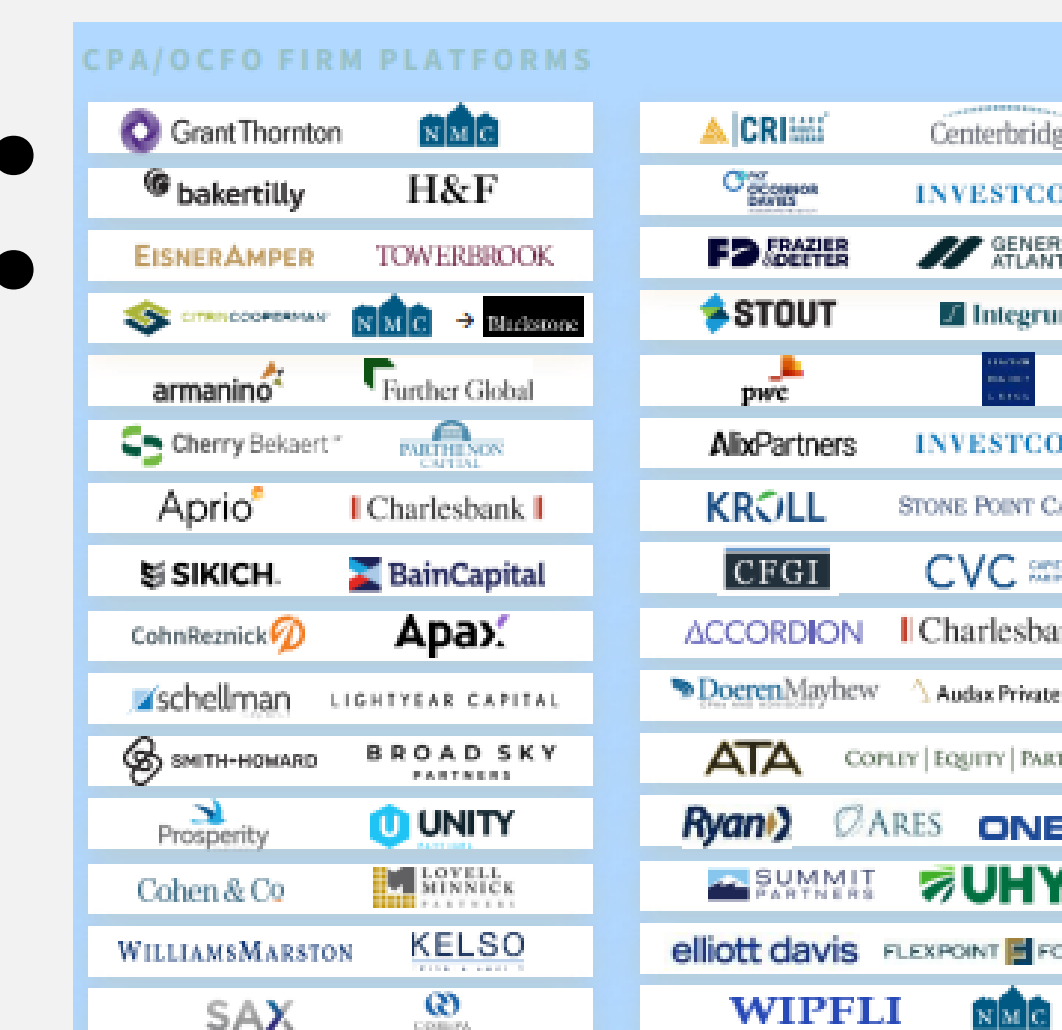


Private Equity Investment in Accounting Firms: Financial Innovation or Professional Disruption?

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Background

- PE investment in accounting accelerated after 2020
- Accounting firms are structured as partner-owned partnerships; however, partners want liquidity.
 - How? PE! (Main motivation for many senior partners!)
 - PE Partners get **large upfront payouts**
 - They may get another payout later (after PE exit)

How Private Equity Investments Operate (Simplified)

- 3 to 7 yrs-
 - Acquisition Using Leverage
 - Private equity (PE) firms typically acquire companies using a combination of **investor capital + borrowed funds (debt)**
 - Managerial and Operational Restructuring
 - PE investors often **restructure management & operations** to improve efficiency, profitability, and scalability. (May include changes to leadership structure, compensation systems, technology investments, and centralized operations.)
 - Growth and Expansion Strategy
 - Mergers & acquisition-driven growth (M&A)**, purchasing smaller firms to expand services, geographic reach (offshoring in India), and total revenue
 - Focus on Financial Performance
 - Investors prioritize **increasing EBITDA (earnings before interest, taxes, depreciation, and amortization)** and improving operational margins to raise the overall value of the firm
 - Sell firm** at a higher valuation **after implementing growth strategies + operational improvements** over 3-7 years

