

EBOOK

M&A, PE-Backing, or Independence: Which Path Is Right for Your Firm?

A Self-Assessment Guide
for Accounting Firms

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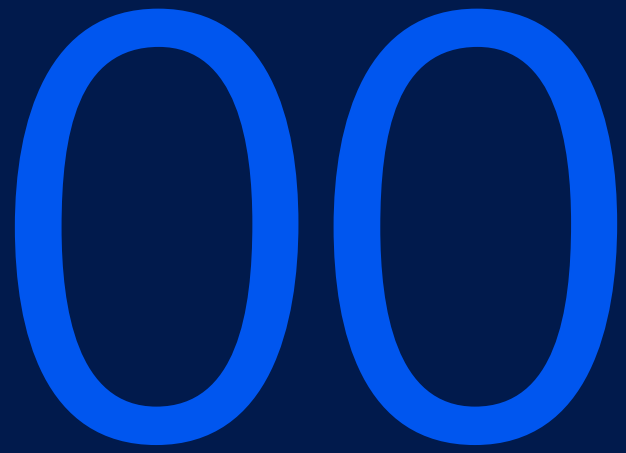
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Introduction



Today's accounting firms face mounting pressures from multiple directions. The importance of technology adoption is at an all-time high—with cloud computing, artificial intelligence, and automation reshaping service delivery. The talent shortage has reached critical levels, making it increasingly difficult to find and retain qualified professionals. Client expectations have evolved dramatically—they now demand real-time insights, advisory services, and seamless digital experiences.

Add to this the increasing regulatory complexity and cybersecurity requirements, and it becomes clear why so many firm leaders are reassessing their strategic options. The question is no longer *whether* to change, but *how* to position your firm for long-term success.

Three Strategic Paths Forward

In response to these pressures, accounting firms typically pursue one of three main strategic paths:

Merger or Acquisition (M&A)

Joining forces with another firm to achieve scale, access new markets, or solve succession challenges. This path offers immediate growth but requires careful cultural alignment.

1

Private Equity (PE) Investment

Partnering with financial investors who provide capital and expertise in exchange for equity. This option accelerates growth but introduces new stakeholders and performance pressures.

2

Remaining Independent

Maintaining full ownership and control while competing through specialization, technology adoption, and organic growth. This path preserves autonomy but requires self-funding all initiatives.

3

The Purpose of This Guide

This eBook will help you navigate these complex decisions by providing:



Clear frameworks for evaluating each strategic option



Real-world insights from firms that have traveled each path



Practical assessments to determine your firm's readiness



Action steps to prepare for your chosen direction

Whether you're a sole practitioner planning retirement, a mid-sized firm seeking growth, or a larger practice evaluating options, this guide will help you make an informed decision aligned with your firm's values, goals, and vision for the future.

Understanding Your Firm's Position

01

Before choosing a strategic path, you need an honest assessment of where your firm stands today.

Complete this 20-question assessment to understand your firm's strategic priorities and discover which path aligns best with your situation. For each question, select the answer that most closely reflects your firm's current position or leadership perspective.

Understanding Your Firm's Position

For each question, select the answer that most closely reflects your firm's current position or leadership perspective.

PART 1: GROWTH

1. What are your firm's growth objectives for the next five years?

- A) Transform into a significantly larger organization (20%+ annual growth)
- B) Achieve steady, manageable expansion (5%-10% annually)
- C) Maintain our current size and optimize what we have
- D) Simplify operations or reduce size strategically

2. How important is geographic expansion to your strategy?

- A) Critical. We must enter new areas to succeed.
- B) Important. We're open to the right opportunities.
- C) Nice to have—but not a priority.
- D) Not interested. We're committed to our current markets.

3. When you think about your firm's future market position, you envision:

- A) Becoming a dominant regional or national player.
- B) Strengthening our position through strategic growth.
- C) Maintaining our current market niche.
- D) Focusing more narrowly on what we do best.

