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Publicly owned accounting firm consolidators: executive benefit expectations

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Abstract

Purpose – The purpose of this paper is to explore the company-related benefits expected by executives of public accounting companies consolidating accounting practices and the implications of these expectations for company performance.

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 two Australian, publicly-owned accounting companies. Analysis of the financial performance of the two companies was performed using data from annual reports.

Findings – Executives predominantly expected to achieve revenue growth and efficiency benefits through consolidation and change in ownership form. In one of the cases these benefit expectations emerged over the course of the acquisition program. The paper highlights the difficulty in estimating and realising the magnitude, timing and associated costs of consolidation benefits and the consequences of failure to achieve expected benefits; also it suggests advantages in a more conservative consolidation approach.

Research limitations/implications – Care is required generalising findings to other professions and other geographic jurisdictions.

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

Originality/value – This is the first study to consider the benefits expected by executives of the recently emerged, publicly-owned accounting companies and the associated costs of implementation. The paper highlights opportunities for researchers provided by the availability of data for publicly-owned accounting and other professional service firms.

Keywords Australia, Public accounting, Working practices, Organizational change, Consolidation, Accounting innovation, Performance evaluation, Professionalization, Strategic management

Paper type Research paper

1. Introduction

Accounting firms have traditionally been structured as partnerships (Greenwood *et al.*, 1990). However, from the mid-1990s some significant publicly owned accounting companies have emerged in Australia, the UK and the USA. These companies have grown rapidly through the acquisition of thousands of firms (Shafer *et al.*, 2002). Public company WHK Group is the largest accounting firm outside the Big 4 in Australia with 2010 revenues of Aus$348m (King, 2010). RSM (a subsidiary of H&R Block) and the associated McGladery & Pullen combined are also the fifth largest accounting firm in the USA (2011 revenues US$1,379m) with CBiz Inc. and the associated Mayer Hoffman McCann eighth largest (2011 revenues US$575m) (*Accounting Today*, 2011). In the UK, RSM Tenon PLC is the seventh largest firm in the UK with annual revenues of UK£225m (Grant, 2010).

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Despite the growing significance of publicly owned accounting companies and their acquisition of thousands of small to medium accounting firms and other professional service firms (PSFs), very little is known of the motives of founders and senior executives, the benefits that they expect the company to realise from these acquisitions and associated financial performance. Gaining an understanding of these motives and expected benefits is an important step in understanding the post-acquisition integration (Bower, 2002; Howell, 1970) and performance of this type of organisation (Angwin, 2007; Bower, 2001; Kreitl and Oberndorfer, 2004).

This study begins to address this gap by exploring the acquisition benefits expected by executives of two Australian publicly owned accounting firm consolidators, AccountCo Limited (the company's name has been disguised) and Stockford Limited and the implications of these expectations on company financial performance. The research was longitudinal exploring benefits expected for Stockford over an almost four-year period from the announced intent to acquire accounting firms to the failure of the company and for over eight years of acquisitions by AccountCo from the initial intent to acquire financial service firms to the conclusion of the study in June 2005.

The study makes a number of contributions. It is the first study into the objectives of executives of publicly owned acquirers of accounting firms. It found that many benefits were expected including moving away from the perceived limitations of the partnership ownership structure. For AccountCo executives, expectations of company-related benefits emerged over the course of the acquisition program suggesting care in assessing benefits of individual mergers and acquisitions. The study indicates that identifying potential benefits is different to realising these benefits and suggests advantages in a more conservative and gradual approach to identifying and implementing expected benefits.

2. Literature review

This section reviews the literature on the importance of understanding motives and expected benefits from mergers and acquisitions (M&As), prior findings on expected benefits from accounting firms mergers, trends away from the partnership structure to other ownership forms, potential benefits related to corporate M&As and measurement of benefits achieved.

2.1 The importance of understanding expected M&A benefits

Research using stock market returns and changes in profitability as measures has generally found that many mergers and acquisitions fail (King *et al.*, 2004; Sirower, 1997; Ravenscraft and Scherer, 1987, 1989). More recently researchers have argued that these measures are too narrow to capture the range of benefits expected by acquirers (Angwin, 2007; Bower, 2001; Haleblian *et al.*, 2009; Kreitl and Oberndorfer, 2004; Zollo and Meier, 2008) and the need to identify the motives of a specific M&A and to assess the achievement of those objectives in considering performance (Angwin, 2007; Bower, 2001; Kreitl and Oberndorfer, 2004).

Researchers have also suggested that post-acquisition integration should differ across M&As dependent on the objectives of that M&A (Bower, 2001; Howell, 1970). Understanding integration therefore requires an understanding of the benefits executives seek to realise through the integration process (Bower, 2001).

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2.2 M&A programs of accounting firms

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 PSFs in general, including accounting firms, is sparse (Greenwood *et al.*, 1994; Empson, 2000).

Wootton *et al.* (2003) explore the accounting firm M&A literature in their examination of the growth by merger of large and second tier accounting firms in the USA and Greenwood *et al.* (1993) in the examination of synergies in the mergers of large Canadian audit firms. More recently, Alam and Nandan (2010) found mergers and acquisitions to consolidate services and expand regional coverage to be an important response by small regional and rural Queensland (Australia) accounting firms to changing economic environment conditions. Potential benefits from these studies have been grouped into a framework based on strategic types of mergers and are included in Table I. This table indicates that not all accounting firm M&As are the same.

These studies focus on the merging of accounting partnerships with little focus on publicly owned accounting companies. This is despite the large number of accounting firms acquired by these companies in the late 1990s and 2000s. For example, American Express and H&R Block acquired thousands of firms in the USA (Shafer *et al.*, 2002) and WHK Group acquired over 150 accounting and financial planning firms in Australia and New Zealand from 1997 to early 2011. In Australia, stamp duty and capital gains tax constraints to large PSFs going public with exemptions for smaller firms (Boxsell and Walsh, 2011) have resulted in rapid growth by acquisition being the predominant strategy for building scale in publicly owned PSFs. The change in ownership structure may be associated with different M&A objectives but does not appear to have been investigated previously.

2.3 Change in ownership structure away from partnerships and macro causes

Researchers have noted a trend of large PSFs, including accounting firms, away from partnerships to other legal forms such private corporations and publicly owned companies (Greenwood and Empson, 2003; Greenwood *et al.*, 2007; Von Nordenflycht, 2007) with only 56 percent of the top 100 accounting firms globally remaining partnerships early in the 2000s (Greenwood and Empson, 2003).

Accounting firms have historically been structured as partnerships with unlimited liability for the partners due to legislative requirements and regulations of accounting associations (Von Nordenflycht, 2007). During the late 1980s and 1990s, some significant legal settlements against audit firms and rapidly increasing public liability insurance premiums resulted in lobbying by the accounting profession in many countries for the ability to use alternative ownership structures which limited the personal liability of professionals (*Accountancy Age*, 1986; Bruce, 1995; Van Lent, 1999). During the same period, audit services were becoming more commoditized (Rose and Hinings, 1999) resulting in client pressure on audit fees (Koza and Lewin, 1999) and large accounting firms increasingly focussing on other services such as management consulting and growing rapidly internationally to service growing clients (Aharoni, 1999; Greenwood and Suddaby, 2006).

During the 1990s, as a result of these changing factors the Institute of Chartered Accountants Australia (ICAA) changed regulations to enable members to operate through other ownership forms, such as incorporation and trusts, and for non-accountant professionals to become ICAA associate members and owners of Chartered Accounting firms. In other jurisdiction, such as the UK and the USA,

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Strategic type of merger	Description	Findings on accounting firm merger motives/ expected benefits
Scope	Merging firms which provide different services in order to provide a broader range of services to cross-sell to clients	Gaining access to specialised skills in industries or specialities in which a firm is weak (Wootton *et al.*, 2003) Entry into non-traditional areas, such as consulting and law firms (Wootton *et al.*, 2003)
Scale (horizontal)	Gain efficiencies and the ability to develop specialties by acquiring firms providing similar services in the same geographic markets	Increased efficiency through economies of scale in areas such as training (Wootton *et al.*, 2003) and other managerial overheads such as marketing, IT and litigation (Greenwood *et al.*, 1993) The largest firm is perceived to automatically be asked to bid for an audit engagement (Greenwood *et al.*, 1993) Increased client bases through acquiring firms with prestigious clients (Wootton *et al.*, 2003) Gaining critical mass in range of services and specialist skills in small offices (Wootton *et al.*, 2003) including industry specialisation (Greenwood *et al.*, 1993)
Geographic expansion	Combines firms providing similar services in different locations	Gaining offices to service the needs of increasingly national and international clients (Wootton *et al.*, 2003; Greenwood *et al.*, 1993) Smaller specialist firms seeking to leverage their expertise across the large firms' networks (Wootton *et al.*, 2003)
Non-merger strategy specific		Enabling partners of smaller firms to retire (Wootton *et al.*, 2003) Providing greater security for partners and staff of smaller firms (Wootton *et al.*, 2003) Spreading risks of personal liability with increasing litigation (Wootton *et al.*, 2003) Survival of troubled firms (Wootton *et al.*, 2003)

Table I.
Benefits expected from accounting partnership mergers by acquisition strategy

changing legislation and regulations enabled accountants to incorporate, non-accountant ownership and introduced the limited liability partnership ownership structure (Hamilton, 1995; Linsell, 2001).

