

Accounting firm partners to public corporation employees

An exploration of implications and responses in a failed accounting company

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Abstract

Purpose – The purpose of this paper is to explore the implications on former accounting firm partners becoming employees of a publicly owned accounting corporation, the responses of the former partners and impacts on the acquiring company. Partners of accounting and other professional service firms selling their firms to publicly owned companies often remain with the acquiring company as employees and receive company shares as consideration for their firms. Agency theory suggests public ownership will result in changes to the roles of senior professionals with potential resistance and motivation consequences.

Design/methodology/approach – This paper uses a case study approach involving the review of publicly available information and interviews with executives and senior professionals of an Australian publicly owned accounting company, Stockford Limited.

Findings – The Stockford case indicates that selling their firm to a publicly owned company can have significant negative implications for accounting firm partners. The former partners struggled to adapt to their new roles as senior professional employees and shareholders. Their responses had significant impacts on company performance, which ultimately contributed to the collapse of the company, thus reflecting the power senior professionals retain regardless of the change of ownership form.

Research limitations/implications – Care is required when generalising findings of a single case to other professions and other geographic jurisdictions.

Practical implications – This paper has significant implications for entrepreneurs and executives consolidating professional service firms, partners considering selling their firms and investors in publicly owned professional service firms.

Originality/value – Despite the emergence of publicly owned accounting and other professional service companies and the importance and power of senior professionals in professional service firms, this is the first study to explore the implications on senior professionals of selling their firms to public companies.

Keywords Mergers and acquisitions, Partnership, Accounting firms, Professional services, Public ownership

Paper type Case study



It is both exciting and frustrating to deal with a lot of individuals who have never been in the corporate world before. Stockford Chairman in March 2002 (Thomas, 2002).

It killed most people. We were used to doing our own thing for 20 to 30 years and then some upstart from head office was telling us what to do and what not to do. Interviewed Stockford principal.

These quotes suggest that the transition from being partners in small to medium accounting partnerships to new roles as employees of a publicly owned accounting company can be challenging for the selling partners and for the executives and directors responsible for managing them.

Over the past 15 years, a new ownership form for accounting firms, the publicly traded accounting company, has emerged with significant accounting companies rapidly built in Australia, the UK and the USA through the acquisition of thousands of accounting firms (Pickering, 2012a; Shafer *et al.*, 2002a; Wootton *et al.*, 2003). For example, in Australia, publicly owned WHK Group Limited is the fifth largest accounting firm with revenues for the year up to 30 June 2012 of Aus\$354 million (Khadem, 2012), publicly owned CBIZ Inc. and accounting partnership Mayer Hoffman McCann are associated through an alternative practice structure and together report as the seventh largest accounting firm in the USA with 2011 revenues of USD597 (Accounting Today, 2012) and publicly quoted RSM Tenon is the seventh largest in the UK with annual revenues of £234 million (Accountancy Age, 2012).

Public ownership and rapid growth through acquisition has not always been a successful strategy for accounting companies. Between 2002 and 2005, four of the five publicly owned accounting firms operating in Australia collapsed (Pickering, 2012b). In the UK, Numerica PLC (Hanney, 2005) and Vantis PLC collapsed (Armistead, 2010), and in the USA, publicly owned American Express (H&R Block, 2005) and H&R Block (Accounting Today, 2012) exited their previously acquired accounting and advisory businesses.

Selling a firm to a publicly owned company generally requires former partners to remain with the public company as employees and often as shareholders (Pickering, 2010). The former partners then experience the change of moving from a partnership role in a small- to medium-sized partnership to being an employee in a large corporation that has external shareholders. Agency theory addresses issues arising from the separation of ownership and management in corporations (Fama and Jensen, 1983). The organisation and governance of accounting firms and other professional service firms (PSFs), traditionally established as partnerships, are different to corporations (Cooper *et al.*, 1996; Greenwood *et al.*, 1990). Partnership has been theorised to be the most effective ownership form to address specific agency issues associated with managing professionals and motivating them to work for the benefit of the firm (Empson and Chapman, 2006; Fama and Jensen, 1983).

For senior professionals, partnership provides prestige, input into the management of the firm, significant professional autonomy and financial rewards (Greenwood and Empson, 2003; Empson and Chapman, 2006). Power is dispersed in PSF partnerships with partners having power from ownership rights, through their technical knowledge and client relationships and through difficulties in implementing bureaucratic controls over the complex task of tailoring solutions to individual client needs (Greenwood *et al.*, 1990; Howard, 1991). Partners resist efforts to introduce bureaucratic control or more commercial practices (Cooper *et al.*, 1996; Dirsmith *et al.*, 1997; Hinings *et al.*, 1991; Lawrence *et al.*, 2012; Schilling *et al.*, 2012) such as those predicted by agency theory to be implemented in publicly owned professional service companies to protect the interests of external shareholders (Clark *et al.*, 2005).

Mergers and acquisitions (M&As) between organisations with different management styles and organisational cultures can negatively affect staff and firm

performance (Buono and Bowditch, 1989; Nahavandi and Malekzadeh, 1988; Larsson and Finkelstein, 1999). The literature on PSF M&A suggests that even the merger of two partnerships can result in reduced morale and affect professional behaviour (Ashkanasy and Holmes, 1995; Empson, 2000; Greenwood *et al.*, 1994). The acquisition of many small to medium partnerships by a publicly traded corporation would, therefore, appear to have significant potential for negative implications for former partners and the acquiring company.

More broadly, there has been a trend of other PSFs, such as architecture, advertising, management consulting firms and even law firms moving away from partnership to other forms of ownership (Greenwood and Empson, 2003; Greenwood *et al.*, 2007; Pickering, 2012a; Von Nordenflycht, 2007). Despite the potential impacts of this trend on the role of senior professionals, professional autonomy and the sharing of profits with external owners, there is a lack of research on the implications for former partners of accounting and other PSFs becoming employees of publicly traded professional service companies and whether these implications represent a barrier to firms changing legal form (Greenwood *et al.*, 2007) or the impact of former partner responses on company performance.

This paper starts to address this gap in the literature by examining the case study of Stockford Limited, a publicly owned accounting company operating in Australia in the early 2000s. The study finds that the impacts of moving to a new role as an employee in a publicly traded company can be a substantial change that is difficult to adapt to for the former partners. The former partners in the case remained very important to the accounting company and retained substantial power regardless of executive efforts to reduce this power. The responses of the former partners were extreme and had significant implications for the company ultimately contributing to its collapse.

Literature review

This section reviews the literature on the unique nature of PSFs, including accounting firms, the implications on former partners when PSF partnerships change legal form and professional responses to the introduction of more commercial practices. As many accounting firms were acquired by publicly traded companies, the M&A literature and the PSF-focussed M&A literature is reviewed. Finally, prior research on publicly owned accounting firms is examined.

Professional services, agency theory and partnership

Professional services, including accounting services, require the tailoring of a solution to the clients specific need, utilising substantial training and experience with this customisation process, thus making bureaucratic control difficult and resulting in high levels of professional autonomy (Lowendahl, 2000; Greenwood *et al.*, 1990). Knowledge assets and client relationships are important to the performance of PSFs (Empson, 2001; Morris, 2001) and there can be conflict between the firm owners and professionals as to who owns these assets (Empson and Chapman, 2006). These characteristics create significant potential agency issues for external shareholders of PSFs in motivating and monitoring professionals performing in the interest of the firm (Empson and Chapman, 2006; Fama and Jensen, 1983).

These potential agency issues have traditionally led to the use of partnerships as an organisational structure (Greenwood *et al.*, 1990) to address the potentially conflicting

claims of shareholders, professionals and clients (Empson and Chapman, 2006). Partnership as a legal form involves ownership of the firm by key professionals and unlimited liability of partners for the actions of fellow partners (Empson and Chapman, 2006). Unlike in a corporation, the partners in a professional partnership are the owners, managers and key workers of the firm combining ownership and management and motivating senior professionals through the sharing of profits, input into firm management and the unlimited risks of law suits (Greenwood *et al.*, 1990). The lure of partnership motivates work effort and productivity of junior professionals (Galanter and Palay, 1991; Gilson and Mnookin, 1989).

Power is more dispersed in PSFs than in other companies, resulting in the use of different forms of governance than other types of companies (Greenwood *et al.*, 1990; Howard, 1991). Cooper *et al.* (1996) suggest that the interpretive scheme [underlying values and beliefs (Greenwood and Hinings, 1993)] of governance of professional partnerships emphasises upon partnership and professionalism with a “view of ownership and governance that values partnership, autonomy and democracy” (p. 626) and the application of “knowledge and skills to public interest activities” (p. 627). The role of partners includes input into strategic decisions of the firm, representation in the appointment of partners into national management roles, significant input in the management of the local office and autonomy in dealings with clients (Greenwood *et al.*, 1990).