PART 2: CONTROL & OWNERSHIP

4. How does your leadership team feel about sharing control with outsiders?

- A) Open to significant changes if the benefits are compelling
- B) Willing to share some control for the right opportunities
- C) Prefer to maintain control with minor compromises
- D) Maximum autonomy is nonnegotiable

5. If offered substantial resources (capital, technology, expertise) in exchange for giving up majority control, your firm would:

- A) Seriously consider it as an exciting opportunity
- B) Evaluate it carefully against other options
- C) Be skeptical but willing to listen
- D) Reject it as incompatible with our values

6. How are major decisions currently made in your firm?

- A) Quick decisions by managing partner or small committee
- B) Structured process with input from key leaders
- C) Collaborative approach seeking broad consensus
- D) Full partnership vote on most significant matters

PART 3: FINANCIAL PRIORITIES & TIMELINE

7. What is your most pressing financial priority?

- A) Provide liquidity for retiring or departing partners
- B) Generate immediate liquidity for all partners
- C) Fund growth and build long-term value
- D) Maintain stable partner income

8. Your ideal timeline for a major strategic transition is:

- A) As soon as possible (1-2 years)
- B) Medium-term planning (3-5 years)
- C) Long-term development (5-10 years)
- D) No specific timeline—we'll evolve naturally

9. How urgent is your succession planning need?

- A) Critical—multiple retirements pending with no successors
- B) Important—need solutions in next few years
- C) Manageable—have time to develop internal options
- D) Solved—clear succession plan in place

9B. If you have retiring partners in the next five years, how will their buyouts be funded?

- A) We have no clear funding mechanism in place
- B) Through firm cash flow over extended periods (5-10 years)
- C) Bank financing or partner loans
- D) We need external capital to solve this

PART 4: RISK & CHANGE TOLERANCE

10. Your firm's appetite for risk is best described as:

- A) Aggressive—ready to transform our business model
- B) Moderate—willing to take calculated risks for growth
- C) Conservative—prefer proven approaches
- D) Risk-averse—protect what we've built

11. How has your firm handled significant changes in the past?

- A) Embraced them as opportunities for improvement
- B) Managed them successfully with some challenges
- C) Struggled but eventually adapted
- D) Resisted until absolutely necessary

12. When it comes to technology adoption, your firm:

- A) Leads the market in trying new solutions
- B) Stays current with proven technologies
- C) Adopts new tools when clearly beneficial
- D) Changes only when current systems no longer work

PART 5: CULTURE & VALUES

13. How important is preserving your current firm culture?

- A) Flexible—culture should evolve with strategy
- B) Important—but willing to adapt key elements
- C) Very important—core values must remain
- D) Critical—our culture defines who we are

14. Your firm's work-life balance philosophy prioritizes:

- A) Maximum performance and growth
- B) High performance with flexibility
- C) Balance between work and personal life
- D) Quality of life over aggressive growth

15. How would staff likely react to a major strategic change (merger, PE investment)?

- A) Excited about new opportunities
- B) Cautiously optimistic if well-communicated
- C) Concerned but willing to give it a chance
- D) Resistant to significant changes

PART 6: OPERATIONAL READINESS

16. Your current technology infrastructure is:

- A) Industry-leading and scalable
- B) Modern and meeting current needs
- C) Functional but needs investment
- D) Outdated and limiting growth

17. Your firm's financial and operational management systems are:

- A) Sophisticated with detailed KPI tracking
- B) Professional with good reporting
- C) Basic but adequate for our needs
- D) Informal and partner-dependent

18. The depth of your management team below partner level is:

- A) Strong with multiple succession candidates
- B) Developing with promising managers
- C) Thin but addressing the gaps
- D) Concerning with few ready leaders

PART 7: MARKET POSITION

19. Your firm's competitive advantage comes primarily from:

- A) Scale, resources, and broad capabilities
- B) Specialized expertise or niche focus
- C) Deep local relationships and reputation
- D) Personalized service and partner attention

20. In your market, consolidation pressure is:

- A) Intense—must grow or be acquired
- B) Increasing—need to respond strategically
- C) Moderate—we can maintain position
- D) Limited—independence remains viable

Understanding Your Results

65-80
POINTS

Prime Candidate for PE Investment or Aggressive M&A

Your firm shows strong growth orientation, comfort with change, and openness to external partnerships. You're willing to trade control for resources and appear ready for transformation.