A number of weaknesses in the partnership model have been identified including lack of access to capital to fund technology costs (Greenwood and Empson, 2003; Pickering, 2010) and to develop multidisciplinary practices (Perera *et al.*, 2003), slow and resource intensive democratic decision making (Perera *et al.*, 2003) particularly as firms become large and add many specialties (Greenwood and Empson, 2003; Pickering, 2010). Other issues include reduced attractiveness of partnership to professionals with many lucrative career alternatives and a desire for a balanced lifestyle (Greenwood and Empson, 2003) and the joint and several liability of partners

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and aversion to risk that partners have with a large proportion of their wealth tied up in partnership (Perera *et al.*, 2003).

The accounting industry in Australia is very fragmented. Of the almost 10,000 accounting firms in the country in 2001/2002, 88.6 percent had two or less partners/principals (ABS, 2003). In the late 1990s and early 2000s, owners of smaller firms were finding it difficult to realise goodwill on retirement (ICAA, 1998; Pickering, 2010) with "succession is the biggest issue facing the profession" (CPA Australia, 2004, p. 3). About 25 percent of the CPA Australia survey respondents indicated that the principal or at least one partner in their firms was planning to retire in the next five years, 19 percent of respondents intending to sell their firms and another 19 percent planning to merge firms in the next five years (CPA Australia, 2004). The report concludes that this change is partially due to changing demographics with 69 percent of respondents over 40 years of age and 40 percent over 50.

Keeping up with changing and increasingly complex legislation and regulations and obtaining capital to invest in new technology and develop new specialties proved to be challenges to small firms (ICAA, 1998; Pickering, 2010). During the late 1990s and the first year of the 2000s Australian accounting firms were booming assisting clients to implement a new Goods and Services Tax (GST) and prepare for potential Year 2000 computer issues with growth constrained by the ability to recruit and retain accounting staff (Pickering, 2010; Thomas, 2001a, b; Thomas and Tillers, 2000).

In 1991, legislation was passed in Australia for a superannuation guarantee with employers required to pay from 3 percent in 1993 to 9 percent in 2002 of employee pay into employee superannuation accounts (Freeman, 1993) creating opportunities for financial advisors with accountants potential beneficiaries. Building specialties, such as financial planning capability to take advantage of these opportunities, proved challenging for many small accounting firms (ICAA, 1998).

Macro factors have created challenges and opportunities for small accounting firms including creating alternative ownership structures. Motives of acquiring companies may include providing solutions to some of these challenges, removing some of these identified weaknesses of partnerships and seeking to realise these emerging opportunities. As the publicly owned companies acquiring accounting firms have a company rather than partnership structure their motives for acquiring may be more aligned with the literature on corporate M&A motives.

2.4 M&A motives and potential benefits

Researchers have identified value maximising and non-value maximising reasons for organisations being involved in M&As (Seth, 1990; Halpern, 1983). Descriptions of motives for M&A have been dealt extensively by the industrial economics, financial economics and strategic management literature (Walter and Barney, 1990). These motives reflect potential sources of value creation sought by managers of acquiring firms. Non-value maximising are described by agency theory which suggests that, as management is separated from ownership of the firm, managers of the firm may be motivated to take actions that maximise their own position as opposed to that of the shareholders (Schleifer and Vishny, 1990).

M&A motives and benefits from M&As have been considered by a number of researchers. Table II summarises the motives identified by researchers into five value creation categories and one non-value maximising motives category.

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Classes of motives	Detailed motive/potential benefits
1. Growth	Increasing market share (Kreitl and Oberndorfer, 2004; Walter and Barney, 1990) Entering a new industry (Kreitl and Oberndorfer, 2004; Walter and Barney, 1990) Entering new markets (Kreitl and Oberndorfer, 2004; Walter and Barney, 1990) Broadening the customer base for existing products and services (Kreitl and Oberndorfer, 2004; Walter and Barney, 1990) Expanding current product lines (Kreitl and Oberndorfer, 2004; Walter and Barney, 1990) Exploring a new market or industry including sequential growth through multiple acquisitions (Angwin, 2007)
2. Synergies	*Collusive* Increasing market power – limiting competition and/or achieving monopolistic/ oligopolistic profits (Brouthers *et al.*, 1998; Chatterjee, 1986; Lubatkin, 1983; Seth, 1990) *Operational* Gaining economies of scale and scope – more fully utilising resources of the combined firm (Brouthers *et al.*, 1998; Lubatkin, 1983; Walter and Barney, 1990; Seth, 1990) Acquiring resources/capabilities deficient within the firm (Kreitl and Oberndorfer, 2004) Reconfiguring capabilities of both entities to create unique capabilities (Capron *et al.*, 2001) Reducing over-capacity in an industry (Bower, 2001) Displacing an existing management (Brouthers *et al.*, 1998; Trautwein, 1990) *Financial* Efficiently allocating capital and reducing the cost of capital for larger firms (Chatterjee, 1986; Trautwein, 1990; Williamson, 1975) Gaining critical mass, for example to enable an IPO (Angwin, 2007) Increasing borrowing capacity through diversification of cash flows (Lewellen, 1971 in Lubatkin, 1983) Exploiting tax and accounting opportunities (Kreitl and Oberndorfer, 2004)
3. Risk and uncertainty	Diversifying risk – improving the risk/return of the profile of the acquiring firm (Lubatkin, 1983; Walter and Barney, 1990; Trautwein, 1990; Seth, 1990) Coinsurance – reduced bankruptcy risk through diversification of cash flows (Lewellen, 1971 in Lubatkin, 1983; Seth, 1990) Controlling risk, uncertainty and critical interdependencies (e.g. acquire a supplier or a competitor) (Walter and Barney, 1990)
4. Protect the existing business	Avoiding being taken over (Angwin, 2007) Stifling new innovations which threaten the business, e.g. acquire innovative companies and shut them down (Angwin, 2007) Affecting competitive dynamics, e.g. an acquisition to prevent competitors entering the market (Angwin, 2007)
5. Speculative and opportunistic	Acquiring undervalued targets (Brouthers *et al.*, 1998; Chatterjee, 1986; Wernerfelt, 1984)
6. Non-value maximising motives	Managers performing M&As in order to build an empire (Schumpeter, 1934 in Mueller, 1995) Growing the company through M&A as managing a larger organisation is related to higher executive compensation (Bliss and Rosen, 2001; Jensen, 1988) Seeking to diversify the firm through unrelated M&A in order to diversify employment risk (Amihud and Lev, 1981)

Table II.
Merger motives and potential benefits from M&As

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Some of these value maximising motives may not result in increased value or profitability but may decrease potential future negative impacts for example where the motive is to protect the existing business from competitor actions or changes in technology (Angwin, 2007). Other motives such as exploring new areas may not create immediate economic value but may result in learning which enables future value creating acquisitions (Angwin, 2007).

2.5 Measuring acquisition program benefits achieved

Even though M&As are a method of achieving a broader corporate strategy and are often a component of an acquisition program most studies focus on the merger motives or expected benefits of a single focal acquisition (Brouthers *et al.*, 1998; Kreitl and Oberndorfer, 2004; Walter and Barney, 1990). A series of acquisitions may be more appropriately measured on the performance of the acquisition program (Angwin, 2007) or the performance of the acquiring company particularly when gains are contingent on subsequent acquisitions (Barkema and Schijven, 2008). Care is also required in analysing expected benefits and performance as acquiring executives often have multiple motivations for an individual M&A (Angwin, 2007; Kreitl and Oberndorfer, 2004).

No previous studies appear to have examined whether publicly owned accounting companies achieve executive objectives of their acquisition programs. The literature on the financial performance of mergers of accounting partnerships is also sparse (Greenwood *et al.*, 1994). Measurement of the financial performance of accounting partnerships is limited by the lack of publicly quoted stock prices and other firm financial information. Studies on benefits of accounting firm mergers to date have utilised revenue and professional/ employee numbers from published industry surveys to examine returns to scale concluding accounting firms have benefited from mergers (Banker *et al.*, 2003; Chang *et al.*, 2009; Owen, 2003). These studies do not identify partner expectations of merger benefits or the nature of any scale benefits achieved. The emergence of publicly owned accounting companies and associated publicly available information provides the opportunity for research to gain a greater understanding of the objectives and financial implications of accounting firm mergers.

Of further interest is the performance effect of greater integration in this context. That is, to what degree were expected company benefits ultimately achieved and to what degree do these realised benefits exceed the cost of integration. Integrating organisations can lead to substantial costs (Goold and Campbell, 1998; Pablo, 1994; Porter, 1985), distraction from the ongoing business (Goold and Campbell, 1998), cultural clash (Nahavandi and Malekzadeh, 1988) and employee resistance (Larsson and Finkelstein, 1999). Identifying expected benefits is different to realising them with planned synergies often proving to be illusionary (Goold and Campbell, 1998) and difficult achieve. For example, Maister (1997) indicates that most PSFs struggle to achieve cross-sales and Teece *et al.* (1997) have identified the challenges in implementing best practice across an organisation.