More recently, large accounting and law firms have been observed to have increased their focus on effectiveness and efficiency through increased hierarchy and centralised bureaucratic control and higher levels of integration and coordination across practices (Cooper *et al.*, 1996; Hinings *et al.*, 1994; Malhotra *et al.*, 2006). Professional service firms move through various phases of governance as they mature and become more complex, from beginning as being founder-focussed, with decision-making being retained by the founders, to collegial consensus-based decision-making as the number of owners expands and through to increasing levels of delegation of decision power to committees and a small number of senior partners or executives (Empson, 2012). Transitions between phases are driven by governance crisis, with transitions often punctuated by delays and reversals (Empson, 2012).

Implications on former partners and responses to changes in legal form of firm

The trend towards public ownership of accounting firms (Shafer *et al.*, 2002a) is part of a broader trend of large PSFs moving from partnership to alternative legal forms (Greenwood and Empson, 2003; Greenwood *et al.*, 2007; Von Nordenflycht, 2007). Research on the implications for former partners of this trend and whether these implications represent barriers to firms changing legal form has been neglected (Greenwood *et al.*, 2007). Agency theory suggests that the introduction of external owners into PSFs will result in increased bureaucratic controls, reduced professional autonomy, an increased focus on profitability and reduced professional motivation (Clark *et al.*, 2005; Shafer *et al.*, 2002a). A change in internal governance is likely to change the role of former partners. However, there has been little research into the governance, structures and systems of these new forms of ownership of PSFs (Clark *et al.*, 2005; Empson and Chapman, 2006; Greenwood *et al.*, 2007; Pickering 2012b; Van Lent, 1999).

Empson and Chapman (2006) conclude that a publicly traded consulting company and a limited liability consulting company retain major attributes of partnership governance defined as constraint to management power, substantial professional autonomy and running the firm for long-term value. In incorporating, KPMG Netherlands retained the economic attributes of partnership being “ownership in the company was limited to the most senior employees of the firm and essential decisions in the firm were made by joint owners/ employees” (Van Lent, 1999 p. 251) but decision-making was changed from absolute to majority vote and remuneration moved more to reflect the marginal productivity of partners (Van Lent, 1999). British incorporated private architecture companies have been found to retain elements of the partnership model with “the importance of consensus in firm-wide decisions and is tolerant of diverse objectives among individual owners” (p. 207) and the senior architect retains key professional–clients relationships (Pinnington and Morris, 2002). However, there was less consensus in decision-making, less tolerance for deviation in performance and less tolerance for principals pursuing client work purely for the sake of professional interest in companies than in comparable partnerships (Pinnington and Morris, 2002).

These studies compare governance, but not other implications on former partners across different ownership forms. With the exception of Van Lent (1999), they do not explore changes in governance when specific organisations change legal form. While it can be inferred from these studies that many aspects of the role of senior professionals remain similar to that of a partner, some changes were noted, as stated above, but none of the studies examined partner responses to these changes. Only Empson and Chapman (2006) investigated a case of a publicly owned professional service company, but this firm was never a partnership. No studies were identified of the governance of publicly owned accounting companies. There is a need for research to explore public ownership of accounting firms including organisational governance and implications on professional autonomy, employer relationships, client relationships, perceptions of conflict between the organisation and professionals and work motivation and job satisfaction (Shafer *et al.*, 2002a). Concerns have also been raised that public ownership will affect the professionalism of accountants (Shafer *et al.*, 2002a).

Professional responses to the introduction of more commercial practices

Over the past two decades, researchers have observed PSFs implementing more business-like structures and systems (Cooper *et al.*, 1996; Lawrence *et al.*, 2012; Pinnington and Morris, 2003). Partner resistance has been found to impede or reverse the implementation of strategic planning (Harris, 2000), client teams (Hinings *et al.*, 1991), management by objectives (Dirsmith *et al.*, 1997) and practices such as executives performing client satisfaction reviews, the appointment of a non-lawyer chief executive officer (CEO) and less consensus in decision-making (Cooper *et al.*, 1996; Lawrence *et al.*, 2012). Resistance includes failing to organise or attend meetings (Hinings *et al.*, 1991), changing management and ignoring and subverting decisions (Cooper *et al.*, 1996), exiting, voicing resistance and negotiating changes (Schilling *et al.*, 2012). Seemingly easy decisions can become “hard” to implement with resistance from partners (Morris *et al.*, 2010).

Role conflict where professionals perceive excessive bureaucracy has been found to result in lower job satisfaction (Abernathy and Stoelwinder, 1995; Shafer *et al.*, 2002b; Sorenson and Sorenson, 1975), greater intent to leave the firm (Sorenson and Sorenson,

1975; Shafer *et al.*, 2002b), reduced participant assessment of sub-unit performance (Abernathy and Stoelwinder, 1995) and behaviour such as working to rule, acting busy, bored and disinterested, focussing on outside interests at work, increasing absenteeism and resisting company objectives and initiatives (Raelin, 1991).

Paths from partnership to public ownership

Former partners of accounting firms can become employees of publicly owned firms through an initial public offering (IPO) of a firm, selling the firm to a publicly owned company or to an incorporated company that then goes through an IPO or is acquired by a public company.

The predominant approach over recent years appears to be the sale of accounting firms to publicly traded companies. For example, American Express and H&R Block acquired thousands of accounting firms in the USA during the late 1990s to early 2000s (Shafer *et al.*, 2002a), WHK Group Limited has acquired approximately 150 accounting and financial planning firms in Australia and New Zealand from 1997 to early 2010, and Stockford Limited has acquired over 50 firms in Australia and New Zealand after an IPO in late 2000 (Pickering, 2010, 2012b).

In these cases of rapid acquisitions, the implications and responses of former partners to becoming employees are likely to be exacerbated by the dynamics of acquisition and the subsequent integration. It is, therefore, necessary to examine the relevant literature on M&As.

M&As literature

Negative employee responses to M&As (Buono and Bowditch, 1989) contribute to the failure of many M&As (Blake and Mouton, 1985; Hambrick and Cannella, 1993; Larsson and Finkelstein, 1999). M&As between organisations with different management styles and organisational cultures can result in conflict during integration (Buono and Bowditch, 1989; Nahavandi and Malekzadeh, 1988; Shrivastava, 1986; Sales and Mirvis, 1984; Walter, 1985) and negatively impact post acquisition performance (Chatterjee *et al.*, 1992; Datta, 1991; Larsson and Finkelstein, 1999; Weber and Menipaz, 2003).

Where an acquired organisation has strategic capabilities embedded in a distinct culture, post-acquisition integration may require boundary protection between the acquired and acquiring companies and, hence, retain autonomy for the acquired firm (Haspeslagh and Jemison, 1991) with slow integration, preferable where there is low organisational fit between the merging companies (Homberg and Bucerius, 2006). However, even low levels of integration can result in reduced employee satisfaction (Marks and Mirvis, 1985; Sales and Mirvis, 1984; Schweiger and Walsh, 1990) and employee resistance (Larsson and Finkelstein, 1999).

PSF M&A literature

While M&As have been shown to be a significant factor in the creation of large accounting firms (Wootton *et al.*, 2003), the research on M&As of accounting firms and other PSFs is sparse (Empson, 2000; O'Dwyer, 1995).

The nature of PSFs with dispersed power constrains managements' ability to manage integration and can result in partner and professional resistance (Empson, 2000; Greenwood *et al.*, 1994). Management's power is limited even where the acquiring entity is a corporation with professionals, as opposed to key managers, holding the real power (Empson, 2000). There can be significant resistance to sharing knowledge and expertise

where professionals fear “exploitation”, that is they “do not believe that they will receive knowledge of equal or greater value in return” (Empson, 2000, p. 222) or fear contamination dealing with “inferior” professionals (Empson, 2001).

As trained staff and relationships with their clients represent key “income generating assets”, managers of PSFs do not want to lose them by implementing disruptive changes (Empson, 2000). Significantly greater client attrition rates during the first two to four years post-acquisition has been found when key client contact personnel are not retained after accounting firm mergers (Doucet and Barefield, 1999). PSFs have been found to use an “undirected” approach to integration to give professionals an opportunity to adjust to the new merged firm and reduce the risk of staff and client turnover (Empson, 2000). Senior management did not develop detailed integration plans or push integration with the integration process allowing pressure for formal integration to build from “integration entrepreneurs” voluntarily identifying opportunities for cooperation and leading other professionals to participate in informal integration activities (Empson, 2000).

