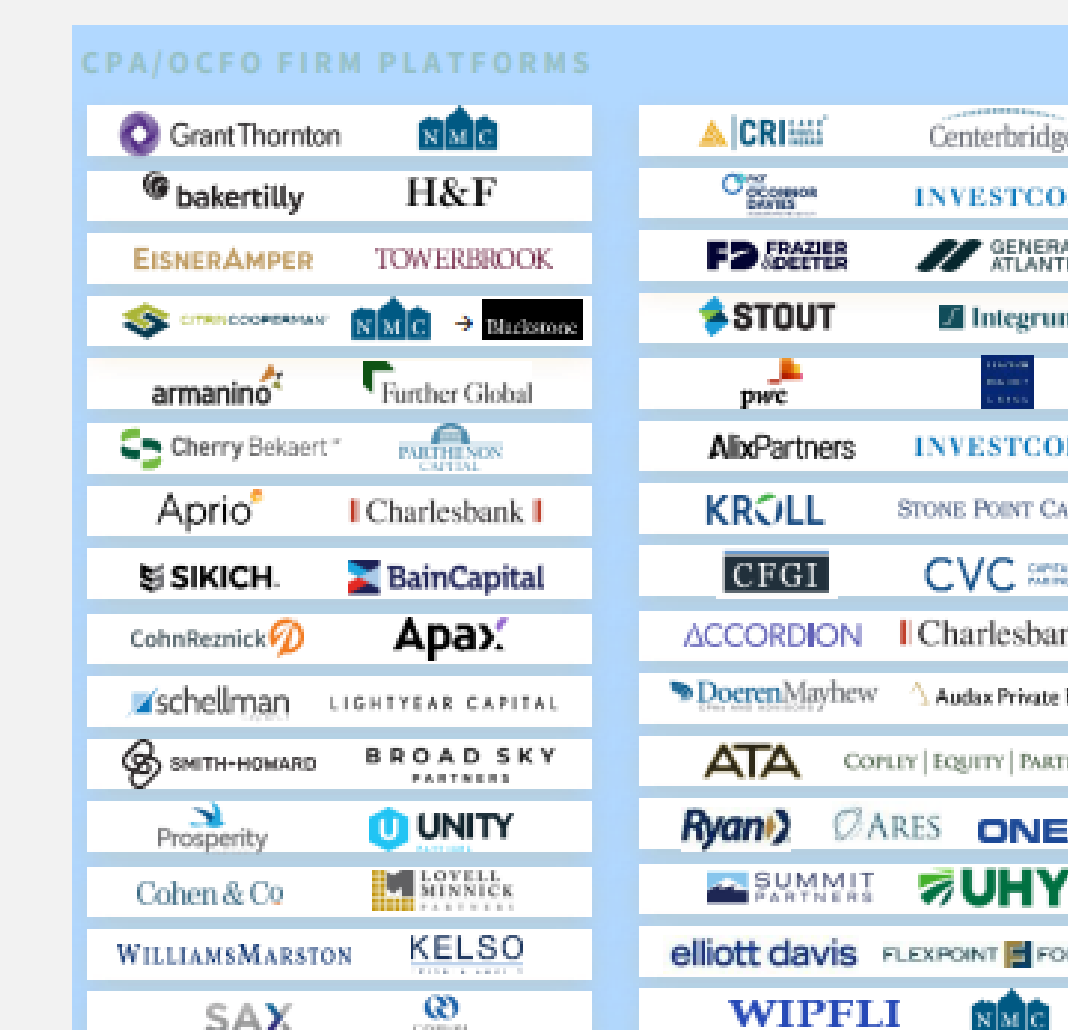


Private Equity Transitions in Accounting Firms: Financial Innovation or Professional Disruption?