2.6 Gaps in the literature and the purpose of this study

While M&A motives and expected/potential benefits have received some research attention, these studies have examined focal acquisitions rather than acquisition programs. Specifically, benefits expected from multiple acquisitions of accounting firms by the executives of publicly owned accounting companies and financial

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implications have not been explored despite the rapid expansion of these organisations through thousands of acquisitions.

Based on the gaps in the research, this study sought to explore the following questions:

- What benefits do executives of publicly owned companies expect the companies to achieve through the consolidation of multiple accounting firms?
- Do these expectations of benefits change over time within an acquisition program?
- How do the acquisition program benefits expected by executives of publicly owned accounting companies compare to accounting partnership merger motives identified in prior research?
- What are the financial implications of aggressive versus conservative expectations of benefits to be achieved by the companies? Does the achievement of greater benefits associated with a more aggressive approach exceed the implementation costs?

3. Methodology

3.1 Method and case selection

A case study approach is appropriate where little is known of a phenomenon (Eisenhardt, 1989; Yin, 1989) such as the relatively new trend of public ownership of accounting firms. Case studies are an important methodology for accounting research to gain an in-depth understanding (Scapens, 1990) and particularly in times of discontinuity (Cooper and Morgan, 2008) such as a rapid acquisition program and change in ownership form for accounting firms. This study triangulated data from multiple sources (Yin, 1989) publicly available information such as company announcements and media reports and researcher interviews with company executives and principals.

It was considered likely that the company-related benefits expected by executives would differ according to the business model of the acquiring company and the degree of post-acquisition integration planned (Bower, 2001; Howell, 1970). Therefore, in order to identify the range of benefits expected two extreme cases were selected one which involved substantial integration of acquired firms seeking substantial synergies (Stockford Limited) and one where acquired firms retained substantial autonomy (AccountCo Limited). AccountCo's name has been changed for this paper. Both firms were of equivalent size (2002 revenues: Stockford A$111m and AccountCo A$102m), both were operating in Australia and New Zealand, both acquired over 50 firms and both earned the majority of their revenues from accounting-related activities (2002: Stockford 70 percent, AccountCo 74 percent) and financial planning/financial services (2002: Stockford 20 percent, AccountCo 26 percent).

While neither firm reported audit revenues for the period researched it appears that external audits generated in the order of 10-15 percent of revenues for both companies. At AccountCo a large audit base was considered a negative in assessing potential acquisitions according to the AccountCo Managing Director in 2000 and in 2010 the company reported in their annual report that Audit and Assurance services were approximately 10 percent of total revenues. In late 2002 Stockford indicated that the Audit and Assurance team, which performed internal audits, external audits, accounting policy and technical advice as well-corporate advisory services, consisted

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of over 100 staff (Stockford, 2002a). Total Stockford staff was around 1,200 at that time (Stockford, 2002b).

Stockford Limited commenced operations in July 2000 with the acquisition of the accounting firms of its two founders and going on to acquire over 50 firms in Australia and New Zealand in the year to July 2001. The company performed an initial public offering (IPO) in November 2000. Stockford was selected as a high-integration case due to the intent of the founders to develop a nationally branded company with consistent services and centralised administration (Stockford, 2000b).

AccountCo Limited was initially a publicly owned engineering company. Between early 1997 and the end of June 2005 the company divested its engineering operations and acquired over 70 accounting and financial planning firms. AccountCo was selected as a low-integration case as the company operated a small corporate office and left substantial autonomy with acquired member firms.

3.2 Unit of analysis and period analysed

Unlike most studies of merger motives which use individual mergers as the unit of analysis (Angwin, 2007), this study uses the acquisition program as the unit of analysis. This enabled the analysis of executives' expectations of company-related benefits to be observed as they emerged over time rather than the examination of expectations at the point of a specific transaction. Expectations may change as the acquisition program takes on a coherent structure with complementarities arising with later acquisitions (Barkema and Schijven, 2008). Research and analysis covered over eight years of acquisitions for AccountCo from the first financial planning firm acquisition in January 1997 to the conclusion of the research at 30 June 2005. The period studied for Stockford was four years from the announced intent to consolidate accounting firms in mid-1999 to the sale of acquired firms following the company's collapse in early 2003.

The comparison of the achievement of expected financial benefits by Stockford in terms of growth and efficiency was performed predominantly using 2002 financial data. This was a short time (19 months) post-Stockford's IPO considering prior studies have identified that M&A benefits can take many years to be fully realised (Barkema and Schijven, 2008; Briggadike, 1979; Haspeslagh and Jemison, 1991). However, 2002's accounts were the last released prior to the company's collapse and 2002 was the final year for which forecasts were issued in the IPO prospectus reflecting the timeframes that Stockford executives expected that significant benefits could be achieved by the company. For AccountCo, analysis continued until the end of the study (June 2005).

3.3 Sources of data

The main source of data used to identify benefits of consolidating expected by acquiring firm executives was publicly available information such as company announcements including acquisition announcements, company annual and half yearly financial reports and forecasts, director and executive presentations at shareholder meetings and analyst briefings, capital raising prospectuses and media reports. In all over 3,500 pages relating to the two companies were reviewed. This data source enabled a longitudinal view to be taken of executive expectations of benefits and also avoided issues of retrospectivity bias associated with interviews. Financial performance data were sourced from the companies' annual reports. Revenue data for the comparison partnership sample were sourced from the *Business Review Weekly (Australia)* annual Top 100 accounting firm survey.

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Publicly available information was augmented by interviews with executives and principals (senior client serving professionals) within the two companies and with two industry observers. The purpose of the interviews in relation to executive expectations of benefits was to identify any gaps or inconsistencies with publicly announced expectations as researchers have indicated that executives may be reticent to announce non-value added motives (Walter and Barney, 1990). For the AccountCo case four unstructured discussions were held with a senior executive between 2000 and 2003 along with semi structured interviews with the same executive in September 2003, October 2004 and March 2005. These were followed by an interview with the managing director of the group in April 2005. Nine semi-structured interviews were also held with five AccountCo principals (senior client serving professionals) between September 2003 and April 2005. For the Stockford case interviews were held with an executive with a combined principal practice role and four other principals in September and October 2003 and with a senior executive and two senior managers from the company administrator in mid-2005. Interviews were consistent with the publicly reported benefit expectations.

In order to further verify that announced expectations reflected executives actual intent, subsequent integration approaches and mechanisms implemented were also reviewed and executive actions were found to support the discourse on expected benefits.

3.4 Measures of performance used

Multiple measures were used to understand the implications of the acquisition benefits expected on company performance (Haleblian *et al.*, 2009; Zollo and Meier, 2008). Measures used reflect the focus of the study on the implications on the performance of the companies as publicly owned organizations with external owners like other companies. Different measures would be more appropriate for measuring performance from other perspectives, such as those of the regulator. Stock price movements (Barkema and Schijven, 2008) were examined over the period of the study and the life of Stockford from the IPO to the collapse. To explore revenue growth rates the two companies' growth rates were compared to each other and to a sample of ten mid-tier Australian accounting partnerships for the period 2000-2002. AccountCo's revenue growth rates were also compared to the same sample of partnerships for the period 1999-2005. The analysis started in 1999 as this was the first year that the BRW survey data were available.

Return on assets (Barkema and Schijven, 2008; Haleblian *et al.*, 2009; Zollo and Meier, 2008) was compared for the two companies. In order to understand the financial impact on the professional offices, earning before interest, tax, depreciation and amortisation (EBITDA) before head office costs were analysed comparing Stockford's performance as a company in 2002 to the performance of the firms it acquired pre-acquisition and forecast performance in the IPO prospectus and to the performance of the less aggressive AccountCo. To address potential manipulation of accounting data net cash flows from operations as reported by the two companies was reviewed and compared across companies. To gain an understanding of implementation costs of the two approaches head office costs of the two companies were compared as were the total investment made by the companies in plant and equipment and leasehold improvements; and other integration costs, in total for 2001 and 2002. Profitability trends were analysed for AccountCo for the period 2002-2005 to explore whether

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efficiency of acquired firms improved under public ownership. The year 2002 was selected as the starting period as that is the first year that head office and divisional margins were disclosed by AccountCo.

3.5 Data analysis

Data collection and data analysis were performed in an iterative and overlapping manner in order for the data to inform the analysis and the analysis to inform further data collection (Eisenhardt, 1989). Initial analysis consisted of identifying potential acquisition benefits from the literature and those arising through data collection and sorting information from documents reviewed and interviews into those themes by pasting under headings in a Microsoft Word document. Financial analysis was performed comparing the performance of the companies over time and across companies. A case study was developed for each of the two acquisition programs researched based on data collected and sorted. This enabled the researcher:

> [. . .] to become intimately familiar with each case as a stand-alone entity. This process allows the unique patterns of each case to emerge before investigators push to generalise patterns across cases (Eisenhardt, 1989, p. 540).

Executive expectations of benefits were compared between cases in order to identify similar and contrary results and with the literature to identify benefits noted in prior research on expected benefits of mergers in professional services and across other organisations but not with the two cases studied here. The performance of the two companies were compared to explore the degree to which Stockford's more aggressive expectations of benefits resulted in improved performance.