PE wants Accounting b/c

- 1. Stable Cash Flow
- 2. Huge upside in advisory/tax
- Industry is highly fragmented → ideal for roll-up strategies
- Structural Shift: Alternative Practice Structure (APS)

Purpose

- To explore how private equity ownership alters the financial and governing structure of accounting firms
- Does PE truly improve operational efficiency?

Methods:

Research Method

Interviews / Qualitative Data

Data Source

Data was collected through 30-minute semi-structured Zoom interviews with Private Equity professionals and professionals affiliated with PE-backed firms. Interviews discussed career background, deal experience, acquisition strategy, sector specialization, and exit outcomes.

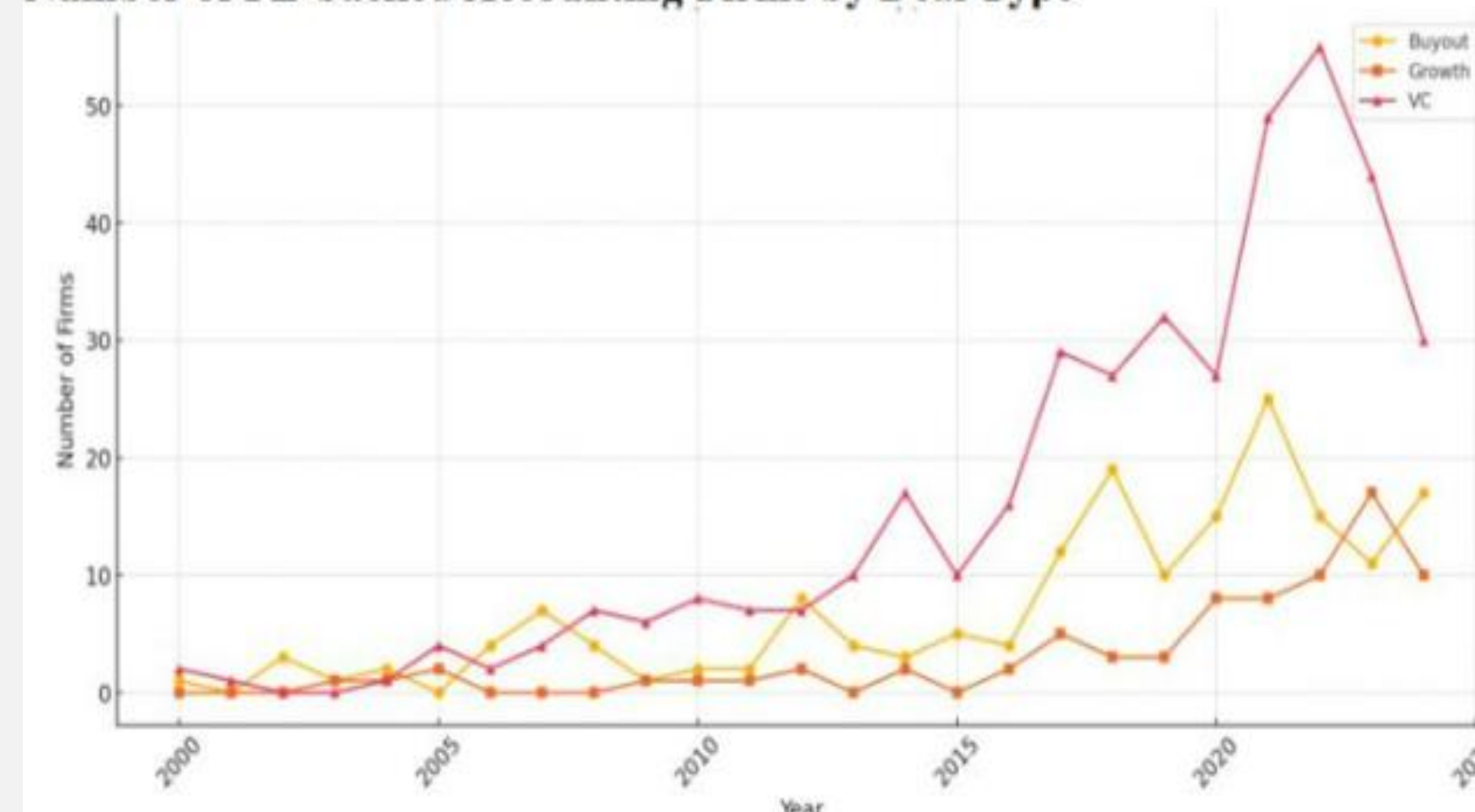
Data Collection

Participants were contacted via targeted outreach and scheduled for virtual interviews. Responses were documented through interview transcripts, recordings, and AI-generated notes. All interviews followed the same general guiding question structure.