CONSIDER:

- Private equity partnership for rapid scaling
- Merger with larger firm as a platform for growth
- Roll-up strategy as an acquirer

45-64
POINTS

Good Fit for Strategic M&A or Selective Growth

Your firm balances growth ambitions with cultural preservation. You're open to opportunities but selective about fit.

CONSIDER:

- Merger of equals with culturally aligned firm
- Targeted acquisitions to fill specific gaps
- Strategic alliance before full merger

25-44
POINTS

Strong Independence Candidate with Selective Opportunities

Your firm values autonomy and cultural preservation while maintaining sustainable operations.

CONSIDER:

- Remaining independent with focused improvements
- Very selective acquisition of small practices
- Strategic partnerships without ownership changes

20-24
POINTS

Committed to Independence

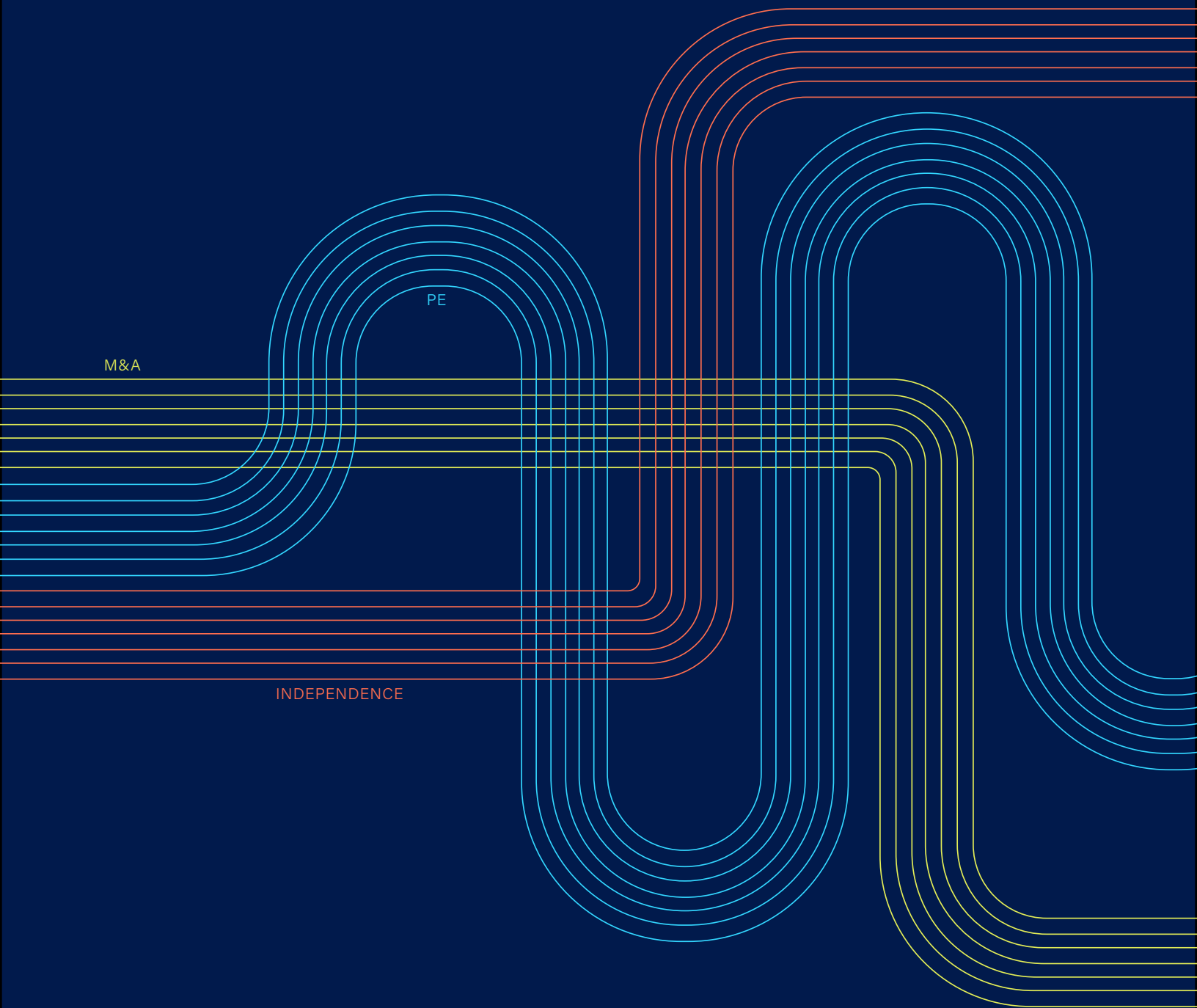
Your firm strongly prioritizes control, culture, and current operations. External partnerships would likely create more friction than value.