4. Findings

This section examines the types of benefits expected by executives, explores the timing and aggressiveness of announced expectations and then analyses financial performance.

4.1 Types of benefits expected by senior executives to accrue to acquiring companies

As indicated in Table III, executives of AccountCo and Stockford communicated expectations of many types of company benefits expected, predominantly growth and efficiency-/synergy-related. Reducing risks and uncertainty, protecting the existing business, speculation/opportunism and non-value creation motives were of relatively low or no importance. Efficiency benefits were more important to Stockford executives than AccountCo executives. Stockford executives identified most expected benefits at the beginning of the acquisition program, while AccountCo expectations of benefits emerged over the course of the acquisition program. Benefits expected to be realized by the companies are discussed below followed by a brief examination of benefits executives expected for other stakeholders. The aggressiveness of related benefits are then examined.

4.1.1 Growth benefits expected. The acquisition programs of both companies were expected by executives to generate significant revenue growth beyond the current revenues of acquired firms. For both firms the main growth benefits expected were from leveraging the accountant/client relationship to increase revenues and to continue growth through further acquisitions.

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Table III. Summary of expected company benefits communicated by company executives

Categories and types of expected benefits	Importance of benefit category, whether individual benefits were announced by the company and the year announced			
	AccountCo		Stockford	
	Importance/ announced	Year of announcement	Importance/ announced	Year of announcement
Growth				
Relative importance of growth-related benefits	High		High	
Entering a high-growth industry	Yes	1996/1997	Yes	2000
Cross-selling services	Yes		Yes	
Accounting and financial services	Yes	1998	Yes	2000
Other: IT, electronic commerce, legal	No	N/A	Yes	2000
Introducing new products	Yes		Yes	
Accounting and financial services	Yes	1999	Yes	2000
Other: management consulting, banking transactions, regional economic development	No	N/A	Yes	2000
Acquiring further firms	Yes		Yes	
Head office acquisitions	Yes	1997	Yes	2000
Member firm (decentralised) acquisitions	Yes	2000	No	N/A
Developing a national network	Yes		Yes	
Revenue growth through geographic expansion	Yes	1998	Yes	2000
Winning multi location clients	No	N/A	Yes	2002
Selling through a virtual network	Yes		Yes	
Proactive strategy	No	N/A	Yes	2000
Opportunistically identified	Yes	2001	No	N/A
Leveraging national branding	Yes		Yes	
Financial services	Yes	2002	Yes	2000
Accounting services national brand	No	N/A	Yes	2000
Accounting services – national capital city brand	Yes	2002	No	N/A
Accounting services co-branding	Yes	2003	No	N/A
Removing administration from offices	No	N/A	Yes	2000
Improving recruitment of staff	Yes		Yes	
Staff stock ownership and share schemes	Yes	2001	Yes	2000
Centralised recruitment/ HR	No	N/A	Yes	2000

(*continued*)

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Categories and types of expected benefits	Importance of benefit category, whether individual benefits were announced by the company and the year announced			
	AccountCo		Stockford	
	Importance/ announced	Year of announcement	Importance/ announced	Year of announcement
Efficiency/synergy				
Relative importance of efficiency-/synergy-related benefits	Medium	High	High	High
Change in ownership/ legal structure	Yes		Yes	
Increased willingness to invest	Yes	1999	Yes	2000
Enable retirement of some senior partners and increase commercial focus	Yes	2000	No	N/A
Replacing inefficient management	No		No	
Replacing management of acquired firms	No	N/A	Yes	2002
Centralised decision making	No	N/A	Yes	2000
Acquiring resources/capabilities	Yes		Yes	
Improving process efficiencies	Yes		Yes	
Head office identification and implementation of best practice	No	N/A	Yes	2000
Head office supporting member firm improvements	Yes	2000	No	N/A
Improving quality/ lower cost administration	Yes		Yes	
Centralised administration	No	N/A	Yes	2000
Specialist advisory support to offices	Yes	2000	No	N/A
Improving quality/lower cost information technology	Yes		Yes	
Financial services systems	Yes	2001	Yes	2000
Accounting services systems	Yes	2003	Yes	2000
Centralised accounting services systems	No		Yes	2000
Combining purchasing	Yes		Yes	
Large national items – e.g. telecoms, insurance, IT	Yes	2000	Yes	2000
Local expenditure – e.g. printing, accommodation, travel agency, office supplies	No	N/A	Yes	2001
Providing technical expertise to acquired firms	Yes		Yes	
Developing specialities	Yes		Yes	
Centralised development	No	N/A	Yes	2000
Centre of excellence approach	Yes	2001	No	N/A

(*continued*)

Table III.

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Table III.

Categories and types of expected benefits	AccountCo		Stockford	
	Importance of benefit category, whether individual benefits were announced by the company and the year announced			
	Importance/ announced	Year of announcement	Importance/ announced	Year of announcement
Member office specialists	Yes	2003	No	N/A
Efficiently allocating capital/ reduced cost of capital	Yes			Yes
Investment in firms	Yes	1999	Yes	2000
Increased valuation multiple	No	N/A	Yes	2000
Risk and uncertainty				
Relative importance of risk- and uncertainty-related benefits	Low		Low	
Diversifying risk	Yes		Yes	
No. and geographic spread of firms	Yes	2001	No	N/A
Diversification across financial services and accounting	Yes	2005	No	N/A
Broad range of clients serviced	No	N/A	Yes	2000
Internalising supply of services	No	N/A	Yes	
Protecting the existing business				
Relative importance of benefits related to protecting the existing business	None		None	
Speculative and opportunistic acquisitions				
Relative importance of speculative and opportunistic-related benefits	Low		None	
Acquiring undervalued targets	Yes	2003	No	N/A
Non-value maximising motives				
Relative importance of non-value maximising motives	None		None	

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However, Stockford executives and founders anticipated revenue growth from introducing and cross-selling a much broader range of products and services to accounting clients, wider distribution channels and through more actively improving the revenue generation of acquired firms than did AccountCo executives.

In 1997 AccountCo commenced the acquisition program to move from the problematic engineering consulting services to high growth financial services industry. AccountCo initially planned to focus on cross-selling accounting services to financial planning clients before identifying in 1998 the potential of the client/accountant relationships to distribute financial services. AccountCo limited products and services to financial related, including planned new products, such as insurance and financing, and those typically provided by accounting firms such as accounting, taxation, business advisory and corporate advisory. Stockford expected to cross-sell to accounting clients a much broader range of products and services including information technology services, business planning, electronic commerce, licensed legal services, regional development, banking transaction services and management consulting (Stockford, 2000b).

Great opportunities were seen for future accounting firm acquisitions by executives of both companies due to the fragmented industry and challenges for small firms. This was highlighted by AccountCo executives in the company's 2003 annual report:

> The opportunity for continued sustained growth in this manner across the Group is considered to be most significant having regard to serious prevailing industry issues such as succession planning, increased regulation and compliance, staff recruitment, retention and training, availability and cost of professional indemnity insurance and recurring high investment in technology and professional development.

In mid-2001, the Stockford CEO indicated that Stockford could grow revenues from \$150m to \$500m in five years through acquisition and internal growth (Stockford, 2001a). By late 2003 AccountCo executives had set a target of \$10m revenue for each member firm with much of the growth to come from acquisitions of smaller businesses.

AccountCo executives' intent to establish a national network was to grow revenues through greater geographic coverage rather than servicing multi location clients. This reflects the company's focus on cross-selling financial services and the market focus on private clients and small to medium enterprises. Stockford executives expected to service multi-location corporate clients through its network once it was established (Stockford, 2002a). Stockford expected to increase revenues and create a pipeline of potential acquisitions through providing technical support and services to a "virtual network" of small independent accounting firms (Stockford, 2000b). AccountCo executives identified the opportunity for a virtual network in 2001 when a national second tier accounting firm, who had such a network, was being targeted for acquisition, but let go of this ambition when the acquisition failed.

Stockford executives believed that they could increase revenues by immediately introducing national branding and enabling an increase in hourly rates (Stockford, 2000b). By contrast, AccountCo executives concluded that acquired firms had strong brand recognition in their markets while the corporate entity did not have any brand presence. In 2002, the opportunity was identified to leverage the brand of a recently acquired mid-tier accounting firm to develop a national capital city accounting brand and, in 2003, to co-brand regional firms AccountCo, retaining the value of regional firm brands but also linking to the perceived strong name of the acquired mid-tier firm.

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At AccountCo, administration remained the responsibilities of member firms. At Stockford, centralised administration services were projected to enable growth through removing many of the impediments to the growth of small practices, such as the distraction of administration and technology and difficulties in hiring staff, as described by a Stockford director and founder in August 2000:

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

At the time of the consolidations recruiting and retaining staff had been difficult due to substantial growth in demand with the implementation of a GST in Australia and preparation for Year 2000. Stockford executives saw opportunities to increase growth by addressing these issues through centralising recruitment, establishing structured reviews and providing on-going training and access to employee ownership (Stockford, 2000b).

At AccountCo staff ownership opportunities, making firms more attractive to staff by creating specialty services and providing staff with opportunities to advance to principal without the significant outlays to buy into partnership were expected by executives to assist with recruitment and retention to service revenue growth.

