DEEPENING THE DISCUSSION:

How ESOPs Can Help M&A-Oriented Accounting Firms Grow

This article builds on BDO's recent insight, "***What Accounting Firms Need to Know About Business Succession Planning Alternatives***," by taking a closer look at one path that is often misunderstood and, as a result, not considered.



Accounting firms are facing numerous pressures that are converging simultaneously. Talent shortages, technology investment demands, succession complexity, consolidation, and rising capital expectations have coalesced to shift the conversation from whether firms need a strategy to whether their ownership model supports the strategy they want to pursue. For accounting firms with M&A ambitions, an employee stock ownership plan, or ESOP, can go beyond serving as a succession tool and stand as a strategic growth platform.



ESOPS AS A GROWTH ENABLER

For many firms, M&A has become the preferred path to gain scale, expand geography, add new capabilities, and strengthen relevance in an increasingly competitive market. But growth through acquisition requires more than appetite; it requires capital, leadership continuity, operational discipline, and a compelling story for both sellers and employees. An ESOP can help address these issues while adding value to the organization.

ESOPs are often viewed only as an internal ownership transition mechanism, but they can serve as much more than that. In practice, an ESOP can also broaden ownership culture, improve employee retention, and preserve independence and operational control of the business while still enabling strategic acquisitions. In other words, an ESOP can help a firm obtain growth without defaulting to private equity or a full sale.

WHY THIS MATTERS NOW

Strategic planning has moved from a long-term consideration to an immediate issue for accounting firms. At the same time, M&A activity has become more competitive, and the presence of private-equity-backed buyers has pushed expectations higher around cash at close and transaction certainty. Even firms that want to remain independent are being forced to evaluate whether their current ownership and capital structure can realistically support future growth.

Against this backdrop, firms must understand the **paths for succession planning** that are available to them. While each path can be successful, it's important for firms to align strategy with their size, partner demographics, profitability, capital capacity, and long-term goals. What deserves more attention, however, is that these are not always mutually exclusive choices. An ESOP can sit at the intersection of succession, independence, and growth — particularly for firms that want to pursue M&A without giving up strategic control.



REFRAMING THE ESOP: NOT JUST AN EXIT, BUT A GROWTH VEHICLE

Accounting firm leaders may not be aware that an ESOP could be an available option for them regarding succession planning, offering an opportunity to enhance the firm's strategic position in several important ways.

First, an ESOP can help solve one of the central tensions in accounting firm strategy: how to fund ownership transition while still preserving capital for growth. In traditional internal succession models, the next generation of partners often bears the burden of funding retirements, buyouts, and future investments simultaneously. That can constrain the firm's ability to make acquisitions, invest in technology, or recruit aggressively. An ESOP may help relieve some of that pressure by creating an ownership transition structure that can coexist with a more deliberate capital plan.

Second, an ESOP can strengthen employee engagement at a time when talent retention is essential. In a people-driven business, acquisition success depends not only on getting the deal done, but on keeping teams aligned and motivated after the transaction. A broad-based ownership culture can be a meaningful differentiator when integrating acquired firms, especially when sellers and employees are concerned about culture loss under outside ownership models.

Third, an ESOP can reinforce independence. For firms that want to grow through acquisition but do not want the governance trade-offs that may come with private equity or a sale to a larger competitor, an ESOP may offer a way to access liquidity and align incentives while preserving the firm's long-term identity.

HOW ESOPS CAN SUPPORT M&A STRATEGY IN PRACTICE

An ESOP does not automatically create acquisition capital, nor does it eliminate the need for disciplined deal strategy. But it can support a growth agenda when implemented thoughtfully and paired with strong operating performance.

Many founders and senior partners want two outcomes at once: They want to realize value, and they want the firm to remain strong after they step back. ESOPs can help bridge those objectives by tying succession to a broader enterprise value story rather than treating transition as separate from growth.

For accounting firms pursuing M&A, the benefits of an ESOP often show up in three areas:

1. Ownership Transition Without a Forced External Sale

A firm may have senior partners seeking liquidity while the broader leadership team still wants to expand. In that case, an ESOP can help address succession needs without requiring the firm to sell to a private equity group or strategic buyer. That can preserve optionality and allow leadership to continue executing a long-term acquisition strategy.

2. A Stronger Talent and Retention Story

Acquisitions in professional services are highly dependent on people. If key partners and managers leave after a deal, value erodes quickly. An ESOP can support a message of shared upside and long-term commitment, which may help with both retention and recruitment.

