

## Accountancy firms buying start-ups: can it work?

14 April 2016

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Accounting firms are increasingly looking to buy-in new skill sets to keep up with changing market needs, whether entering joint venture agreements, know-how licensing arrangements, or even buying entire companies.

PwC's recent announcement of its collaboration with blockchain start-up Blockstream is a classic example, as was its acquisition of technology company Kusiri's assets last year.

But what are the implications of the approach adopted to buy-in the expertise? Acquisition of the business, either as an asset or share purchase may look the best option because of the control gained by the acquirer. But what of the liabilities and risks conferred at the same time? Is this always the best route?

Acquisitions have been their vehicle of choice for PwC more recently. However, while buying smaller businesses can allow professional service firms to enhance their offering to clients there are significant practical and legal implications for these kinds of mergers.

Integrating one organisation with its own methods, business model, values and workplace culture into another invariably takes some real thought and patience. They may feel they are a good fit, but often the reality will only be revealed once the smaller business has been absorbed.

There will always be a question mark over whether the firm truly understands the business they are buying. It may understand how to use and benefit from the smaller firm's specific expertise but that in turn does not necessarily give them an insight into how that firm operates as a business.

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It should be clear the transaction process can itself be fairly painful

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Clearly there is a risk of “culture shock” for both parties. A firm like PwC is a far larger operation and will have many more procedures, rules and policies.

For an SME, new business may materialise through a sales team of one smart commercial or sales director. But when absorbed there may be business cases to build up and present and a chain of command to follow before a contract or a piece of work can be signed off.

And what about the impact on staff? Some employees may prefer working in a smaller entity with the freedom and workplace environment that entails. It would be a problem for a buyer if the morale of the transferred staff declines and it could be a significant blow if key personnel depart.

Entrepreneurs are often bursting with new ideas, so the founder and the real driver behind the success of the start-up may also depart. The buyer can try and lock key staff in through bonus or earn out terms or restrictive covenants

but these are of limited effectiveness if the issue is that crucial team members are no longer involved in the running of the business.

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