FOCUS ON:

- Optimizing current operations
- Internal succession development
- Organic growth within comfort zone

Remember: This assessment provides directional guidance, not definitive answers. Use it to structure meaningful discussions about your firm's future.

Which Path Is Right for Your Firm? 02



Merger & Acquisition (M&A)

Mergers and acquisitions in accounting take many forms, each with distinct characteristics and implications for your firm's future.



Merger of Equals

Two firms of similar sizes combine to create a new entity. Both firms contribute leadership, clients, and resources. This approach works best when firms share compatible visions and complementary strengths.



Upward Merger

A smaller firm merges into a larger regional or national firm. The smaller firm's partners typically become partners in the larger entity, though often with modified roles and compensation structures.



Acquisition/Tuck-In

A larger firm purchases a smaller practice, fully absorbing its operations. The acquired firm's brand disappears, and its people become employees of the acquirer. This provides the cleanest exit for retiring owners.



Two-Stage Deal

Partners sell a portion of their equity initially while remaining active in the firm, then complete the sale over 3-5 years. This structure helps ensure client retention and smooth transitions.

BENEFITS AT A GLANCE:

- ☆ Instant impact, expanded reach
- ☆ Shared technology, reduced overhead
- ☆ Client continuity, staff security
- ☆ Comprehensive service offerings
- ☆ Career paths, competitive benefits
- ☆ Cash at closing, clear exit paths

CHALLENGES AT A GLANCE:

- ⚠ Culture clashes between firms
- ⚠ 10%-20% client/staff turnover
- ⚠ Months of tech disruption
- ⚠ Income adjustments for parity
- ⚠ Loss of community identity

Benefits of M&A

Cost Efficiency

Technology investments and administrative costs spread across a larger base, driving down per-person expenses. Shared resources mean better tools for everyone while reducing duplicate systems and overhead.

Succession Solutions

When partners near retirement without clear successors, M&A ensures client relationships continue and staff careers remain secure. Partners can realize the value they've built over decades rather than closing their doors.

Enhanced Capabilities

Strategic combinations unlock new potential. A tax-focused firm joining an audit specialist creates comprehensive service offerings and specialized expertise—whether in technology consulting, wealth management, or industry niches—that becomes available to all clients.

Talent Advantages

Larger combined firms attract and retain top talent with stronger career paths, competitive benefits, and robust training programs. This helps firms compete for the best graduates and keep ambitious professionals who might otherwise jump to Big Four opportunities.

Immediate Partner Liquidity

M&A transactions solve one of the profession's biggest challenges: funding partner retirements. Instead of straining cash flow with multiyear buyout obligations, mergers provide immediate liquidity. Retiring partners typically receive a large sum of cash at closing, while continuing partners may receive a combination of cash and equity in the larger organization. This eliminates unfunded retirement liabilities and provides clear exit paths for baby boomer partners.

SCALE AND MARKET POSITION:

M&A creates instant impact—more revenue, expanded teams, and broader geographic reach.

Firms that once struggled to land Fortune 500 clients suddenly have the resources and credibility to compete at the highest levels.



Challenges of M&A

⚠️ **Cultural Integration Struggles**

The hardest part isn't combining systems—it's merging cultures. Different approaches to work-life balance, client service, and decision-making create friction. When a buttoned-up corporate firm acquires an informal family practice, conflicts inevitably arise.