Data Analysis

Interview responses were coded and grouped into recurring themes. Themes included motivations for PE investment, consolidation and growth methods, sector-specific strategies, governance changes, and perceived benefits and risks.

Number of PE-backed Accounting Firms by Deal Type



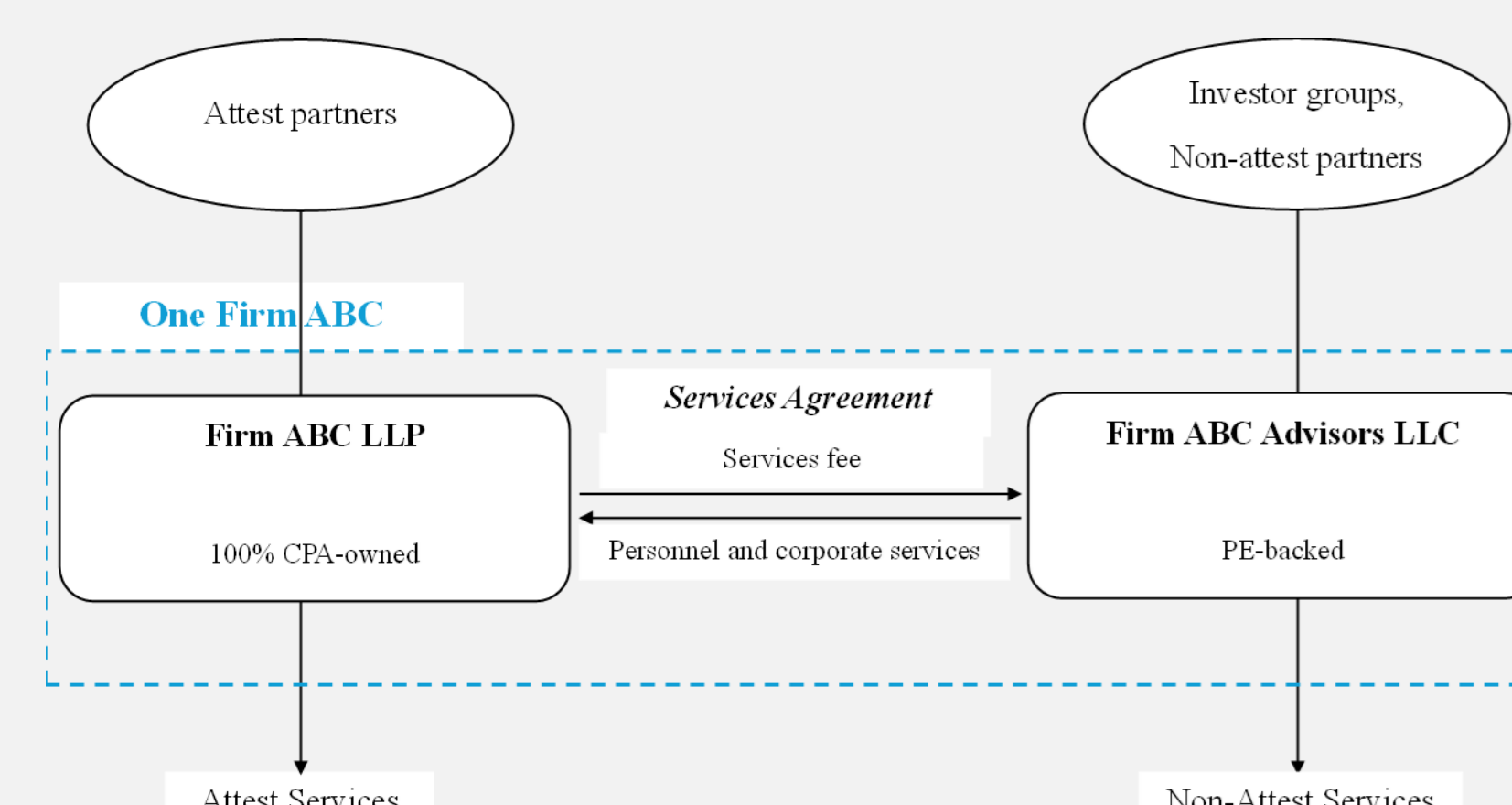
Abstract

The rapid entry of private equity (PE) firms into the accounting industry represents a significant structural shift in the profession. Traditionally structured as partner-owned partnerships, it is becoming more popular for accounting firms to transition to PE-backed models to access capital, scale operations, and compete in a consolidating market. This research examines the motivations behind PE acquisitions in accounting, the structural changes introduced during these transitions, and the potential implications for firm operations, independence, compensation, and long-term firm stability.

To evaluate these transitions, 41 in-depth interviews were conducted with employees who experienced PE transitions within accounting firms and individuals who initiated the transactions. With participant consent, all interviews were recorded, transcribed, and systematically coded in Excel using thematic analysis to identify recurring structural changes and financial, strategic patterns. Additionally, we analyzed data from 1,314 private equity investments in accounting firms between 2020 and 2024 to contextualize qualitative finds in correlation to broader market trends.

Findings indicate that PE ownership facilitates rapid scale by accelerating acquisition activity, centralizing operations, restructuring compensation models, and increasing technological modernization. However, interview data also reveal emerging tensions related to cultural change, short-term performance pressures, and evolving definitions of professional autonomy. The combined quantitative and qualitative evidence suggests that PE transitions are not only reshaping payouts and financial records, but the governance of accounting professions overall.

Overall, this research contributes empirical insight into the financialization of accounting services and provides future implications for practitioners, students, regulators, and investors navigating the increasingly PE-backed accounting landscape.



This figure illustrates the Alternative Practice Structure (APS) of accounting Firm ABC.

Results:

Motivations for Profitability & EBITDA Focus

- Significant emphasis on EBITDA growth as performance metric
- Increased performance pressure for pay compensation
- Operational changes: centralization of administrative functions
 - ~Added board of directors including representatives from PE investors