Respondents to prior studies have suggested that partners and professionals leave due to dissatisfaction with the merger; however, these firms do not suffer turnover rates that are unduly high by industry standards (Ashkanasy and Holmes, 1995; Greenwood *et al.*, 1994). These findings may be influenced by these mergers occurring in an economic downturn with potentially limited alternative career options for staff. Increased turnover rates have been found in the second year post-merger as resisters left; however, not all resisters left, with some converted by the benefits of the merger (Empson, 2000). The exiting of resisting partners and employees is sometimes necessary to enable effective integration (O’Dwyer, 1995; Greenwood *et al.*, 1994).

In summary, research on mergers between two PSFs of the same legal form can result in culture clashes and dissatisfaction of partners and staff and resistance to integration activities. The prior research does not examine these issues where dozens of firms are brought together as with the acquisition of accounting partnerships by public companies.

Prior research on public accounting company motives and relative performance

Rapid growth of publicly owned accounting firms through acquisition is a common strategy for this type of a company (Pickering, 2012a; Shafer *et al.*, 2002a; Wootton *et al.*, 2003). Executives of these companies expect a range of benefits including the use of company shares as consideration to acquire firms, increased value due to the higher valuations (earning multiples) of publicly owned firms, cross-selling other services to accounting clients, developing and leveraging national branding, introducing and leveraging common processes and systems and providing technical support to practitioners (Pickering, 2012a). Rapid acquisition growth and announcing aggressive forecasts for the realisation of efficiency synergies creates risks for publicly owned accounting companies (Pickering, 2012a). Integration can require substantial investment, distract professionals from revenue generation and benefits are difficult to achieve with the failure to achieve forecasts as a public company resulting in negative press for the firm and a falling share price (Pickering, 2012a). A lack of agreement between the selling firm partners and acquiring firm executives on benefits expected from acquisitions can result in resistance to integration activities (Pickering, 2010).

Partners selling their firms to public accounting companies also expect a variety of benefits from selling. These include benefits of public ownership over partnership such as providing partners with a liquid investment and the ability to provide staff with company shares and options, to address partner succession issues such as difficulty in finding senior professionals willing and able to invest in partnership and funding the retirement of senior partners, providing capital for growth and new information systems and enabling the introduction of more corporate management processes (Pickering, 2010). Removing partner liability did not emerge as a significant motivation to sell. Selling is also expected to address issues of managing a small firm by becoming part of a larger organisation. This includes providing career paths and training for staff, improving the ability to attract and retain staff, the ability to provide a broader range of services to clients, access to technical skills to assist with rapidly changing legislation and regulations and access to improved information systems (Pickering, 2010). No prior studies were identified of the achievement of these objectives.

Exploratory research on the relative performance of publicly owned accounting firms suggests that public ownership enables substantially greater revenue growth rates but that publicly owned accounting firms are less productive in terms of revenue per person than partnerships (Pickering, 2012b). This higher growth rate of publicly owned firms is consistent with prior findings on large advertising firms (Von Nordenflycht, 2007) and the lower productivity of public ownership is consistent with prior findings on large consulting firms (Greenwood *et al.*, 2007) but conflicts with prior findings that ownership form does not affect the performance of large consulting firms in terms of revenue per employee (Richter and Schroder, 2006). Lower reported productivity for public company owned professional service companies may be partially due to measurement issues (Pickering, 2012b), different market focuses (Pickering, 2012b; Richter and Schroder, 2006; Von Nordenflycht, 2010), with public ownership more suitable to the more commoditised professional services (Greenwood and Empson, 2003) with lower hourly charge-out rates and being less specialised and, therefore, less costly staff (Pickering, 2012b; Richter and Schroder, 2006). Publicly owned accounting companies have a larger failure rate than partnerships (Pickering, 2012b).

Prior findings of the relative performance of accounting and other PSF public companies versus partnership are sparse and conflicting. Research, to date, has explored governance and performance across ownership forms at the organisational level but has not considered the implications for former partners when PSFs change from partnership to public ownership or the dynamics of change in these circumstances. Moving to a publicly owned company has potentially significant implications for the role of senior professionals, professional autonomy and requires senior professionals to share profits with external owners, creating potential agency issues in managing professionals. Despite the importance of senior professionals to PSFs and the power they typically retain, research, to date, has neglected the impacts on former partners and their reactions (Greenwood *et al.*, 2007; Pickering, 2012a; Shafer *et al.*, 2002a).

To begin to address these gaps, this paper explores the impacts that a move to employees of a publicly traded company can have on the former partners of accounting firms, factors contributing to these impacts, how former partners adapt and respond to new roles as employees and the implications of these responses for company performance.

Research methods

The early stage of research into the consolidation of small to medium accounting firm partnerships into publicly traded companies and into the move of PSFs into alternative forms of ownership suggested the use of a case study approach to this research (Eisenhardt, 1989; Yin, 1989). Case studies are an important methodology for accounting research to gain an in-depth understanding (Scapens, 1990), particularly in times of discontinuity (Cooper and Morgan, 2008) such as the change in ownership form for accounting firms. Given the limited number of cases which can be studied, it makes sense to choose extreme and polar types where the process of interest is “transparently observable” (Eisenhardt, 1989). Higher levels of post-acquisition integration can result in greater change in acquired companies (Haspeslagh and Jemison, 1991; Pablo, 1994). As the research is directed at examining the potential response of former partners to changing roles, an extreme case was, therefore, selected, where post-acquisition integration was substantial.

The sample company selected, Stockford Limited, listed on the Australian Securities Exchange in late 2000. One of the founders indicated in November 2000 that the high level of integration of acquisitions intended: “integration is paramount to everything we do, every strategy for service, human resources and products” (Thomas, 2000a). The company ultimately collapsed in early 2003. Many of the accounting companies listed in Australia and the UK during the early 2000s subsequently failed (Pickering, 2012b). Selection of a failed company enables learning from the models of the past (Van Lent, 1999) and the exploration of the potential implications of public ownership on former partners and whether the responses of these senior professionals played a role in the company’s failure.

Data collection consisted of the review of publicly available information and a series of in-depth interviews. Publicly available information for the case was substantial due to the publicly traded nature of the company researched and media attention on the new phenomena of publicly owned accounting firm consolidators. In total, over 1,200 pages were examined including analyst reports, company issued stock exchange and press releases, annual reports, newspaper/magazine articles (including interviews with company directors, executives and professionals), administrator reports and internal company documents provided by interviewees.

The number of interviews performed was limited due to the vast volume of publicly available information. Interviews were consistent with, and supported by, the publicly available information. Ten semi-structured interviews of 60- to 200-minute duration were performed. The interviews were performed in September and October 2003, which was subsequent to the company’s collapse and, therefore, subject to retrospective bias. This is mitigated by the quantity of publicly available information reviewed and analysed. The researcher did not receive a response to formal requests for access sent to company management in 2002. Individual Stockford interviewees were not approached until after the company failed. The collapse of the company effectively facilitated direct access to participants without requiring company approval.

Interview participants

Due to the volume and detail of publicly available information, in-depth interviews held with eight participants from Stockford was considered sufficient to provide further insight and confirm data and analysis. It was felt as being important to ensure that

views were obtained from executives of the acquiring companies and former partners of sold firms. Senior client serving professionals (including many of the former partners) were titled principals at Stockford. Interviewees were identified initially from an introduction to a Stockford principal through the researcher's industry contacts, with participants asked to suggest further potential interviewees that were likely to have similar and alternative views. Two head office executives were interviewed, one of which spent time split between an executive role and as a principal in one of the practices. One of the interviewed principals also spent one year in the role of a regional manager.

The research also included interviews with two representatives from the Administrator of the company, interviews with an industry analyst that had covered Stockford and a journalist specialising in the accounting industry. Interview participants are summarised in [Table I](#).

Data analysis

Data collection and data analysis utilised an iterative approach and were performed in an overlapping manner for the data to inform the analysis and the analysis to inform further data collection (Eisenhardt, 1989). Initial analysis consisted of identifying themes from the literature and those arising through data collection, and sorting information from documents reviewed and interviews into those themes. Themes identified from the literature and emerging during the research are included in [Table II](#).

Statements identified from the documents reviewed and from the transcribed interview notes were coded and pasted into a Word document under those themes. Where appropriate, statements were posted to multiple themes. Themes were reviewed to identify consistent and inconsistent responses. Analysis of the company's financial statements was performed to determine the degree to which reported financial outcomes supported emerging findings and to identify issues requiring further investigation.

Confirmation of findings

Consistency was found in the triangulation of data from documental evidence, interviews and financial analysis of results. Financial analysis supported interview responses on the actions of the former partners and responses to interviews performed for this study were consistent with interviews reported in financial print and company documents accessed. Interview responses were relatively consistent across interviews. Initial findings were provided to an informed participant from the company and an additional former Stockford principal not included in the interviews to ensure that events were appropriately captured, providing further support for the findings.