⚠️ **Client and Staff Retention Risks**

Clients chose your firm for specific reasons. Some won't appreciate new policies, different teams, or higher rates. Key employees may resist changes or receive competing offers during the uncertainty. Industry data shows 10%-20% turnover is common post-merger.

⚠️ **Technology Harmonization**

Incompatible software, different versions, and varying workflows create months of disruption. The acquired firm's staff must learn new systems while maintaining client service. Data migration errors can damage client relationships permanently.

⚠️ **Financial Disparities**

Firms often discover their profitability calculations don't align. Different billing rates, collection practices, and overhead allocations make true comparisons difficult. Partners may face income reductions to achieve parity.

⚠️ **Loss of Identity**

Smaller firms often lose their community presence and personal touch. Long-standing client relationships become institutionalized. Partners accustomed to quick decisions face committee approvals and bureaucracy.

M&A MAKES THE MOST SENSE FOR FIRMS FACING THESE SITUATIONS:

✓ **Succession Pressures Without Internal Solutions**

When partners approach retirement without identified successors, M&A provides the most reliable path for client continuity. Trying to recruit external partners rarely works as well as joining an established firm.

✓ **Need for Rapid Growth or Geographic Expansion**

Firms seeking to double in size or enter new areas can accomplish in months what might take years organically. This particularly applies when following major clients to new locations.

✓ **Desire for Institutional Resources**

Smaller firms struggling with technology investments, cybersecurity requirements, or professional development find relief in larger organizations' infrastructure. The cost of competing independently continues to rise.

✓ **Markets Experiencing Consolidation**

In highly competitive markets where larger firms dominate, remaining independent becomes increasingly difficult. Joining forces may be necessary for survival.

Private Equity (PE)

Private equity has transformed from an occasional buyer of accounting firms to a major force reshaping the profession. PE firms provide capital and operational expertise in exchange for significant ownership stakes—typically 51%-70% initially.

Unlike traditional acquisitions by other accounting firms, PE investors bring outside perspectives, growth mandates, and defined exit timelines. They view accounting practices as platforms for rapid expansion through technology, acquisition, and service transformation.

THE PE MODEL TYPICALLY INVOLVES:



Initial investment to acquire majority control



Additional capital for growth initiatives and acquisitions



Operational support to improve efficiency and profitability



Exit strategy within 3-7 years to generate returns

BENEFITS AT A GLANCE:

- ☆ Immediate capital for expansion
- ☆ Proven management playbooks
- ☆ 10-20 acquisitions possible
- ☆ Liquidity without full exit
- ☆ Competitive compensation

CHALLENGES AT A GLANCE:

- ⚠ 20%+ return pressure
- ⚠ Major cultural shifts
- ⚠ Decisions need PE approval
- ⚠ Forced exit in 5-7 years
- ⚠ Debt amplifies risk

Benefits of PE

Significant Capital Infusion

PE immediately solves capital constraints. Funds flow for technology upgrades, office expansions, marketing campaigns, and talent acquisition. Firms can invest in innovations that would take years to self-fund.

Professional Management Infrastructure

PE firms bring proven playbooks for growth. They install reporting systems, KPI dashboards, and accountability structures. Many provide executives experienced in scaling professional services businesses.

Accelerated Growth Through Acquisition

With PE backing, firms can pursue aggressive acquisition strategies. Capital availability and deal expertise enable rapid market consolidation. Some PE-backed firms complete 10-20 acquisitions within five years.

Partner Liquidity Without Full Exit

PE transactions create immediate liquidity events that solve succession funding challenges. Partners typically sell a high percentage of their equity at attractive multiples while retaining meaningful ownership stakes. This provides:

- Immediate cash for retiring partners without burdening remaining owners
- Wealth diversification for continuing partners
- Elimination of unfunded buyout obligations
- Capital for partial retirements or reduced workloads

Unlike traditional partner buyouts paid over a multiple of years, PE delivers liquidity up front, allowing partners to monetize their life's work while potentially benefiting from future value creation through retained equity.

