



Breaking Tradition

BDO's Employee Stock Ownership Plan

BY: CHRIS CAMARA

The retirement plan for accounting firm partners isn't all that appealing to today's young professionals.

It's common for staff to rise through the ranks to become partner at about 40 with the understanding that they'd have to stick around for another 20 years or so to receive their pension, which doesn't give partners market value for their interest in the business, says **BDO** COO **Steve Ferrara**.

"To keep pace with that, you have to keep increasing the amount of the pension obligations to your partners," Ferrara said, "so it created a model that was a bit challenging." Private equity's entrance into the profession has turned that model on its head. The need to compete with private equity-backed firms, among many other reasons, sparked Chicago-based **BDO** (FY23 net revenue of \$2.8 billion) to establish an employee stock ownership plan (ESOP), which is fairly uncommon in the profession.

Ferrara recently spoke with INSIDE Public Accounting Monthly about the 'whys' of setting up an ESOP last year, the process, and the employee retirement benefits he sees down the road at a time when many accounting firms are considering entirely new business models.

The genesis of a BDO ESOP may have begun 12 years ago when **Wayne Berson** became CEO and Ferrara became COO. "At the time BDO really was flat, for lack of a better term," Ferrara said. "We were about a \$600-million-revenue business for a number of years and we knew we had to change. We looked at the firm and we said, 'OK, what are our priorities?'"

While an ESOP wasn't on the table at that time, the firm came up with an overall strategy called CLIMB, for culture and unity, leadership and accountability, innovation, market prominence, and best in class. Therefore, the firm was always looking for its blind spots, which led to a study (and rejection) of the PE model and the eventual consideration (and approval) of an ESOP.

While private equity infusions work well for many firms, the future felt too uncertain since PE firms flip their investments in their portfolio companies every so often, Ferrara said. "For us it was about ensuring the stability and the future of our organization for everyone at BDO."

THE ROAD TO BDO'S ESOP

Ferrara, who calls creating the ESOP the biggest challenge of his 40-year career, said the first step was a feasibility study. The analysis involved answering the following questions: Does it accomplish all the things we want? Are you creating value for your partners and your employees? Is it ensuring stability on a go-forward basis? Is it going to create opportunities for everyone in the firm?

Once those boxes were checked, the next step was evaluating the conversion of the partnership to a corporate entity and approval of the corporate conversion by the partner group. This was followed by approval by the board of directors for the ESOP transaction. The 800 or so BDO partners got together for a few days of ESOP education and voted. Simultaneously, BDO worked with an outside ESOP advisory group to get the financing in

place. The transaction closed at the end of August 2023, and an independent trustee oversees the interests of the firm's 10,000+ participants.

"Our management structure hasn't changed," Ferrara said. "What's changed is our employees will now get shares in the business. BDO professionals and our principals, through their equity interests and their equity awards, have an opportunity to really share in the upside of the firm as we take it forward. The ESOP truly embodies our core purpose of 'helping people thrive every day.'"

While some were skeptics ("Everyone's from Missouri, the 'show me' state," Ferrara joked.) and some employees wrongly feared their compensation and bonuses would drop, those questions were answered. "The ESOP is in addition to BDO's established benefit package, including our 401k program," Ferrara clarified.

BENEFITS IMMEDIATE AND FUTURE

Ferrara said the firm was set to inform employees of their share allocation for Sept. 1, 2023, through the end of the year. "It'll probably take a couple years for people to really see it in action."

BDO has already started to see the benefits in its recruitment of professionals from other firms, and Ferrara says he's happy to talk to anyone interested in making the change at their own firms. "One of the great things about this profession is it is so collaborative."

Professional services firms, such as architectural and engineering, are good candidates for ESOPs, said **David Solomon**, an attorney and partner who started the ESOP practice at Chicago-based **Levenfeld Pearlstein** 15 years ago. "When you've got people businesses, this is a very effective strategy to provide the exit to the owners and then have a legacy moving forward without just blowing up the firm and shutting it down."

Why aren't ESOPs more popular among accounting firms? "I think it's probably just the complexity of the regulatory scheme, but I don't know why more accountants don't advocate for ESOPs."

He predicts other firms may take a cue from BDO. "Usually when somebody like BDO does something, the industry tends to follow and I think we're seeing a lot of interest there right now." ■

Note: The Growth Partnership is a business resource network member of the BDO Alliance.