3. Cultural Continuity During Integration

Cultural misalignment is a leading reason accounting firm acquisitions fail to deliver their intended value. Successful acquirers are deliberate about both the firms they pursue and how they integrate them. An ESOP-owned model can provide a distinct advantage by positioning the firm as an attractive home for like-minded practices seeking growth, continuity, and cultural alignment. It can also differentiate the firm from PE-backed aggregators by offering an employee-centered alternative that resonates with sellers, employees, and communities while strengthening the firm's ability to attract and retain top talent.

ESOPS ARE NOT A SHORTCUT

Although ESOPs offer myriad benefits, they also require firms to take a disciplined approach. An ESOP is not a cure for weak margins, poor governance, inconsistent growth, or an underdeveloped integration model. In fact, many of the same issues that affect valuation in private equity or competitor transactions also matter in the ESOP context. Firms still need credible financial reporting, sustainable profitability, leadership depth, and clarity around decision-making.

That is especially important in today's market, where buyers and investors are increasingly focused on adjusted EBITDA, operating discipline, partner compensation normalization, and the durability of earnings. Firms with strong margins and repeatable performance are better positioned across all strategic paths. An ESOP may be highly effective for the right firm — but only if the underlying business is healthy enough to support both transition and growth. Just as firms with PE investments are not immune to pressures created by stagnation or slow growth environments, ESOP-owned organizations are subject to similar pressures as the long-term value of ESOPs is created through growth.

Leaders should also remember that structure matters as much as valuation. Whether the firm is evaluating private equity, a competitor sale, or an ESOP, the headline number rarely tells the whole story. Timing of payments, governance rights, financing terms, future obligations, and cultural consequences all shape the actual outcome. For M&A-oriented firms, the central question is not simply one of valuation but rather "which structure best supports the firm's ability to grow, retain talent, and execute its strategy over time?"

ACTION ITEMS FOR ACCOUNTING FIRM LEADERS CONSIDERING AN ESOP-TO-GROW STRATEGY

For firms that see both M&A and ownership transition on the horizon, a practical evaluation should start with a few core questions:



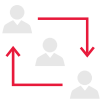
Assess Whether the Firm is Truly Acquisition Ready:
Growth through M&A requires more than deal interest. Leaders should evaluate leadership capacity, integration experience, financial performance, and access to capital before adding acquisition complexity.



Clarify Whether the Primary Objective is Liquidity, Growth, or Both:
An ESOP can be attractive because it addresses multiple goals, but firms need to rank their priorities. The right structure for partner liquidity may differ from the right structure for acquisitive expansion.



Stress-test the Firm's Capital Model:
Firms should understand how retirement obligations, technology investment, working capital, and acquisition plans interact under different ownership structures. This is often where strategic tension becomes visible.



Evaluate Culture as a Transaction Asset:
If the firm wants to grow through acquisition, its culture needs to be clear enough to scale and strong enough to retain acquired talent. An ESOP can amplify culture, but it cannot create one from scratch.



Compare ESOP Alternatives Holistically:
Firms should compare an ESOP not only to "doing nothing" but also to private equity, competitor combinations, and traditional internal succession — using long-term economics, control, talent implications, and strategic flexibility as decision criteria.

THE BIGGER POINT

Consolidation headlines can make it seem as though every accounting firm must either buy aggressively or sell quickly. The reality is more nuanced. Many firms remain independent and exploring outside capital selectively. Some may find that an ESOP provides a middle path — one that supports liquidity, preserves independence, and creates a stronger platform for growth through M&A.

The most effective strategy isn't necessarily the one with the most market momentum, but rather one that aligns ownership, capital, culture, and execution. Firms that want to grow through M&A should view ESOPs as more than a succession alternative, taking time to consider whether an ESOP can be part of a broader growth architecture.

BDO works with accounting firms, as well as firms in other industries, across these strategic paths, helping leadership teams assess readiness, evaluate structure, and move forward with clarity. In the ESOP context especially, the right answer depends not just on valuation or tax efficiency, but on whether the ownership model strengthens the firm's long-term ability to attract talent, invest for the future, and execute growth successfully.





How BDO Capital Advisors Can Help

Navigating ESOP financing requires careful consideration of transaction structure, capital sources, lender requirements, and long-term business objectives. For companies evaluating an ESOP as an ownership transition strategy, it is important to work with advisors who understand the complexities of ESOP transactions and the financing options available.

BDO Capital Advisors' ESOP Advisory team can help companies assess financing alternatives, evaluate transaction structures, and navigate the capital raise process in support of a successful ownership transition. If you are considering an ESOP, **contact BDO Capital Advisors** to discuss how financing strategies can align with your business goals.



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