COMPETITIVE ADVANTAGES:

PE investment enables competitive compensation packages, cutting-edge technology, and marketing sophistication that independent firms struggle to match. This attracts top talent and premium clients.



Challenges of PE

⚠️ **Pressure for Returns**

PE investors expect 20%+ annual returns. This pressure transforms firm culture from steady profitability to aggressive growth. Partners face new scrutiny over utilization, realization, and business development.

⚠️ **Cultural Transformation**

The shift from partnership to corporate structure changes everything. Decisions require board approval. Financial engineering may prioritize short-term gains over long-term client relationships. Traditional accounting values can feel secondary to financial metrics.

⚠️ **Loss of Partner Control**

While partners retain minority stakes, major decisions rest with PE investors. Compensation structures, growth strategies, and even partner admissions require approval. Some partners struggle with this diminished autonomy.

⚠️ **Exit Timeline Constraints**

PE firms must sell within their fund timeline—typically 5-7 years. This forced exit may not align with partners' preferences or market conditions. The next buyer could be another PE firm or strategic acquirer with different priorities.

⚠️ **Debt Implications**

PE transactions often involve significant debt placed on the acquired firm. This leverage amplifies returns but also risks. Economic downturns or lost clients can create financial stress unknown in traditional partnerships.

PE INVESTMENT ALIGNS BEST WITH FIRMS EXHIBITING THESE CHARACTERISTICS:



Strong Platform for Growth

The ideal PE candidate has an established market position with clear expansion potential, supported by a diverse client base without dangerous concentration in any single client or industry. These firms have already proven their ability to successfully integrate acquisitions, demonstrating the operational discipline PE investors value.



Need for Rapid Growth or Geographic Expansion

Firms seeking to double in size or enter new areas can accomplish in months what might take years organically. This particularly applies when following major clients to new locations.



Markets Experiencing Consolidation

In highly competitive markets where larger firms dominate, remaining independent becomes increasingly difficult. Joining forces may be necessary for survival.



Leadership Comfortable with Corporate Structure

Successful PE partnerships require partners who willingly trade autonomy for resources and growth capital. Leadership must be comfortable with external oversight and reporting requirements while embracing aggressive growth targets. This means adapting from the traditional consensus-based partnership model to a more hierarchical decision-making structure where speed and efficiency take priority.



Partners Seeking Liquidity with Continued Involvement

The sweet spot involves partners aged 50-65 with 5-10 years until full retirement who want to diversify their personal wealth while remaining actively involved. These leaders still have energy for another growth phase and are willing to mentor successor leadership, creating a smooth transition while maximizing value for all stakeholders.

Remain Independent

Remaining independent means maintaining full ownership and control of your firm's direction. This path requires confidence in your ability to compete without external capital or imposed growth targets. It's about choosing sustainability over rapid expansion, autonomy over resources, and culture over scale.

*Independent firms aren't anti-growth—
they simply grow on their own terms.*

They fund expansion through profits, maintain decision-making control, and preserve the option to change strategies without external approval.

BENEFITS AT A GLANCE:

- ☆ Every decision within partnership
- ☆ Culture and values preserved
- ☆ Freedom for niche strategies
- ☆ Long-term equity building
- ☆ Differentiation in market

CHALLENGES AT A GLANCE:

- ⚠ Self-fund all investments
- ⚠ Compete against larger resources
- ⚠ Complex succession planning
- ⚠ Scale disadvantages
- ⚠ Talent as stepping stones

Benefits of Remaining Independent

Complete Autonomy

Every decision remains within the partnership. Choose clients, set rates, determine work-life balance, and define success without outside interference. This freedom enables quick pivots when opportunities arise.

Cultural Preservation

The firm's personality, values, and approach remain unchanged. Long-standing client relationships continue uninterrupted. Employees experience consistency in leadership and direction. Community presence stays authentic.

Flexible Strategic Options

Without external investors or merger obligations, independent firms can pursue niche strategies, lifestyle practices, or contrarian approaches. They can prioritize quality over quantity, relationships over revenue.