4.1.2 Efficiency benefits expected. Generating efficiency gains was a much greater focus for Stockford executives than for AccountCo executives. Stockford executives anticipated benefits from centralising management, administration and information technology and identifying and implementing best practices from head office (Stockford, 2000b). AccountCo executives did not identify efficiency improvements as a priority until three years into the acquisition program and sought to facilitate the principals improving their practices.

Executives of both companies identified benefits in migrating acquired partnerships to a company structure. Prior to the bulk of the acquisitions the Stockford CEO described the limitations of partnership:

> Our corporate structure is a lot sounder than normal partnerships. We have no inhibitions about long term investing in people and systems. Even in quite large partnerships, there will be a resistance to investment because some partners will always take a short term view and try to maximise their current income (Thomas, 2000b).

In a media interview in 1999 an AccountCo director also indicated that the company's ability to raise capital and debt would address acquired firms' issues of funding computer costs, administration, debtors and work in progress and overcome partners' reluctance to investing in growing the business and developing specialties. Interviewed AccountCo executives identified that the acquisition enabled some senior, and sometimes dominant, partners, to retire increasing leverage in the firms, providing other partners with greater input into the running of the acquired firm and increased the commerciality of the practices.

Neither company initially sought to remove management (i.e. the partners) from acquired firms. At AccountCo local decision making remained important as indicated by the Chairman in 2002:

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> What makes us different is that we have a distributive management model. Our view is that if we are buying firms that are successful and are being run by people who know what they are doing, we don't have to put management over the top of them. Management of the local business is left in local hands (Kavanagh, 2002).

Stockford also left partners in place in practice leadership roles but believed improvements could be obtained by centralising significant decision making in the hand of experts in national divisional roles (Stockford, 2000b). Almost two years after the bulk of the acquisitions with the company performing poorly, Stockford executives placed practice managers in charge of the offices. Interviewees indicated that these practice managers were selected from head office managers not from amongst senior professionals, due to executive perceptions that the accounting professionals were poor managers.

Executives of both companies identified acquisitions as a key strategy to acquire processes, systems and skills lacking at the time. Stockford executives expected quality and efficiency improvements as a result of moving to standard best practice processes across the Group. The intent was to identify best practices centrally and implement them across the company (Stockford, 2000b). For example, acquired firm HLB Mann Judd audit software was stated to have improved efficiency by 25 percent at HLB Mann Judd and was to be implemented throughout Stockford (2000a). Acquiring the Melbourne office of HLB Mann Judd was also expected to bring large firm administrative systems and processes into Stockford (2000a). At AccountCo executives also expected benefits in firms moving to Group best practice through benchmarking exercises. However, as indicated in a 2002 media interview the benefit was very much seen as self-improvement by the principals of the member firms facilitated by head office rather than imposed.

Stockford executives anticipated substantial improvements in the quality and cost of administrative services by establishing centralised marketing, human resources, finance/administration and technology departments, hiring specialists, developing common processes and procedures and removing administrative staff from the acquired firms (Stockford, 2000b). By contrast, AccountCo executives sought to leave administration with the member firms but from 2000 anticipated improved quality of service in centrally hiring a small number of specialist advisors in human resources and information technology where the member firms were not large enough to each have specialists in the area. Potential benefits were identified from member firms taking over some administration activities from smaller "tuck-in" acquisition firms (firms purchased by previously acquired firms) in their region. Over time, the opportunity was identified for AccountCo member firms to improve the efficiency of administrative processes through regional groupings and mergers between member firms.

Stockford executives expected that centralising computer systems and utilising APS practice management software across the firms would result in savings of at least $6.5m per year (Thomas, 2001d). Interviewed AccountCo executives indicated that the view for many years was that the performance of the accounting firms was driven by the underlying cultures and processes and not the systems with the decision to move practices to the common APS practice management system not made until 2003. Unlike at Stockford, systems were not to be centralised but each practice was to operate their own version of the software. Potential benefits identified were a reduction in licence fees and the ability to implement best practice processes across the group through the common systems.

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Executives of both companies identified potential benefits in developing and leveraging specialised skills across their companies. Stockford executives saw opportunities to develop specialties, share technical expertise and raise Stockford's profile in key service areas and enable the company to target larger companies (Stockford, 2000b). The Stockford CEO also considered substantial benefits in pulling best practice into templates that would enable engagements to be performed much more efficiently (Thomas, 2001a).

Combined purchasing was not seen as a significant potential benefit by executives of either company with salaries being by far the greatest cost. Both companies initially combined national costs such as professional indemnity insurance and telecommunications. Stockford sought more cost savings across many categories of resources as the company struggled to achieve other expected benefits.

From 2001 acquiring a large capital city accounting firm was seen by AccountCo executives as an important strategy to build specialties and provide technical and specialist expertise to support the company's network of regional firms. The difficulties experienced by smaller firms in keeping up with regulatory changes was described by AccountCo executives in a 2003 announcement as a great opportunity for the member firms to acquire these smaller firms and then provide the required support. Later opportunities were identified to develop specialties and share expertise across the member firms through the introduction of centres of excellence (2001), regional groupings (2002) and common core products (2003) along with methodologies, materials and technical training and through internal alliances and mergers with some firms (2005).

Three years into the acquisition program, AccountCo executives identified the opportunity to use capital to grow member firms throughout their regions through further "tuck-in" firm purchases. Executives of both companies identified that public ownership would provide the ability to fund improved systems and to develop specialities and to overcome the reluctance of the small firm partners to invest.

There was an expectation of financial engineering benefits particularly at Stockford. This involved buying firms at private firm valuations and then achieving a higher valuation on the Stock Exchange. In early 2001, the Stockford CEO indicated that Stockford paid between four and six times net profit after tax for the firms acquired (Thomas, 2001c). On listing at $1 per share this refected a valuation of approximately 17 times projected annualised net profit after tax for Stockford for 2001. The CEO suggested that this "financial magic" was due to the potential for a centralised, efficient company, funds under management and conversion of ownership from illiquid investments to liquid shares (Thomas, 2000b, c). At the $1.50 price target, which was achieved on fifth of December 2000, suggested by the float underwriters Burdett, Buckeridge Young (Walker, 2000) this reflected a valuation of almost 26 times projected annualised net profit after tax for Stockford for 2001.

4.1.3 Other categories of benefits. Diversification of risk did not emerge in either case as an espoused motive for acquisitions with diversification of cash flows by industry, geography and client identified as benefits well into the acquisition programs. Reduction of risk also did not appear to be a major driver of Stockford's acquisitions of a practice management systems company and a practice management consulting firm with an intent to speed integration and significantly increase the sales of these products/service externally.

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The four acquisitions by AccountCo of ex-Stockford firms on the collapse of Stockford could be considered opportunistic as directors indicated in the 2003 annual report that they considered the firms were acquired below market value. However, the acquisitions clearly fitted the AccountCo corporate and acquisition strategies of building a national capital city accounting network and strengthening regional firms.

4.1.4 Benefits executives expected to accrue to other stakeholders. The focus of previous sections was the benefits that company executives expected the companies to achieve through the acquisition of small- to medium-sized accounting firms. The idealised definition of professionals is to serve the public interest (Shafer *et al.*, 2002). Executives of the accounting companies also expected benefits to accrue to partners, staff and clients and, to a limited degree, to society. However, the communication of these stakeholder benefits by executives was clearly on these benefits being sought to the advantage of the companies and their shareholders.

Benefits were expected for partners of selling firms who would trade illiquid partnership for shares in a public company, have succession issues addressed, move away from unlimited personal liability and gain access to technical support. Stockford executives expected to remove the burdens of administration from the partners while AccountCo executives indicated that it would enable some partners to retire and remaining partners to expand their practices through acquisition. These expected partner benefits were expected to provide opportunities for the companies to grow through acquiring more firms. As mentioned earlier, freeing partners from administration was expected by Stockford executives to provide partners with more time to generate revenues for the company. Partners selling firms to both companies generally accepted shares in the companies as consideration for their firms suggesting that they anticipated participating as shareholders in the company-related benefits expected by executives.

Benefits expected for employees, such as improved training, the ability to specialise, being part of a larger company and participation in the issue of shares and employee share schemes were mentioned as actions to improve the companies' recruitment and retention of staff. Stockford executives raised greater meeting of clients needs for additional value-added services, the provision of consistent services to small to medium enterprises across the country and improved efficiency of services through developing client service templates. These potential client benefits were communicated as opportunities for cross-selling and increasing revenues, increased hourly rates to reflect national branding and increased company profitability from using templates rather than lower client fees.

Stockford executives raised the potential benefits to regional towns of the company replacing exiting big bank branches with Stockford run Bank of Melbourne bank branches as indicated by the Stockford CEO: "country towns can be built up again with one-stop financial services as their hub" (Thomas, 2000c, p. 95). However, the commercial intent was very clear "build goodwill with clients and non-clients in regional areas, converting negative sentiment of bank closure into a significant revenue opportunity" (Stockford, 2000b, p. 24).

4.2 Aggressiveness of announced expected company benefits

There were significant differences in the aggressiveness of forecasts of company benefits announced by senior executives of the two companies. Table IV represents a summary of Stockford (2000b) benefits expected on the IPO.