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Background

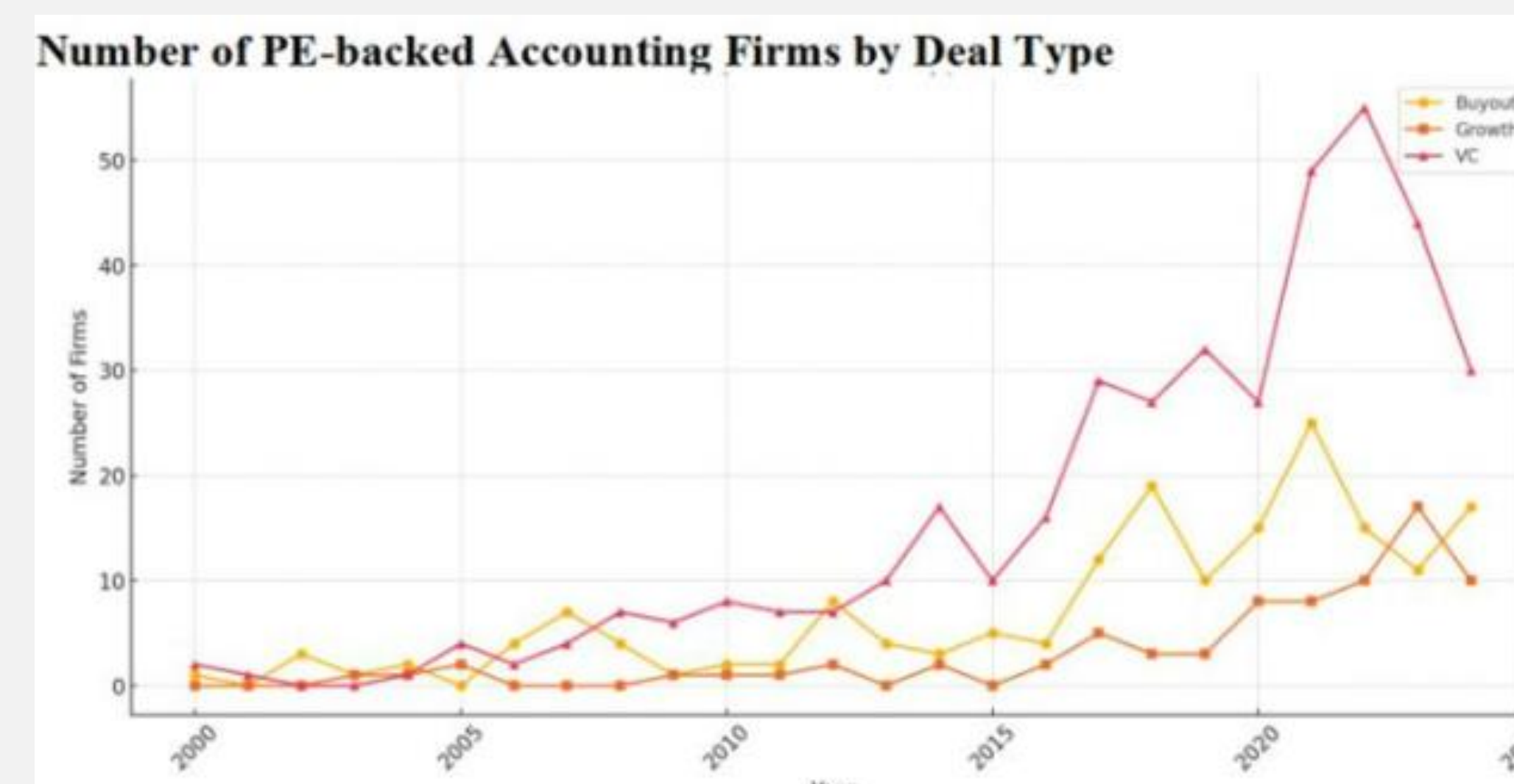
- PE investment in accounting accelerated after 2020
- Accounting firms are structured as partner-owned partnerships; however, partners want liquidity (Main motivation for many senior partners!)
 - PE Partners get **large upfront payouts**
 - They may get another payout later (after PE exit)
- PE wants Accounting b/c
 - Stable Cash Flow
 - Huge upside in advisory/tax
- Industry is highly fragmented → ideal for roll-up strategies
- Structural Shift: Alternative Practice Structure (APS)

Shortcomings

- Limited academic research on long-term implications
- Unclear impact on audit independence
- Limited analysis of compensation restructuring