Long-Term Wealth Building

Partners build equity over decades rather than seeking quick liquidity events. With patience and sound management, the ultimate value often exceeds what PE or acquirers offer, while maintaining control throughout.

AUTHENTIC DIFFERENTIATION:

In markets dominated by large firms and PE rollups, true independence becomes a differentiator. Clients seeking personal attention and consistent relationships value the stability of independent firms.



Challenges of Remaining Independent

⚠️ Self-Funding All Investments

Technology upgrades, office expansions, and talent investments require partner capital or debt. Major initiatives may take years to fund. Partners must balance current income with reinvestment needs.

⚠️ Competing Against Larger Resources

National firms offer broader services, deeper expertise, and sophisticated technology. They attract top graduates with structured training and diverse career paths. Marketing budgets dwarf what independents can afford.

⚠️ Scale Disadvantages

Compliance costs, technology investments, and professional development expenses don't scale down proportionally. Insurance, cybersecurity, and regulatory requirements impose disproportionate burdens on smaller firms.

⚠️ Succession Complexity & Liquidity Constraints

Without natural buyers, internal succession requires years of planning and creates significant financial strain. Retiring partners often wait years for full buyout payments, accepting below-market valuations to make deals feasible. The firm must fund these buyouts from operating cash flow, limiting growth investments. Next-generation leaders need substantial personal financing or firm guarantees. Many firms discover too late that their partnership agreements create unsustainable retirement obligations, forcing distressed sales or leaving partners without adequate retirement funds.

⚠️ Talent Attraction and Retention

Ambitious professionals often view independent firms as stepping stones to larger opportunities. Competing compensation packages strain profitability. Limited advancement opportunities drive turnover.

INDEPENDENCE WORKS BEST FOR FIRMS WITH THESE CHARACTERISTICS:



Strong Financial Foundation

Independent firms thrive on consistent profitability with healthy margins, supported by diverse revenue streams that minimize concentration risk. They maintain minimal debt levels with adequate working capital, and partners prioritize reinvesting profits for long-term growth rather than maximizing annual distributions.



Differentiated Market Position

Independence works best for firms with specialized expertise that commands premium rates and deep client relationships that resist competitor poaching. Whether through local market leadership or protected niches, these firms build their reputation on service quality that drives consistent word-of-mouth growth without aggressive marketing.



Clear Succession Path

Successful independent firms have already identified their next-generation leaders who are committed to maintaining the firm's independence AND have realistic funding mechanisms for partner buyouts. This requires conservative retirement valuations, extended payment terms, and partners willing to accept lower liquidity in exchange for maintaining the firm's independence.



Cultural Alignment on Independence

The independent path requires partners who value autonomy over rapid wealth creation and find satisfaction in building something enduring for future generations. This mindset embraces patient, organic growth over quick wins and demonstrates deep commitment to staff development and community involvement that defines the firm's legacy.


Conclusion

03

No One-Size-Fits-All

After exploring the three main strategic paths available to accounting firms, one truth emerges clearly: There is no universally correct choice. The right path for your firm depends entirely on your unique combination of circumstances, aspirations, and constraints.

We've examined successful firms that found renewed energy through merger, achieved remarkable growth with PE partnership, and built enduring value through independence. We've also seen failures in each category—rushed mergers destroying decades of culture, PE pressure crushing firm morale, and independent firms slowly withering from underinvestment.



Success comes not from choosing the “best” path, but from selecting the one aligned with your firm’s authentic identity and executing it thoughtfully.

Encourage Proactive, Intentional Decision-Making

The greatest risk facing accounting firms today isn’t choosing the wrong path—it’s failing to choose at all. Drifting along hoping things work out rarely ends well. Market forces, competitive pressures, and succession realities eventually force decisions under suboptimal conditions.

Take control of your strategic direction while you have options. Start conversations before crisis points. Explore alternatives from positions of strength. Make decisions based on opportunity rather than desperation.

The key is making an intentional choice aligned with your unique situation and executing it with conviction.

**Your firm’s next chapter awaits.
We can get you there—faster.**

Learn how we can get your infrastructure and operations ready to scale, your way. Get started at rightworks.com/modernfirmgrowth