Informants	Executives	Principals	Administrator	Other	Total
Stockford	2*	5*	2		8*
Industry journalist				1	1
Investment bank analyst				1	1
Total	2*2*	5*	2	2	10*

Note: * One of the Stockford executives also spent time as a principal in one of the acquired firms. This increased the number of principals interviewed to five

Table I.
Interview list

Table II.
Summary of themes
identified

Aspect	From the literature	Emerging during research
Potential implications on former partners	Senior professional input into firm decisions Professional autonomy	Changes in career opportunities including greater specialisation Financial implications for former partners
Factors potentially contributing to former partner impact	Changes in the professional/ client relationship Feelings of 'contamination' Cultural differences Professional satisfaction	Senior professional remuneration Poor company performance
Potential former partner responses	Acquisition-related factors such as cultural fit Integration approach, and Management style/internal governance	Attempting to provide input into decisions Remaining under sufferance Rebellion
	Resistance to integration and management decisions Reduced motivation/work effort Exiting the firm	

Findings

This section first briefly describes Stockford Limited and events as they progressed from intent to consolidate firms to the IPO and the ultimate collapse of the company. The range of implications for former partners and the factors contributing to these impacts are then examined before identifying the former partners' responses to the changes and effects on the company.

Case description

Description of Stockford limited

Stockford grew extremely rapidly through 53 acquisitions in virtually one year, with the bulk of these acquisitions closing in less than two months after the November 2000 IPO. At its peak in mid-2001, Stockford was the sixth largest accounting firm in Australia with over 1,300 staff in 60 locations around Australia and New Zealand (Stockford, 2001g). Stockford services/products included accounting and audit, financial planning and products, information technology consulting and others such as practice management consulting, book keeping, property consulting, business planning and legal services (licensed) (Stockford, 2001g, 2002g). Accounting and financial planning-related services represented the bulk of services, being 70 and 20 per cent, respectively, of the 2002 revenues (Stockford, 2002g). Selling partners remained substantial owners of Stockford with approximately 55 per cent of company shares after the acquisition of the bulk of the practices in January 2001 with less than 1 per cent of vendor shares sold by October 2001 (Stockford, 2001h).

The Stockford model was a national centralised model with the boundaries of the acquired firms dismantled immediately and replaced by national divisions and regional clusters (Stockford, 2000a). Acquired firms were renamed Stockford, significant decision-making was moved to a large head office, many support services were centralised and common products, processes and systems were introduced. Stockford was, therefore, selected as the high integration case study for this research.

Events as they unfolded

Consolidation and IPO. The founders of Stockford commenced pulling together a consolidation of accounting, financial planning and other business service firms in mid-1999 with the intent of listing the company on the Australian Securities Exchange (Thomas, 1999). The vision of Stockford was to leverage the trusted accountant/client relationship to provide value added services, such as business advisory and financial planning, to the target market of private clients and small to medium enterprises (Stockford, 2000a). The founders believed that accountants in small practices were prevented from delivering a broader range of services by the limitations of the partnership structure, demands of client work and difficulty in recruiting and retaining staff (Stockford, 2000a). The Stockford model was to provide resources that would enable accountants to meet their clients' financial and business needs and to add value by ensuring a consistent culture and quality of service through centralising back offices, providing Internet-based services and communications, and the use of sound management (Stockford, 2000a).

The firms of the two founders were acquired in July 2000 and on 28 November the firm went through an IPO, bringing together an additional 45 firms to create an organisation with approximately 900 people and \$99 million of fees (Stockford, 2000a). Most selling partners received predominantly Stockford shares valued at 66 cents, a discount to the \$1 IPO price, as consideration for their firms and remained with the company as employees (Stockford, 2000a) on a lower salary than their earnings pre-acquisition, but with expectations of dividends from their Stockford shares. Their shares were placed in escrow with constraints on share sales (Stockford, 2000a).

Further acquisitions followed quickly, with Stockford announcing five purchases in December 2000, the month after the IPO. The four early December acquisitions added approximately 25 per cent to Stockford revenues and included the acquisition of the Melbourne office of HLB Mann Judd, a national second-tier firm (Stockford, 2000b). HLB Mann Judd partners received \$17 million of the \$24 million consideration in cash (Stockford, 2000b). Investors responded well to the float and December acquisitions, with the share price rising to a peak of \$2.25 three weeks after the IPO.

Integrating in earnest and initial results. Early 2001 saw integration commence in earnest. Activities included the appointment of an integration manager and principals to service line and regional manager roles, the re-branding of firms, some co-locations of firms, the commencement of the roll-out of common practice management software and the continued development of central infrastructure (Stockford, 2001b). By May, future acquisitions adding \$50 million in revenues were expected to be completed on the 1 July (Thomas, 2001b), and management reported that integration was tracking well and revised up earnings forecasts for the year-ends of 30 June 2001 and 2002 (Stockford, 2001a).

By the end of July 2001, the picture had changed significantly. Planned acquisitions were deferred as institutions had declined to participate in a June 2001 placement of Stockford shares (Thomas, 2001c). The Stockford share price had drifted down from the \$2.25 high in December to below the \$1.40 placement price with a falling share market and poor results of another accounting firm consolidator, Harts Australasia (Harts), which had announced a significant loss in January (The Australian, 2001). Stockford managed a final financial planning acquisition on 3 July (Stockford, 2001c). On 18 July, Stockford announced a significant downward revision of the financial year just-ended

financial results and of 30 June 2002 forecast earnings, citing integration delays, central infrastructure cost overruns and the economic environment (Stockford, 2001d). The share price was slashed 60 per cent to 60 cents by 24 July.

Cost overruns were addressed through cost cutting in head office including redundancy, attrition and moving staff into the business units. Co-locations were continued and the implementation of a national procurement program commenced (Stockford, 2001i). Final results for the 30 June 2001 year end announced in September included pre-tax write-downs of non-performing businesses of \$5.6 million, and by this stage, the company had commenced divesting poor performing/poor fit firms less than a year after acquisition (Stockford, 2001e). Directors cancelled the 2001 dividend to strengthen working capital and deferred the acquisition program for 2001/2002, as they believed that the Stockford share price was undervalued (Stockford, 2001e). By late September 2001, the Stockford share price had fallen to 35 cents, well down from the \$2.25 high and the \$1 listing price. As well as Stockford's own performance issues, the challenges of competitors Harts, who in September announced a \$92.7 million loss for the year up to 30 June 2001 (Australian Financial Review, 2001a) and was placed in voluntary administration on the 1 October (Australian Financial Review, 2001b), reduced investor confidence in the public accounting company model.

Performance worsens. Stockford performance issues continued for the remainder of 2001 calendar year. By the end of the year, one of the two founders had retired as the director (Stockford, 2001f), forecast 30 June 2002 earnings were further slashed and dividends for the coming year were cancelled (Stockford, 2001k); the remaining founder had stepped down as CEO as had the Chief Operating Officer (Stockford, 2001j). Worsening economic conditions and integration and productivity issues were cited as causes of the declining performance (Stockford, 2001j).

Stockford briefly stepped back from co-locations in early 2002, as management analysed the way forward (Thomas, 2002). By 12 June 2002, with a new CEO in place (Hughes, 2002a), Stockford further revised down expected 2002 earnings due to lower-than-expected revenues, particularly from the accounting segment, as well as restructuring provisions and adjustments (Stockford, 2002b). The final link with the founders was broken with the announcement of the retirement of the ex-CEO as the director (Stockford, 2002b). The 12 June announcement contained details of a re-structuring plan, which included: a focus on business services (accounting) and wealth management through the divestment of non-core activities; the consolidating of sites from 53 to 14 key locations, with 9 satellite locations with business managers to be appointed to key locations; the co-location of business services and wealth management at the 14 key locations; accelerating the development of a centralised database of client information and cross-selling initiatives; streamlining central operations; a focus on management accountability through performance management; and the introduction of a new incentives program (Stockford, 2002b). By this time, the Stockford share price, which had continued its decline, was trading at around 18 cents.

Rebellion and collapse. During June 2002, major shareholder St. George Bank sold out of Stockford at a loss of approximately \$12 million (Hughes, 2002b). During the month, at principal urging, an investment bank acquired shares in Stockford and a representative was given power of attorney by many disgruntled Stockford principals (Webb, 2002).

The final result for the year ended 30 June 2002, announced on 4 September indicated a massive net loss after tax, amortisation and write down of goodwill of \$123.8 million (Stockford, 2002c). By the end of September, all remaining directors were gone and two new directors were appointed, including the investment bank representative and another principal nominee (Stockford, 2002d).

In early October 2002, the Stockford Advisory Council, consisting of senior professional representatives elected by practice principals, was established to facilitate communication between principals and the Board and executives (Stockford, 2002e). In late October, the second CEO since the listing, less than two years earlier, resigned after less than eight months in the job, and an Acting CEO was appointed (Stockford, 2002e).