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Table IV.
Stockford forecasts of the magnitude of expected company benefits

Nature of benefit	Magnitude of forecast benefit
Revenue growth	Revenues of acquired firms were expected to be increased from A$74.2m in 2000 to A$125.7m in 2002 These forecasts included planned 5 percent charge rate rise ($4.4m revenue effect in 2002) and the introduction of new products ($10m in 2002), but did not include expected cross sales or further acquisitions Average growth rates of 31.8 and 27.8 percent were expected in 2001 and 2002 across all acquired firms compared to actual growth of 30 percent in 2000 Average growth rates of 18.1 and 18.3 percent were expected in 2001 and 2002 across accounting services compared to actual growth of 26.5 percent in 2000
Operating expense (efficiency)	Operating expense efficiencies of 5 percent were expected to be achieved in both 2001 and 2002
Improved margins	Growth and efficiency benefits were expected to result in the EBITDA margin rising from acquired firm margins of 20 and 22.19 percent in 1999 and 2000 to 27.85 percent in 2002 Owing to forecast central costs to be incurred by Stockford but not incurred previously by acquired firms operating units would need to increase EBITDA margins to 30.61 percent in 2002 to achieve the forecast company margin of 27.85 percent

Overall, Stockford forecasts appear to be aggressive given the time generally taken to merge firms. The forecasts assume that benefits that would typically in a single acquisition take three to five years to emerge (Haspeslagh and Jemison, 1991) and up to 12 years to be fully realised (Briggadike, 1979) were to be achieved by Stockford almost immediately on acquisition of over 50 firms. Omitting expected cross-selling and further acquisitions from forecasts may have been perceived by executives to have introduced a degree of conservatism. High growth, increased pricing and substantial efficiency benefits were all expected in a period when staff are likely to be distracted by intense integration (Buono and Bowditch, 1989; Goold and Campbell, 1998). The wide range of services to be cross-sold by the company has the potential for culture clash affecting integration with prior studies identifying substantial different cultures across accounting and advisory professionals (Al-Beraidi and Rickards, 2006). Forecasts appear to have been influenced by management expectations of the continuation of pre-acquisition boom conditions, including the implementation of Year 2000 and the GST, and the need to "sell" the benefits of the program to potential shareholders to raise funding through the IPO and subsequent capital raising.

AccountCo issued annualised revenues (2000-2002) and forecasts of revenues and EBITA (earnings before interest, taxation and amortisation) from 2003 which were conservatively developed based on already acquired firms and announced acquisitions, did not include future expected acquisitions or synergies and built in modest organic growth assumptions. AccountCo was already publicly owned and therefore did not go through an IPO requiring detailed forecasts while consolidating accounting firms. Subsequent equity funding was performed through private placements when the company had a successful track record thus requiring less disclosure of forecasts and less "selling". Conservatism of forecasts was also a philosophy of the AccountCo managing director: "To me the way to success is to under-promise and over-deliver, and we've tried to do just that" (Derkley, 2002).

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4.3 Achievement of expected company benefits

AccountCo's more conservative and incremental acquisition strategy and approach to identifying and actioning expected merger benefits was ultimately significantly more effective than the more aggressive approach followed by Stockford. As indicated in Table V, AccountCo outperformed Stockford in terms of revenue growth post-Stockford's IPO, profitability, efficiency achieved in operating practices and share price movement. Ultimately, AccountCo survived and continued to grow going on to acquire another 80 firms from 2005 to early 2011 while Stockford collapsed.

Performance measure	AccountCo	Stockford
Share price movement – 28 November 2000 to 23 February 2003 (Stockford IPO to collapse)	−51.5%	−100%
Share price movement – 31 January 1997 to 30 June 2005 (Australian stock market increases 75 percent)	1,900%	N/A
Achievement of forecasts		
Revenues	Yes	No
Profitability	Yes	No
Professional service and commission revenues (year ended 30 June 2002)	$100.52m	$110.8m
Revenue growth – annual growth rate – (years ended 30 June 2000-2002)	87%	397%
Stockford		
From founders firms 2000 revenue of approximately $8m: 397 percent per annum		
From pre-IPO acquisition firm revenues: 22 percent per annum		
Comparative sample of 10 mid-tier accounting firms 13 percent		
Revenue growth – total growth 1999 to 2005 (comparative sample of 10 mid-tier accounting firms: 102 percent)	3,150%	N/A
Organic revenue growth – annual growth rate – (years ended 30 June 2000-2002)	12%	9%
Profitability – EBITDA (before write-offs) – year ended 30 June 2002	$17.04m	$3.7m
Profitability – net profit – year ended 30 June 2002	$6.3m	−$111.8m
Return on assets – year ended 30 June 2002	6.2%	−95.6%
Margins in practices (EBITDA excluding head office and principal profit share) (year ended 30 June 2002)	19%	14.3%
Net cash flow from operations (per annual reports)		
Year ended 30 June 2001	$2.3m	−$6.5m
Year ended 30 June 2002	*$7.4m*	*$4.5m*
Total 2001 and 2002	$9.7m	−$2.0m
Head office costs – (total for 2001 and 2002)	$4.5m	$15.9m
Stockford – 2001: $3.82m; 2002: $12.1m		
AccountCo – 2001 (not disclosed: researcher estimate): $2.1m; 2002: $2.4m		
Integration costs capitalised – (total for 2001 and 2002)	$1.1m	$3.5m
Stockford		
Research and development of new products $0.93m		
Assimilation costs (includes $2m from provision) $2.60m		
AccountCo		
Costs of moving to common financial services platform and product development (wrap accounts) $1.10m		
Capital investment – plant and equipment and leasehold improvements (total for 2001 and 2002)	$2.84m	$14.9m

Table V. Relative performance

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4.3.1 Revenue growth achieved. Both firms achieved revenue growth far in excess of that achieved by comparative accounting partnerships, predominantly through acquisitions which were funded through the issue of capital or using company shares as consideration for purchases. While Stockford achieved rapid growth from approximately $8m of revenue of the founders' firms to $110.8m in two years, the bulk of this growth was through firms acquired in the IPO and the following month. The company failed to achieve the aggressive 30 percent per annum organic growth rates forecast to 2002 at the time of the IPO, achieving 9 percent per annum organic growth and 22 percent total per annum to 2002 including acquisitions. By comparison, AccountCo achieved 87 percent per annum revenue growth including 12 percent per annum organic revenue growth for the same period.

Stockford's revenue forecasts based on a recently booming economy and industries proved optimistic. Industry growth rates dropped substantially in the accounting, information technology services and financial planning industries due to the completion of implementation of the Australian GST, completion of Year 2000 remedial work and falls in the Australian share market resulting in lower demand for financial planning services and lower trailing commissions. AccountCo was also impacted by the slower accounting and financial services sectors but continued to grow much faster.

AccountCo continued to acquire even as the share price fell 65 percent from mid-March 2001 to mid-May 2003 before a sharp recovery. The acquisition of small firms by the semi independent member firms was also an important strategy with 45 of these tuck in acquisitions performed between 2000 and 2005. By mid-2005, executives indicated in the annual report that through acquisition and organic growth 16 of the 20 member firms had grown from an average of $4m to $5m revenue on acquisition to the targeted $10m or expected to in the next 12 months. The strategy has been successful in rapidly developing scale in financial services with moving from zero exposure in early 1997 to reporting funds under advice of $5.6 billion by 30 June 2005 in the company annual report.

4.3.2 Efficiency benefits achieved. Despite Stockford's significant head office costs and investment in plant and equipment (as discussed below), efficiency (EBITDA – adjusted for head office costs) in the operating practices fell from pre-acquisition levels of 22-14 percent for Stockford in 2002 and was well below the 30.61 percent included in the IPO prospectus and the 19 percent achieved by AccountCo in 2002.

Forecasts underestimated the time and costs to establish central structures and systems as indicated by a senior Stockford executive in July 2001:

> The assumptions that were made in the budget forecast were that once we built the central infrastructure, we would be able to immediately suck costs out of the individual practices. It's a bigger task and a slower process than we had anticipated. The people that had the concept and put it together expected we could get to a point quicker than we've actually been able to (Gettler, 2001).

While efficiency targets were not announced by AccountCo executives, the company managed to improve the margins (EBITA before head office costs and principal profit share) in the business service member firms from 18.1 percent in 2001 to 18.8 percent in 2005. Interviewed executives suggested improved performance was through best practice and other improvement initiatives. All of the interviewed AccountCo principals indicated that the profitability of their firms increased while at AccountCo.

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4.3.3 Net operating cash flows. Over 2001 and 2002, Stockford reported net operating cash flow over $12m lower than AccountCo and than the $10m forecast in the IPO prospectus. Both companies acquired firms without working capital requiring company cash flow to finance the rebuilding of work in progress and accounts receivable. For Stockford this required cash of $9.8m in 2001 and $8.4m in 2002. At Stockford failure to achieve forecast cash flow was partially also through lower than expected revenue generation but interviewees also indicated it was affected by slow billings and collections. Stockford excluded from operating cash flows outgoings of $2.7m related to assimilation of acquired firms and restructuring which were treated as investments rather than operating costs.

Despite high growth rates, AccountCo achieved positive net operating cash flows in all years from 1998 to 2005 except for 2000. In 2000 AccountCo grew revenues by over 400 percent requiring substantial investment in working capital for acquired firms. This suggests care in interpreting net operating cash flows for fast growing companies.