 - ~Introduction of CFOs & CEOs to manage operations alongside traditional partners
- Implementation of new software/technology (improves EBITDA margins)
- Roll-up acquisition strategies (M&A)
- Offshoring in India (reduces work costs) to increase total EBITDA

Perceived Benefits:

- Access to capital (technology + offshoring) and strategic guidance
- Operational expertise and scaling support

Perceived Risks:

- Uncertainty/layoffs
- Increased time-sensitive performance pressure
- Low transparency about deals/compensation plans b/w investors & management
- Improving EBITDA by cutting costs (cutting people)

Conclusion:

Key Takeaways

- PE accelerates acquisition activity
 - Increased pressure to scale quickly through **industry consolidation**
- Interviewees reported increased performance monitoring & time-sensitive financial targets
- EBITDA Growth + Valuation Multiples utilized as the financial model underlying most PE investments
 - Accounting firms transitioning to PE ownership heavily prioritize profitability metrics and firm growth strategies

Key Takeaways from findings

Increased Investor Oversight + Performance Driven Compensation Systems

- Growth acceleration + performance pressure increase simultaneously
- Operational centralization is common post-acquisition
- Compensation Changes
 - Shift towards performance bonuses (employee) & equity incentives (tied to firm)

Significance of findings

- Possibility for reduced availability of intro-level accounting roles
- Incentive/Employee Pay structures changing
- Operational management having more investor oversight
 - Accounting is becoming more driven by outside capital and financial returns.

The results are relevant to:

- Students entering a changing profession
- Investors evaluating long-term sustainability
- Regulatory/Governmental bodies

Ongoing Experiment

- Long term implications regarding audit independence, firm stability, & cultural sustainability require more study

Strengths

- 41 in-depth interviews with both PE professionals & accounting firm affiliates
- Standardized semi-structured interview framework
- Thematic coding methodology
- Quantitative contextualization using 1,314 PE transactions

Limitations

- Cannot prove causation**
- Accounting industry is still early in the PE cycle, making long-term outcomes difficult to assess
- Reliance on self-reported interview responses
- Limited existing academic literature for benchmarking

Resources

Mao, Vivian, et al. *A Primer for Understanding and Researching Private Equity Investments in the Accounting Industry*. 2025. Drew (2021). PE's push into accounting. <https://www.journalofaccountancy.com/news/2021/oct/private-equity-push-into-accounting/>

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