In late November 2002, a draft new performance-based principal remuneration model was presented to the Advisory Council (Stockford, 2002h), but was ultimately rejected by principals (Stockford, 2003a) who refused to accept the proposed drop in base pay. In early 2003, with the company running out of cash and the share price down to 8 cents, directors attempted to sell some business units; however, negotiations failed as relevant principals would not provide support required by third-party buyers and principals made offers perceived by directors as opportunistically low (Stockford, 2003a). The Board placed the Company in Voluntary Administration on the 23 February (Stockford, 2003b). The financial position of the Company and the potential reduction of value through client, principal or staff losses led the Administrators to a rapid sale strategy with principals reacquiring firms (KordaMentha, 2003a). All of the practices except the Sydney firm were sold within a four-month period (KordaMentha, 2003b). Principals were able to re-acquire firms that had been valued at over \$120 million when sold at the end of 2000 for approximately \$20 million with the company subsequently wound up without any returns to shareholders (KordaMentha, 2013).

The following sections provide an analysis of the implications on acquired firm partners while employees of Stockford, how they responded and their role in the collapse.

Impacts on former partners

Implications for former partners while employees of Stockford included:

- significant changes to the role played by the former partners;
- changes in principal career opportunities;
- operational changes;
- dealing with different cultures;
- principal perceptions of “contamination”;
- failure to achieve partners’ expected benefits;
- personal financial impacts; and
- effects on professional satisfaction.

These are discussed in detail below.

Impact on the role of partner

The role of principal at Stockford was fundamentally different from the role of partner in the pre-acquisition firms. Most acquired firms were small operating at the

founder-focussed or collegial phases of governance with partners having significant input into firm management (Empson, 2012). The role of the principal was more like a middle manager role in a large corporation. Unlike in the professional partnership (P2) form (Greenwood *et al.*, 1990), principals had no input into strategic decisions of the company, did not elect leaders, had reduced autonomy and, to some extent, felt their relationship with clients had changed.

Principals did not vote on acquisitions or participate in major decisions, such as renaming and relocating firms, restructuring firms or implementing common systems and processes. This caused principals frustration, particularly when the major acquisition of HLB Mann Judd Melbourne, only a few weeks after the IPO, was perceived by some to change the strategic direction of the company, integration was more intrusive than expected and the company performance wavered. This response indicates that the principals saw the strategy as the company's rather than their strategy as owners, which is a significant change from partnership.

Leadership positions were filled by external hires and principals, with all positions appointed by head office executives. Principals indicated concern that many of the service line leadership roles were handed to former HLB Mann Judd partners, making it feel like a takeover. Principals also indicated that the lack of appropriate accounting firm experience and required soft skills of many of the executives and managers was a substantial issue for professionals and the company.

Principals stated that under the centralised Stockford model, they could not hire or fire staff, invest in new equipment or renovations nor tailor client work papers to meet client needs. Experienced former partners were questioned by head office about their chargeable time and were asked to explain any pro bono work. This reduced autonomy grated for former partners that had run their practices for decades, as indicated by the quote at the beginning of the paper. One principal indicated that prior large organisation experience could reduce expectations that professional autonomy would be retained as employees.

The Stockford model sought to change the partner/client relationship by developing multiple relationships with clients, constructing a centralised database to enable direct marketing by head office, pushing accounting principals to refer work to internal specialists and, in a minority of cases, transferring client relationships to another principal. Some impacted principals were upset that head office prohibited them from contacting their former clients, while others thought that mandated internal referrals resulted in referring their clients to less-skilled or higher-cost Stockford resources.

Change in principal career opportunities

Stockford created many new management roles. However, principals from acquired firms attained few senior executive positions, the exception being the former HLB Mann Judd Melbourne managing partner being appointed as Chief Operating Officer. Divisional general manager and functional heads were appointed externally. Principals were appointed to service line, regional manager and industry leader roles. Some principals became disgruntled when the acquisition of HLB Mann Judd Melbourne led to many small firm principals who were previously selected in these roles being replaced by HLB Mann Judd principals.

Stockford's national service line structure provided principals with the opportunity to specialise. However, this proved difficult for small-firm generalist principals who did

not have the specialist skills of those from larger or niche practices, as the following example from a principal indicates:

We had a meeting of principals in the firms combined at our location to discuss our specialties. One principal, from a one man band, put up his hand as a specialist in everything. It was terrible; he did not know much about anything. He didn't last long.

The national divisional structure with partners reporting to national divisional heads removed the office as the major reporting entity, thus reducing the importance of the office managing partner role to which some partners aspire. This move from the local office is a substantial change from the P2 model, as defined by Greenwood *et al.* (1990), and while consistent with the more recent changes in large firms (Hinings *et al.*, 1994), it was a major change for the former partners who generally came from small single-office firms. On re-structuring to a location-dominated structure in mid-2002, Stockford senior executives appointed head office managers (for example, the corporate human resources manager), and not principals, to the roles of business managers at key locations. This was not well received by principals, as indicated by one principal:

There was a good reliance on the business manager role as someone needs to consider the strategy and direction of the practice. Accountants want to do everything. However, it should have been managing partners in this role. At Stockford, principals were subservient to business managers, many of whom were not accountants and were forced on locations. Business managers should work alongside partners.

Principals were concerned that they had no input into the appointment of these business managers, particularly as some were not perceived to have appropriate experience or skills, some were paid more than the principals and that this perceived non-productive cost would be worn by the offices.

Operational changes

Principals were impacted by many significant changes through integration including moving offices to co-locate with other acquired firms, practices being split into service lines and staff seated with those from the same service line, practices renamed Stockford, centralisation of administrative services and moves to common systems and processes. The level of change overwhelmed some principals. Interviewed principals indicated that they believed that they were promised during the acquisition process that their firms would remain separate post-acquisition. This increased the difficulty of adapting and the degree of resistance to integration.

Dealing with different cultures

Principals were regularly exposed to different organisational cultures including head office corporate culture, other acquired accounting firms and staff from other industries/professions. The underlying motivations in a publicly traded company and a small firm can differ, as acknowledged by a Stockford executive: "What drives someone running a small accounting firm is different from what drives corporate people". This is supported by a Stockford principal's response to CEO Jim Phillipson's vision of Stockford in five years generating \$500 million of revenue per annum, having \$5 billion in funds under management and a \$5 share price (Thomas, 2001a): "5 years, \$5 it was disgraceful – mercenary on the run stuff".

The centralised management/administration structure led to substantial interaction and clashes between principals and head office staff. Co-locating practices and grouping staff into service lines resulted in substantial day-to-day dealings with staff from other practices. The broad range of services offered by firms acquired by Stockford and the focus on cross-selling resulted in accounting principals being regularly contacted by staff from other service lines expecting the accountants to focus on selling various products and services. The most significant of these interactions were between the accountants and financial planners. Former partners from medium-sized accounting firms indicated that many principals from smaller firms did not know how to work with others.

Principal perceptions of “Contamination”

Some principals felt that their professionalism had been “contaminated” (Empson, 2001) by being associated with fellow Stockford principals from acquired firms that they perceived as being lower skilled. Principals from mid-sized firms were concerned that some principals from smaller firms did not use accrual accounting in managing their firms and in their lack of specialised skills. As one principal stated: “Many were a disgrace to the accounting profession”.

After the July 2001 earnings downgrade, principals also felt contaminated by the association with Stockford itself, which was receiving significant negative press about its performance issues, which were very visible due to Stockford’s public company status, affecting the principals perception of their own identities as astute business people and professionals. The principals suggested that Stockford’s performance created doubts about the principals’ commercial skills in deciding to join the company. One principal indicated that he and many of his fellow principals were relentlessly teased about Stockford’s performance by friends and professional peers in other non-Stockford firms. Principals also felt that management pressure to cross sell other services was attempting to place the company’s interest ahead of clients jeopardising their own professionalism.

Failure to achieve selling partner pre-sale expected benefits

Company announcements, press interviews with selling partners and researcher interviews indicated that the selling partners expected to achieve a range of benefits through selling their practice to Stockford (Pickering, 2010). By joining Stockford, selling partners expected to be better able to attract and retain staff to a national firm, and through the use of human resource processes and specialists, achieve greater growth through the ability to offer a broader range of services and through cross-referrals across the company, gain access to infrastructure such as specialised skills, information technology and best practices (Pickering, 2010). Expected benefits cited in relation to the change to public ownership were providing the firm owners with a liquid asset/capital gain, funding partner succession and implementing more corporate governance (Pickering, 2010).

Clearly, with the collapse of the company, these expected benefits failed to eventuate. Partner interviews indicated that joining Stockford did not result in the achievement of expectations for these benefits in the period before the company collapsed. Some, but not all, principals reported that some benefits were initially achieved in terms of recruiting, access to specialised skills and the benefits of the advanced professional solutions (APS)

practice management software. The Stockford share price initially rose rapidly, but former partners' shares were under escrow, preventing significant sales before the share price collapsed. Former partners faced partner liability and partner succession issues again on the collapse of the company and re-purchase of their firms.