4.3.4 Implementation costs. The costs of implementing the benefits expected by Stockford executives were substantial. As indicated in Table V, the costs of leasehold improvements for premises to co-locate firms and for plant and equipment, including developing and implementing central information systems were $14.9m over the 2001 and 2002 financial years. The costs of developing new products and integration costs were $3.5m for the two years. A substantial head office was established to realise expected benefits of centralisation of decision making and administrative activities. The head office was reported by interviewees to have up to 150 personnel and incurred costs of $15.9m over the 2001 and 2002 financial years. Forecasts of head office costs at the time of the IPO ($3.4m for 2002) greatly underestimated those incurred ($12.1m in 2002).

AccountCo's less aggressive benefit expectations resulted in substantially lower implementation costs spread over a longer period. During the 2001 and 2002 financial years AccountCo incurred a total of $8.44m on head office and integration costs and capital investment compared to $34.3m by Stockford. As mentioned earlier Stockford's higher expenditure did not result in greater efficiency.

4.4 Factors outside of company control affecting performance

Both companies were affected by factors outside of executives' control including changes in the economic environment and industry conditions as well as by the performance of other publicly owned accounting companies. Executives of both companies identified the implications of struggling peer companies on investor and analyst confidence. Executives of AccountCo communicated other external factors while Stockford executives did not. This appears to be due to the internal focus of Stockford executives related to the significant effort required to integrate over 50 firms concurrently and the performance implications of market factors being overwhelmed by the internal disruption experienced.

The impact of a falling share market and poor peer company performance were explained by the AccountCo chairman in late 2001 at the annual general meeting (AGM):

> Our share price has been affected by the downturn in the Australian Share Market and by the disenchantment of investors with the sector of the market in which we operate. Our sector is small and relatively new and for a brief period in its early days enjoyed great investor support. However, the difficulties and disappointing profit results experienced by several other companies resulted in a savage reassessment of the sector by investors including some

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institutions who decided to exit those under-performing companies. Unfortunately we were caught up to some extent in the resultant turmoil and publicity.

In the address to the 2003 AGM, the AccountCo Chairman indicated that the prior financial year had included challenges including the depressed share market reducing new business flowing into the financial services division, a national drought directly affecting company regional offices and their clients and the failure of two comparable publicly owed accounting companies, Stockford and Garrisons Accounting Group.

Both companies were exposed to, but did not communicate, slowing accounting industry growth in 2002 with the completion of the GST implementation. For example, a sample of 10-second tier firms saw revenue growth rates fall from 19.9 percent in 2001 to 6.5 percent in 2002. At AccountCo this slowing market growth was masked by significant acquisition-related growth while at Stockford internal disruption resulted in negative accounting revenue growth for the six months period to 30 June 2002 compared to the prior year. Stockford also had some exposure to the information technology industry which suffered a significant slow down during 2002 and 2003. This was not mentioned by Stockford executives.

Despite the focus of both companies on cross-selling services to accounting clients, tightening audit independence requirements following the accounting scandals in the early 2000s and collapse of Arthur Anderson were not raised as issues in researcher interviews, company announcements or media interviews. This may be due to the focus of both companies on small to medium enterprises and wealthy individuals rather than large international and publicly owned companies subject to the independence restrictions and the relatively low proportion of revenues from audit (10-15 percent) for both accounting companies.

4.5 Implications of relative achievement of expected company benefits

Stockford quickly surpassed expected short-term share growth moving from the IPO price of $1 to $2.15 in less than two months. However, it was all down hill from there with the inability to achieve aggressive benefits established for the acquisition program ultimately having severe implications for Stockford. In July 2001, Stockford issued a profit warning that the company would not achieve forecasts for the year ended 30 June 2001 and reduced expected 2002 profit (EBITDA) from $45.2m forecast to $25m (Stockford, 2001c). Integration delays, central infrastructure cost overruns and the economic environment were cited as reasons. Investors reacted savagely slashing the share price by 60 percent to 60 cents by 24 July. This had significant ongoing implications for Stockford. Many of the partners who sold their practices to Stockford took shares in the company as consideration for their firms. This started a downward cycle with interviewed principals indicating that their motivation fell with the falling share price (and their wealth) and the public visibility of the issues in the public company made it harder to sell work. This further impacted profitability and the share price. The company issued multiple profit downgrades from this point.

Owing to the falling share price, institutions declined to participate in a placement of Stockford shares to fund a further tranche of acquisitions (Thomas, 2001b) and in early September 2001 directors deferred the 2001/2002 acquisition program due to a belief that the share price was undervalued (Stockford, 2001b). This left the company with an oversized head office established to support a much larger organisation and extinguished growth expectations. Ultimately reduced profitability of the acquired

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firms resulted in directors revaluing the firms and writing off $112.8m of goodwill, restructuring costs and costs related to surplus accommodation in the 2002 accounts.

Ultimately the costs associated with implementing the Stockford model, the failure to achieve expected benefits and the reduced performance in the underlying practices resulted in the company running out of cash and calling in the receivers in February 2003 (Korda Mentha, 2003; Stockford, 2003).

By contrast, AccountCo achieved all forecasts except for those made in 2001 on the announced acquisition of a national mid-tier firm, with the acquisition ultimately not proceeding. AccountCo s gradual identification and implementation of expected benefits reduced the amount of investment and distraction to the business in any one year allowing the company to continue with the acquisition program and continue to announce record revenues and profits apart from a small drop in profitability in 2003. AccountCo suffered a slow but substantial drop in the share price which fell 65 percent from mid-March 2001 to mid-May 2003 as Stockford and two other Australian publicly owned accounting companies collapsed before the AccountCo share price recovered. Interviewed AccountCo professionals indicated that while the value of their shares in the company fell they retained their faith in company management and the company model during this period. AccountCo continued to acquire and grow purchasing over 80 additional firms from mid-June 2005 to mid-June 2010 and increased revenues by almost 250 percent during the same period.

5. Discussion and conclusions

The cases suggest that executives of publicly owned companies acquiring small- to mid-sized accounting firms expect to generate a range of value creation benefits. At a high level, AccountCo and Stockford executives expected to achieve similar types of benefits from consolidating accounting firms as mentioned earlier in Table I. However, as indicated in Table VI, there were substantial differences in the underlying nature of the expected benefits including the role of corporate head office anticipated and level of post-acquisition integration required to realise these benefits. The timing of announcements and aggressiveness of these expectations also differed substantially.

5.1 Comparison to prior studies of accounting firm merger motives

In contrast to prior studies of accounting partnership mergers this study observed that acquiring company executives identified expected benefits by moving acquired firms,

Attribute of expectations	AccountCo	Stockford
Major types of benefits expected and relative importance		
Growth related	High	High
Efficiency/synergy related	Medium	High
Role of head/corporate office in realising announced expected benefit	Facilitation/support	Direction/control
Degree of post-acquisition integration required to achieve announced expected benefits	Low increasing over time	High
Aggressiveness of announced expectations	Conservative	Aggressive
Timing of the announcements of expected benefits	Gradual over the course of eight years and continuing	Up-front at the start of the acquisition program

Table VI. Summary comparison of announced executive expectations

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which generally operated as partnerships, into a publicly owned company structure. The potential benefits include moving away from the limitations of partnerships such as difficulty obtaining funding, partner reluctance to fund growth and increasing the commerciality of firms.

There were a number of potential synergies identified in the professional service literature but not raised by executives of either company. Gaining offices to service the needs of increasingly national and international clients has been raised as an important factor in accounting firm mergers (Wootton *et al.*, 2003; Greenwood *et al.*, 1993) but was not raised initially as an acquisition benefit by Stockford or AccountCo executives. This is likely due to the primary focus of both organisations on high net worth individuals and small to medium enterprises which are less likely to have offices in multiple locations. Stockford executives did later identify the opportunity to service large multi location clients once the national network had come together (Stockford, 2002a).

Vertical integration acquisitions, such as those of a practice management software firm and a practice management consulting firm by Stockford, have not been noted in studies of acquisitions by accounting partnerships.

5.2 Comparison to corporate M&A motives

Some M&A motives identified in prior studies of corporate M&As also failed to emerge in the cases. Collusive benefits such as the creation of a monopoly were not mentioned as potential benefits. This may be due to the highly fragmented nature of the accounting industry servicing small to medium clients with almost 10,000 accounting practices in Australia in 2001-2002 (ABS, 2003). Also absent were expectations of reducing overcapacity of an industry (Bower, 2001) which is not surprising as both accounting and financial planning industries were under resourced at the time. Executives mentioned benefits of diversified cash flows well into the acquisition programs but did not raise coinsurance (reduced risk of bankruptcy) or increased borrowing capacity. Exploiting tax and accounting opportunities were also not raised as benefits nor were any motives of protecting existing businesses. No non-value creating motives of company executives were identified. It can be expected that executives would not announce or raise in interviews any such motives (Walter and Barney, 1990). However, interviewed principals, while not always agreeing with executives, did not indicate a view that the executives were operating out of self interest.