Purpose

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



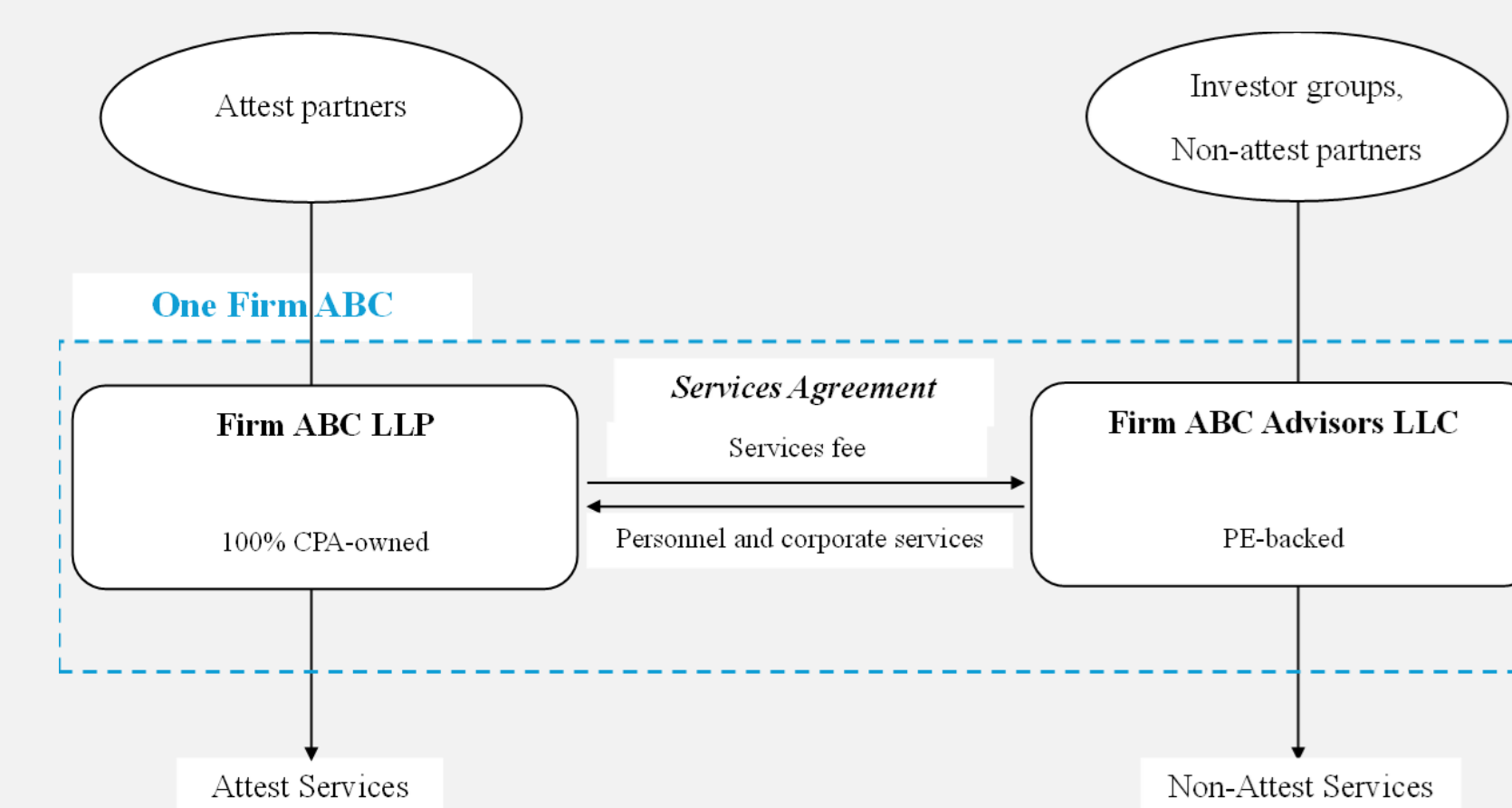
Abstract

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.

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.

Results:

Common Motivations for Private Equity Investment

- Interviewees consistently described PE as targeting stable and predictable cashflow businesses
- Recurring revenue and low debt risk models were frequently cited
- Specialized industries/sectors were identified as the primary acquisition targets

Growth and Value Creation Strategies:

- Roll-up acquisitions (acquiring multiple businesses and combining them) were a frequent strategy
- PE firms often implemented professional management structures for operational improvements

Perceived Benefits:

- Access to capital and strategic guidance
- Operational expertise and scaling support

Perceived Risks:

- Increased time-sensitive performance pressure
- Possible misalignment between investors and management

Conclusion:

Key Takeaways

- Private equity investment in accounting firms accelerated significantly after 2020.
- Interviewees reported increased performance monitoring and time-sensitive financial targets under PE ownership.
- Interview participants consistently identified stable and predictable cash flow as a primary driver of PE investment.
- Recurring revenue models and low debt risk profiles were frequently cited as attractive characteristics.
- Specialized industry niches were common acquisition targets.

Key Takeaways from findings

- PE prioritizes recurring revenue and scalability.
- Operational centralization is common post-acquisition.
- Compensation and governance structures shift significantly.
- Growth acceleration and performance pressure increase simultaneously.

Significance of findings

- PE involvement changes:
 - Governance frameworks
 - Incentive structures
 - Operational management
 - Growth timelines
- These changes matter because accounting firms have traditionally been owned and run by partners who focused on long-term stability and professional independence. Moving to investor-backed ownership shows that accounting is becoming more driven by outside capital and financial returns.
- The results are relevant to:
 - Practitioners navigating PE transitions
 - Students entering a changing profession
 - Regulators concerned with independence
 - Investors evaluating long-term sustainability

Ongoing Experiment

- Our research question was addressed mainly through qualitative evidence we collected through interviews with people who have been in a workspace that has been directly affected by or involved with private equity. This evidence reflected structural and financial changes following PE acquisition. This study is on going because long term implications regarding audit independence, firm stability, and cultural sustainability remain ongoing and require more study.

Strengths

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

Limitations

- Limited longitudinal data on long-term outcomes
- Reliance on self-reported interview responses
- Rapidly evolving market conditions
- 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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