Financial impacts on principals

Financial considerations were a major issue for many principals. Most Stockford principals traded their firms for shares in Stockford and a fixed salary, sometimes up to 50 per cent less than their previous earnings as partners. Shareholder principals saw their wealth fall rapidly with the plummeting Stockford share price with their shares ultimately worthless. With income structured as salary without the tax benefits of splitting partnership earnings and the failure of dividends to materialise, some principals struggled financially, as explained by one principal:

This was a big problem for younger principals who acquired goodwill pre-Stockford and had debt. They had no other income in their trust to offset interest deductions. It had a significant impact. I was personally aware of at least 20 principals facing bankruptcy as they could not service their debt.

Principals suggested that the various incentive schemes introduced by Stockford were not effective in giving principals little ability to increase their income through effort. Some principals indicated that they were enraged with the payment of substantial bonuses to executives and declaration of bonuses to directors, even though the company had performed poorly and principals were hurting financially.

Not all former partners were affected equally. While most selling partners received predominantly Stockford shares as consideration for their practices, partners of HLB Mann Judd Melbourne received mostly cash. On the ultimate collapse of Stockford, many principals recovered capital value through the re-acquisition of their firms from the Administrator at a significant discount to the value of the firms on initial sale to Stockford. Those who walked away before the collapse or who did not buy their firms back basically lost their investment.

Effects on professional satisfaction

Not surprisingly, given the impacts identified above, interviewed Stockford principals reported that, in general, satisfaction levels were significantly lower with Stockford. This was also reflected in press interviews with principals:

The last 2 1/2 to three years are wasted; our incomes substantially reduced, the value of our goodwill eliminated and our shares unsellable (Elias, 2003).

It was a complete disaster from many people's point of view and also from mine. (Thomas, 2003).

However, in retrospect, the Stockford experience was not all bad for some principals. Two interviewed principals from larger practices with partners and staff having specialised skills that fitted the Stockford model indicated that their small teams had performed well under Stockford. While the general view was that the time with Stockford was extremely difficult, one principal suggested that it was a painful, but valuable experience that "everybody should go through". In retrospect, some principals believed that their practices were more commercial when they emerged from Stockford

than when they were independent pre-Stockford. Some strong relationships were developed between principals, which persisted even after the collapse.

Factors contributing to principal impacts

Factors contributing to the above impacts on principals included acquisition-related factors, integration approach, management style and internal governance, the principal remuneration model and the poor economic performance of the company. These are discussed below.

Acquisition-related factors

A number of Stockford principals' concerns arose from issues with a genesis prior to integration. For example, the speed of acquisitions contributed to the company acquiring poor-quality firms and those of poor cultural fit to the planned Stockford model, as there was little time for financial, operational and cultural due diligence of acquired firms. Acquisition decisions were made by company executives and the Board of Directors. Unlike in partnerships, acquired firm partners had no input into other firms acquired and, as most firms were acquired prior to commencing integration, could not see the Stockford model in operation to self-select for cultural fit. The size of firms acquired ranged from sole practitioners to the Melbourne office of a second-tier firm, with a predominance of very small firms. This contributed to cultural differences but also resulted in substantial change in governance models for those from very small partnerships to the corporate governance model of Stockford. Principals indicated that many verbal promises made on planned integration during the acquisition process were reneged on during the actual integration, damaging the trust of senior management very early. Acquisition contracts generally did not include earn-out payments to selling partners, and principal employment contracts were fixed salary based, reducing principal motivation post-acquisition.

Integration approach

Stockford's approach to integration was transformational; creating an entity very different to the firms acquired and fully merged almost all aspects of the firms. This approach to integration established the governance structures and systems that, in effect, implemented the changed principal role. The integration approach also threw principals from various acquired firms together in the same offices, creating substantial interactions across the company through the divisional and service line structure. This also contributed to the culture clashes and to feelings of "contamination" by forcing interaction with other principals perceived to have inferior skills. Changing the name of acquired firms to "Stockford" also contributed to feelings of "contamination" due to the poor performance of the company and the highly visible press coverage of the company's problems. The integration approach was "directed" from above, with principals having little, if any, input into major decisions.

The integration approach also impacted on Stockford's performance by creating a substantially costly head office, distracting professionals from client service activities and requiring substantial investment (Pickering, 2012a).

Management style/internal governance

The Stockford management style was very much top-down instruction. The Stockford General Manager of Accounting Services indicated in December 2000 that change for former partners would be significant:

We bring total revolution. There will be no looking back. Running a small independent firm is not sustainable. (Thomas, 2000b, p. 7).

Stockford principals indicated that they believed that company management did not listen to their concerns. This style reflected the move away from a partnership interpretative scheme of governance to a more corporate decision-making without key attributes of partnership of the P2 professional partnership form (Greenwood *et al.*, 1990) such as democracy, professional autonomy and a focus on client welfare above profitability. While large accounting firms may have moved away somewhat from these attributes (Hinings *et al.*, 1994; Wyatt, 2004, Zeff, 2003a, b), Stockford acquired mostly smaller firms that were generally at the founder-focussed or collegiate phases of governance, as defined by Empson (2012). Principals expressed concern on many decisions made on which they did not have any influence. Principals indicated that few of those appointed to general manager and regional manager roles were felt to have the right expertise and experience and interpersonal skills to win the principals over. The top-down management approach and the lack of these attributes contributed to culture clashes between principals and head office, and to principal resistance to integration activities.

Principal remuneration model

The Stockford remuneration model provided salaries for the principals (former partners) with the principals expected to gain additional earnings and wealth through their shareholding in the company in the form of dividends and increases in the share price. Salaries were generally lower than the principals pre-sale earnings, expected dividends were cancelled due to poor company financial performance and the share price fell rapidly. Failure of the remuneration model was mentioned as a substantial issue by interviewed principals and executives. For example an executive indicated:

I believe that the (Stockford) concept was good, but it would only work if principal motivation was maintained. Principals owned the client relationship, therefore keeping those principals motivated was critical to success. Stockford's model which provided fixed salaries for principals did not address the motivation issue. Nor did incentive plans which were subsequently introduced.

Poor company performance

The continued failure of Stockford to meet financial forecasts had multiple impacts on principals. Investors reacted savagely to the downgrades, resulting in a downwardly spiralling of the share price and falling principal wealth. Directors cancelled the payment of dividends for performance reasons, further reducing principal income. Stockford, as a publicly owned company, received substantial negative press contributing to principal feelings of contamination.

Former partners' response to change

As discussed below, principals attempted to provide input into senior management decisions, resisted integration activities, reduced their work effort and finally openly rebelled. Principals leaving the organisation was not as great an issue as could be expected due to legal actions by the company.

Trying to provide input into decisions

In an attempt to provide input into executive decisions and support the management team soon after the IPO, Stockford principals from eight or nine practices formed an informal advisory group to investigate strategic opportunities and issues and communicate recommendations to executives. Senior executives were keen to attend meeting but the principals involved suggested that their attendance may inhibit discussions. While some recommendations were considered, principals involved indicated that they offered good potential solutions to crucial issues, such as the financial pain being felt by many principals, but thought that executives ignored these recommendations. They suggested that this went against the espoused Stockford culture of "People First" very early in the organization's life. The informal advisory group disbanded after a few months.

One of the principals involved in the above group indicated that he raised critical issues for senior executives at a principal preliminary annual general meeting in 2001 but that no acceptable answers were provided and all except a couple of principals present appeared to accept the whitewash responses. However, shortly after, principals were part of a 30 per cent shareholder vote against the election of a HLB Mann Judd principal as a director in October 2001.

Interviewed principals suggested that the establishment of Principal Advisory Council six months before Stockford's collapse came too late, but if implemented earlier, it may have saved the company.

Principal resistance to integration

Many Stockford principals initially openly refused to carry out integration activities, with a regional manager reported that principals all claimed "we are different" or that the CEO had promised during acquisition that their practice could stay in their pre-acquisition premises or retain their firm name for a period post-acquisition. Some principals attempted to take their concerns to senior executives but felt that they were not listened to and had no choice.

The next step for many Stockford principals was passive resistance. This included protecting client relationships and not reacting to calls from head office and other divisions to analyse their client bases to identify cross-selling opportunities. Principals and executives reported that cross-sales virtually stopped when Stockford announced the first profit downgrade in July 2001.

A senior executive indicated that even when the central infrastructure had been built, principals would not assist in reducing the number of administration staff in the field contributing to duplicated costs. Principals also resisted moving to common processes, as indicated by a Stockford executive:

A public company cannot effectively operate with 50 plus different ways of doing things. It was a fundamental drive by the group to identify the best way of doing things and then to standardise on that approach. The principals were unable to adapt to the change that this necessitated.