5.3 Challenges estimating and achieving expected benefits

Researchers have identified difficulties for managers forecasting potential combination benefits of the acquisition of a single firm (Roll, 1986; Very and Schweiger, 2001). These cases suggest that this task is even more problematic when aggressively bringing together dozens of firms. The magnitude and planned timing of benefits expected by Stockford executives appeared very aggressive *ex ante* based on prior M&A literature (Briggadike, 1979; Haspeslagh and Jemison, 1991). This proved to be the case *ex poste* with expected benefits taking much longer than planned to be realised and implementation costs, including reduced efficiency and investment costs, overwhelming the business. The investors' response to the failure to achieve benefits was extreme with implications for the wealth and motivation of shareholder professionals and the ability of the company to fund implementation and further acquisitions.

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By contrast, AccountCo's more conservative and gradual identification and implementation of expected benefits spread a lower level of implementation costs over many years preventing significant negative efficiency implications. While AccountCo also found efficiency benefits took a long time to emerge, communication of conservative levels of expected benefits contributed to the consistent achievement of forecasts and enabled the company to avoid the market backlash and downward spiral experienced by Stockford.

5.4 Potential implications for professionalism

Researchers have raised concerns of potential negative implications of public ownership for the professionalism of accountants (Shafer *et al.*, 2002). In this study, benefits that company executives expected to achieve through the acquisition of accounting firms were commercial, focussed on benefits for the companies and shareholders. Benefits expected to accrue to other stakeholders were framed on the opportunities for the company rather than altruistic motives. However, limited conclusions can be drawn from these observations.

While accounting partnership merger announcements (Greenwood *et al.*, 1993) may place greater emphasis on client and staff benefits without such an overt link to firm profitability, this may be through a greater need to appease regulators (due to the size of the large firms studied and potential market impacts) and the private ownership of partnerships reducing the need to frame announcements for external investors and analysts, rather than suggesting differences in professionalism. It has been suggested that the accounting profession has moved away from the ideals of professionalism towards commercialisation over recent years (Hanlon, 1996; Wyatt, 2004; Zeff, 2003a, b).

Implications of public ownership on accountant professionalism is likely to be affected by the governance structures of the companies including the decisions made by non-accounting professionals and professional compensation methods (Shafer *et al.*, 2002). The nature of decisions made, whether these attempt to have accountants place the interests of the company ahead of clients and society and the actions of accountants in resisting these directions would likely affect accountant professionalism. Professionals have been found to resist the introduction of more commercial practices (Cooper *et al.*, 1996; Dirsmith *et al.*, 1997; Hinings *et al.*, 1991). The sparse research on governance of publicly owned PSFs has suggested that they mimic attributes of partnerships such as limited managerial authority and significant professional autonomy (Empson and Chapman, 2006) potentially limiting the impacts on professionalism. Exploring the governance of publicly owned accounting companies, resistance of accountants and implications for professionalism were outside the scope of this study but would be valuable further research.

5.5 Contributions of this research

This study appears to be the first to examine the acquisition benefits expected by executives to accrue publicly owned consolidators of accounting firms. The large number of types of benefits expected by executives is likely to be relevant to researchers examining acquisition strategies, post-acquisition integration and performance of acquisitive accounting and other professional service companies. The differences noted in expectations across the two case companies and in comparison to prior studies of mergers of accounting partnerships supports the call by Greenwood *et al.* (2007)

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for a greater understanding of the strategies and structures of publicly owned PSFs. It suggests that not all publicly owned PSFs are the same and that research on performance differences of forms of ownership of PSFs requires a finer categorisation than the ownership type as utilised by Greenwood *et al.* (2007) and Von Nordenflycht (2007).

The study took a longitudinal view of executive expectations of acquisition benefits. It highlighted the many sources of expected benefits, the emergence of expectations over time, particularly in the AccountCo case, and the interdependence of expected benefits across acquisitions in a program. It supports the call for researchers to consider executive expectations of benefits and the subsequent achievement of those expectations in analysing the performance of M&As (Bower, 2002; Kreitl and Oberndorfer, 2004). However, it indicates complications in that the performance of any focal M&A may be impacted by other proceeding or subsequent M&As in the acquisition program and organisational restructuring performed many years in the future (Barkema and Schijven, 2008).

It also suggests that as expectations of benefits may emerge during the acquisition program an analysis of the achievement of benefits expected at the time of a specific merger may understate the actual value creation by that merger (Angwin, 2007). At AccountCo, some types of benefits expected to be leveraged across previous acquisitions were not identified or announced by executives until six years after early acquisitions. If executives, such as those at AccountCo, involved in the acquisitions do not anticipate early in the acquisition program all of the expected benefits which are subsequently identified from the overall acquisition program, how can investors? This further supports doubts raised by researchers as to whether short-term share price movements at the time of a specific acquisition, as used in event studies, truly capture long-term value subsequently created by that acquisition (Angwin, 2007; Barkema and Schijven, 2008; Zollo and Meier, 2008). This suggests the performance is more accurately assessed at the acquisition program (Angwin, 2007) or acquiring organisational level (Barkema and Schijven, 2008) using multiple measures of performance (Haleblian *et al.*, 2009; Zollo and Meier, 2008).

The study suggests that the emergence of publicly owned accounting and other PSFs will provide access to publicly available information not previously available for partnerships. This should open up new lines of enquiry and provide opportunities to reinvestigate existing lines of enquiry with new methodologies.

For executives of large acquirers of PSFs, such as accounting firms, and entrepreneurs considering establishing a company to consolidate this type of firm this study indicates the substantial risks of setting aggressive expectations of the achievement of benefits. The study suggests advantages in a more conservative and gradual approach, as followed by AccountCo, or ensuring that appropriate resources are in place at the start of the program to fund substantial implementation costs and a potential drop in efficiency.

For partners of small to medium practices considering selling their firms the study suggests that not all publicly owned firms acquiring are the same and that benefits expected can change over time after they have joined the public company. Acquiring companies generally require most of the partners of the acquired firms to remain with the acquiring company as employees after the purchase. Executive expectations of benefits are likely to drive integration approach (Bower, 2001; Howell, 1970) which in turn will affect the degree of change (Pablo, 1994) for selling partners. This indicates

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that selling partners should carefully examine not only acquiring company executive expectations of benefits at the time of potential sale but whether joining partners will have any input into developing benefit expectations post-acquisition to determine a best fit acquirer.

The study also provides insights for potential investors in publicly owned professional service companies, including partners considering selling their firms for shares in the company. It suggests a degree of scepticism for forecasts assuming rapid acquisition and integration of many firms.

5.6 Limitations of the research and suggestions for further research

This research was limited to two cases of accounting firm consolidators in Australia and there are limits to the ability to generalise findings across professions due to differences in knowledge requirements, jurisdictional control and client relationships (Malhotra and Morris, 2009) and geographies.

Stockford collapsed early in the study under the weight of the costs associated with its aggressive benefit realisation activities and the slower than expected achievement of expected benefits. While this is insightful as to the risks of such an approach, there are limits to the conclusions that can be drawn on long-term performance of this approach where companies have the resources to fund the initial investment and drop in performance. The gradual approach to identifying and actioning potential benefits followed by AccountCo resulted in more recently identified benefits not yet being implemented eight years into the acquisition program. This suggests the need for a long study period in assessing benefit realisation in acquisition programs.

This study focussed on company performance implications for the two publicly owned accounting companies seeking to achieve anticipated benefits from acquiring small- to medium-sized accounting firms. Of interest to researchers of accounting and other PSFs, partners, employees and clients of accounting firms and regulators would be further research on the outcomes for other stakeholders. The implications of accounting firm consolidation on industry concentration for audit and accounting services in regional areas, whether publicly owned accounting firms provide a viable alternative to the "Big 4" accounting firms in some markets and the impacts of firm ownership on audit quality, changes of auditors and the costs of audits would likely be of significant interest to regulators.

Research could be expanded to determine similarities and differences of the intent and expectations of the founders/executives of other publicly owned accounting firm consolidators and those in other professional services such as law, marketing service, management and technology consulting practices.

Further research could focus on the nature, processes and challenges of integrating dozens of accounting firms and the implications on, and responses of, former acquired firm partners to changes flowing from integration. This would include examining organisation structures, integration mechanisms used and the achievement of individual expected benefits rather than the high-level financial benefits examined here. At Stockford executives identified expected benefits at the beginning of the acquisition program while at AccountCo expectations of benefits emerged over time. Further research exploring internal governance and the decision processes of identifying and agreeing benefits to be actioned and the implications for organisational commitment to achieving planned benefits, organisational learning and company performance would

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also be greatly beneficial to an understanding of the operation of publicly owned accounting and other professional service companies.

Finally, researchers have expressed concern at the potential for public ownership to reduce the professionalism of the accountants working within the firms (Shafer *et al.*, 2002). A closer examination is required of governance in these companies, whether decisions made require accountants to operate in contravention of professional standards, for example marketing tax shelters, and the degree to which the accountants resist these decisions. Of further interest would be the actions and implications of publicly owned accounting companies in lobbying and influencing regulators and accounting professional associations to further the companies' interests (Shafer *et al.*, 2002). Research needs to be in the context of increasing commercialisation of the accounting industry (Hanlon, 1996; Wyatt, 2004; Zeff, 2003a, b).

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