Taking the foot off the accelerator – reduced principal effort

The motivation and effort of many of the principals fell over time, affecting company performance. A senior executive indicated that he believed that this was a major cause of Stockford's failure:

I put the bulk of the failure at the feet of the principals because the problems were fundamentally performance driven. The Board (in its various forms) and management tried extremely hard throughout to turn Stockford around, but were continually undermined from a lack of performance.

Stockford principals also suggested that many principals' performance fell post-acquisition, particularly as Stockford's profitability fell and principals came to the realisation that they could not turn the company around. A minority of interviewed principals indicated that they maintained effort but others were less motivated. The following quote from an interviewed principal supports the view that motivation and effort fell for some principals:

Stockford removed our firm's branding, our ownership, our decision making ability and our regulation of our practices. Principals lost the plot. There was no accountability for performance and the employment contracts provided no motivation. There was no incentive to find new work or motivate staff. There was also no slap on the knuckles for underperformance. Ultimately they introduced KPIs (key performance indicators) with principals not meeting them pushed out but it was too late.

This difficulty in managing professional performance was indicative of challenges of managing professionals where the task involves tailoring solutions based on interaction with the client (Greenwood *et al.*, 1990; Lowendahl, 2000).

The drop off in performance was significant. For example, analysis of Stockford's financial statements identified a 13.3 per cent revenue fall for the accounting division for the half year to 30 June 2002 as compared to the prior year period. By contrast, a sample of ten Australian second-tier firms achieved an average annual revenue increase for the full year of 8.75 per cent (Pickering, 2012a).

Principal turnover versus remaining under sufferance

Principal turnover statistics were not available. However, the following observations were made.

By mid-July 2001, only 4 of the 120 principals had retired or left the firm (Stockford, 2001a, 2001b, 2001c, 2001d, 2001e, 2001f, 2001g, 2001h, 2001i, 2001j, 2001k). By April 2002, the company had exited some principals. However, the then Chairman suggested that key principals had been retained, indicating: "All the talent that was acquired still resides within Stockford" (Hughes, 2002a).

While Stockford did lose principals, there were suggestions that the number of principals leaving was constrained by Stockford legally enforcing employment contracts, which prevented exiting principals from competing with the company. Management initially refused to negotiate the sale of fees to disgruntled principals and actively sued principals who left and approached their old, and now Stockford's, clients. This affected the attitudes of principals who now felt trapped in employment. For example, one principal stated:

I considered leaving. We offered to buy the firm back but got knocked back. I looked at leaving by acquiring another practice but the restraint clauses in my employment contract would have been a problem. In the end, Stockford would have to do a deal (with principals) or fall over. It would be a better deal for the principals if it fell over, however there were professional reputation issues of being associated with losing.

Disgruntled principals spread their dissatisfaction, as indicated by a Stockford senior executive:

Balwyn office wanted to get out early. They generated a following. However, some principals wanted them excised.

This supports the findings of [Greenwood *et al.* \(1994\)](#) and [O'Dwyer \(1995\)](#) that exiting some partners may be necessary to remove impediments to effective integration.

Principal rebellion

In mid-2002, Stockford principals had had enough and flexed their ownership power approaching an investment bank to purchase shares and providing power of attorney to the bank representative who had this to say about the development:

This is not a proxy war. This is just a statement by a number of people that they would like some changes to the structure and they would like their voice heard at board level, and that's really what it is all about. I'd like to see a couple of us go on the board. I'd like to see some reconstruction at board level [...].

“We have the largest control element within the business. A lot of these people are the original entrepreneurs who sold their businesses into Stockford. They're quite senior” ([Webb, 2002](#)).

Most of the existing board subsequently resigned and senior professionals were supportive of the election of two new directors resulting from this action, with only 4 per cent of shareholder votes against the election ([Stockford, 2002f](#)). Directors and executives recognised the difficulties in managing the senior professionals and sought their approval to introduce a new performance-based remuneration scheme to reduce salary costs and align senior professional behaviour through incentives. The principals utilised their power by refusing to ratify the proposed scheme. With the company running out of funds, principals failed to support the sales of their practices to third parties. Potential buyers were aware of the importance of the principals' client relationships and did not proceed with acquisitions. This left the principals as the sole buyers after Stockford was placed under administration and they were able to extract all of the remaining value through acquiring the businesses for a small portion of the value when they sold to Stockford just over two years earlier.

Impacts of former partner responses on the company

The partner responses impacted on Stockford profitability but also contributed directly and indirectly to substantial turnover of company directors and executives.

Partner responses impacted on company performance in a number of ways. Resistance to integration activities affected the ability to achieve cross-sales and to remove duplicated costs from the field. Reduced work effort contributed to falling revenues and reduced margins. Principal turnover also contributed to falling revenues. Principal rebellion reduced the options available to directors and senior executives to reverse the losses and increase principal motivation by restructuring principal

compensation and to access much needed cash through selling practices. Ultimately, directors had no choice but to place Stockford into Administration.

An interviewed Stockford executive believed that the combination of public ownership and the failure to meet initial profit forecasts kicked off a downward cycle:

This was the heart of the cause of Stockford's demise, because the share market influenced decisions and staff morale, which in turn, fed under achievement and further downgrades. The ASX (Australian Securities Exchanges) is all pervasive – continuous disclosure requires a public company to air its bad news, which has a direct impact on the share price. In Stockford's case, the key producers were either the principals or those directly influenced by the principals. The principals' wealth was in the main tied up with their shares. When the share price fell, the productivity of the principals and their staff also fell. Moral deteriorated, staff turnover increased. All of this drove continuing poor performance which led to further downgrades. A downgrade spiral that despite all the efforts of Board/ management, could not be arrested.

Principal responses contributed to the performance issues and collapse of Stockford but were not the only factors. Other factors, such as an economic downturn, over-optimistic forecasts and the high cost of integration were also identified to have impacted on initial profit downgrades and ongoing company performance (Pickering, 2012a).

All six founding directors and two subsequently appointed directors had exited Stockford within two years of the IPO. Much of this turnover appears related to Stockford's performance and does not appear to have been voluntary. Director turnover left the Board with no continuity and little experience in the business. When placed in Administration Stockford had three directors, with the longest-serving having been with Stockford for seven months. Stockford also experienced substantial turnover amongst the executive ranks with almost all senior executives and general managers at the time of listing having left by the collapse just over two years later, contributing to instability and the loss of senior management learning.

Summary and conclusions

Consistent with agency theory, the Stockford case indicates that selling their firms into a publicly traded accounting firm can have significant implications for partners of acquired small- to medium-sized accounting firms. In this case, the impacts identified were predominantly seen as negative by interviewed former partners. A number of factors contributed to these implications on former partners including the change in management style/ governance, acquisition and integration related events, the remuneration model and the poor performance of the company. Principals struggled to adapt to these substantial changes responding negatively and in an escalating manner over time with significant consequences for the company. Figure 1 identifies diagrammatically the relationship between contributing factors, implications for former partners and their responses and the impacts on the company suggested by the Stockford case.

The case highlights that former partners of acquired firms remain extremely important post-acquisition within the acquiring accounting company. Even where the integration approach seeks to centralise power away from the principals, the principals retain substantial power in the organisation (Empson, 2000). The case supports prior research, which has indicated that the nature of the professional task of tailoring complex knowledge to specific client needs makes bureaucratic control

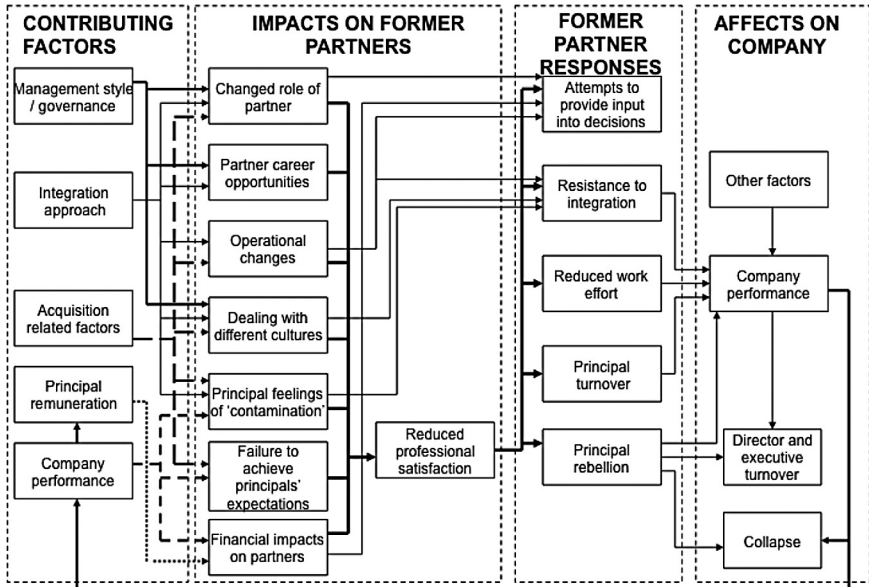


Figure 1. Summary of the dynamics of the case

difficult (Lowendahl, 2000; Greenwood *et al.*, 1990), creating agency issues for external owners (Fama and Jensen, 1983). Consistent with resistance in partnerships (Cooper *et al.*, 1996; Dirsmith *et al.*, 1997; Harris, 2000; Hinings *et al.*, 1991; Lawrence *et al.*, 2012; Schilling *et al.*, 2012) this power was used by principals to resist integration attempts and reduce work effort. As a group, principals had significant ownership power as shareholders with this power ultimately used to overthrow the board of directors. The case suggests that the implications of public ownership on senior professionals and the consequences for the company can be an impediment for PSFs listing (Greenwood *et al.*, 2007).

Principals mostly retained control over client relationships, despite Stockford efforts to transfer relationships to the company. This was partially due to the focus of the company on individuals and small to medium enterprise clients, making it uneconomic to duplicate client relationships to make them the company's rather than the principals. Principals used this relationship power to resist attempts at cross-selling services, to prevent the sale of their firms to third parties and to extract maximum value when acquiring their firms back on the collapse of the company.

Other corporate forms of control associated with public ownership that address agency issues (Clark *et al.*, 2005) did not prove effective at Stockford. The independent board was unable to turn around the performance issues, despite incentivising and then replacing senior management, the voting out of board members and bringing in of new board members by shareholders was ineffective, shareholdings remained dispersed with the largest block holder only owning less than 8 per cent of the company and, despite having a board position, it was unable to exert significant control and finally sold out at a loss in mid-2002. Lastly, "the market for corporate control" was constrained, despite a rapidly falling share price by potential acquirers requiring senior professionals to agree to an acquisition, which the senior professionals refused to do.

The Stockford case suggests that inferior performance of publicly owned PSFs versus partnerships (Greenwood *et al.*, 2007; Pickering, 2012b; Von Nordenflycht, 2007) in some firms may be partially due to the response of former partners to the extreme changes that they experience in changing roles. This suggests the need for evolutionary change with former partners needing to experience crises of governance, as described by Empson (2012), to willingly give up decision-making power and input. Perhaps, as a publicly owned PSF company is a relatively new form of organisation, particularly in some professions such as accounting, there is significant experimentation around management structures and systems with the poor performance of failed experiments affecting the average performance of this type of firm versus the more established partnerships. This supports the call for further research into the structures and systems of publicly owned professional service companies and implications for performance (Clark *et al.*, 2005; Greenwood *et al.*, 2007; Pickering, 2012b). It also supports the calls to explore how governance in these organisations evolve (Clark *et al.*, 2005) and the failed models of the past (Van Lent, 1999).

The case suggests that public ownership of accounting firms can lead to a greater emphasis on commerciality, as feared (Shafer *et al.*, 2002a), but that senior professionals resist any company attempts to reduce professionalism. However, this finding needs to be considered in the context of the accounting profession, which has been found to move to greater commercialism (Hanlon, 1996; Wyatt, 2004; Zeff, 2003a, 2003b).

Potential implications for practitioners

The rapid rise of publicly owned accounting companies, the large number of firms acquired and dearth of prior research (Pickering, 2012b) suggest benefits in identifying potential implications for practitioners, despite the exploratory stage of research.

Entrepreneurs/directors/executives/investors. The case suggests the need for thorough due diligence on firms acquired including examining cultural fit not just of the acquired firms with each other but with the planned governance structures and systems and culture of the acquiring company. Providing as much information as possible to partners of firms being considered for acquisition may enable these partners to better self-select for organisational fit. This would include identifying other firms being considered for acquisition and/or criteria for selection, the planned governance of the company and expectations of the role of former partners and integration plans. The case also suggests that there is some danger of moving away from senior professionals voting for acquisitions (Greenwood *et al.*, 1994).

The change in role at Stockford was too much for former partners to adapt to. This supports benefits in retaining attributes of partnership governance, providing former partners with a mechanism to provide input into company strategic and operating decisions and retaining significant autonomy in dealing with clients (Empson and Chapman, 2006). The case also suggests that recruiting executives and managers with an inclusive management style and appropriate professional services experience may be important. The case indicates that there may be benefits in a slow, non-directed approach to integration (Empson, 2000), particularly where there are significant cultural differences between the acquiring company and firms being acquired (Haspeslagh and Jemison, 1991; Homberg and Bucerius, 2006).

The power and response of former partners to perceived negative implications suggests benefits in monitoring professional satisfaction and carefully considering the

potential implications of decisions on this important and powerful stakeholder group. It also appears important to develop remuneration approaches to motivate principals and develop strategies to increase principal earnings from the lower levels set at the time of acquisition.

Partners considering selling. The Stockford case indicates that, when it goes wrong, selling to a public company can be a painful experience for selling partners. As the acquiring company expects most of the acquired firm partners to stay post-acquisition as employees and often seeks to use company shares as consideration for purchased firms (Pickering, 2010), partners are effectively considering three related decisions:

- (1) selling the firm;
- (2) taking contracted long-term roles as employees; and
- (3) investing in the consolidator.

These are three significant decisions requiring substantial due diligence.

The case suggests that partners seek to understand how the public company is/will be governed, expectations of their role as principals, other firms being considered for acquisition and acquisition criteria, planned integration and be comfortable with initial drops in personal earnings and company strategies to enable increases in income to prior levels.

Participating in a publicly traded roll up that brings many firms together at the time of IPO, such as Stockford, may be a higher risk than joining an established public company where the business model can be seen in action, partners from previously acquired firms can be talked to and the company's track record can be examined. Financial risk may be reduced by seeking to obtain a large proportion of consideration from the sale in cash. However, this would also reduce selling partners upside from potential increases in the public company's share price and may have significant tax implications.

Implications for researchers

The Stockford case suggests that the implications on former partners, the factors contributing to these implications and the subsequent responses by the former employees are complex. This indicates that care is required in examining the implications of single variables with the need to control for other variables. For example, while the integration approach contributed to negative implications for former partners at Stockford, its impact appeared to have been magnified by the top down management style of Stockford executives and acquisition related factors such as selling partner expectations of integration levels, the poor cultural fit and perceived quality issues of firms acquired. Former partners responded negatively to a more corporate form of governance than that of partnerships. However, the response was intensified by the specific decisions made by senior executives, the poor performance of the company and the small size of many of the firms acquired.

Limitations and further research

This study covers a single case which was selected due to the high levels of post-acquisition integration attempted and was, therefore, more likely to result in significant implications for acquired firm partners. The ability to generalise the findings are therefore limited. Interviews were performed after Stockford collapsed

and, therefore, may contain some retrospectivity bias. This is mitigated by the review of substantial volumes of publicly available documents and internal company documents which were produced as events unfolded and supported interviewee comments.

The data from this study is from 2003 and now almost a decade old. However, there are no more recent published studies into the impact of public ownership on accounting firm partners and their response to the change. Publicly owned accounting companies remain important entities, being some of the largest accounting firms outside of the “Big 4” in Australia, the UK and the USA, and new public accounting companies continue to emerge (Pickering, 2012a). Learning from the failed models of the past is important in understanding this new ownership form of accounting firms as it emerges (Pickering, 2012b; Van Lent, 1999).

The acquisition of over 50 firms at the time of the IPO does result in the findings of this study being impacted by both the change of ownership form and acquisition-related factors. However, this reflects the common strategy of these accounting companies of rapid growth through acquisition (Shafer *et al.*, 2002a; Pickering, 2010 and 2012a; Wootton *et al.*, 2003). This strategy appears to be related to public ownership with access to capital to fund acquisitions and potentially more streamlined acquisition decision processes than partnerships (Pickering, 2012a, 2012b).

Research into additional failed cases would be useful to identify additional or common causes of implications on former partners and their responses. Research of enduring publicly owned accounting companies, such as WHK Group in Australia, RSM Tenon in the UK and CBIZ Inc. in the USA (Pickering, 2012b) would provide insights as to whether, and how, publicly owned accounting companies can be managed to avoid the negative implications on senior professionals and responses identified here. The volume of negative impacts in the Stockford case was substantial and appeared to overwhelm the ability and willingness of former partners to adapt. Further studies could examine the relative importance of implications experienced.

Of further interest would be the dynamics of larger public companies with the resources to weather a dip in performance during post-acquisition integration, the consolidation and integration of PSF firms in private corporations outside of the public view prior to an IPO and/or the IPO of large established partnerships.

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