



To split or not to split – a business strategy case study on
EY's proposed break up under Project Everest

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Abstract

The thesis develops and analyzes a Case Study on Ernst & Young’s global leadership’s proposition of splitting its audit and consulting divisions to seize new growth opportunities under Project Everest.

The case's central issue concerns a well-performing firm reviewing its strategic and organizational dimensions to address uncertainty in external factors and unlock growth potential by separating its businesses. The primary consideration in the strategic decision is whether the benefits of separating businesses outweigh the risks of the separation and if sufficient managerial alignment can be created to execute the split.

The analysis concludes various internal and external factors that make a separation feasible and exemplifies the changes in internal capabilities and competitive forces for separated businesses. It uncovers a highly competitive environment that exposes the firm to risks despite its stable historic performance.

A Literature Review on topics related to the main issues raised by the Case Study, and a Teaching note offered to help instructors using the Case Study for in-class discussion show that in addition to competitive forces, managers' individual incentives are decisive in strategy development and bias their strategic evaluation.

Keywords: Business Separation, Strategy Analysis, Resources and Capabilities, Competitive Forces, EY, Audit, Consulting, Spin-off, IPO, Management’s Incentives

Separar ou não separar – um estudo de caso sobre a estratégia de negócios da proposta de divisão da EY sob o Projeto Everest

Linus Behrens

Resumo

A tese desenvolve e analisa um Estudo de Caso sobre a proposta da liderança global da Ernst & Young de separar suas divisões de auditoria e consultoria para aproveitar novas oportunidades de crescimento sob o Projeto Everest.

A questão central do caso diz respeito a uma empresa de bom desempenho que está revisando suas dimensões estratégicas e organizacionais para lidar com a incerteza nos fatores externos e liberar potencial de crescimento ao separar seus negócios. A principal consideração na decisão estratégica é se os benefícios de separar os negócios superam os riscos da separação.

A análise conclui diversos fatores internos e externos que tornam a separação viável e exemplifica as mudanças nas capacidades internas e nas forças competitivas para os negócios separados. Ela revela um ambiente altamente competitivo que expõe a empresa a riscos, apesar de seu desempenho histórico estável.

Uma Revisão da Literatura sobre tópicos relacionados às principais questões levantadas pelo Estudo de Caso, e uma Nota de Ensino oferecida para ajudar instrutores a utilizar o Estudo de Caso para discussões em sala de aula mostram que, além das forças competitivas, os incentivos individuais dos gestores são decisivos no desenvolvimento da estratégia e tendem a enviesar sua avaliação estratégica.

Palavras-chave: Separação de Empresas, Análise Estratégica, Recursos e Capacidades, Forças Competitivas, EY, Auditoria, Consultoria, Spin-off, IPO, Incentivos da Gestão

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Contents

Case Study: Project Everest	1
Carmine Di Sibio	1
EY	2
The Big Four.....	3
Project Everest.....	4
Regulatory pressure	5
New growth opportunities	6
NewCo's and AssureCo's value proposition	7
Financials of the deal	8
Competitors reactions	9
The challenges	10
Macroeconomic conditions.....	11
Internal reactions	12
The decision.....	13
Literature Review	14
Management's role in strategy implementation.....	14
Splitting a business via a spin-off.....	15
Resource-based analysis of capabilities and synergies in multi-business firm's.....	17
Interactions and synergies between resources	18
Conclusion	20
Teaching Note.....	21
Pedagogical Overview	21
Learning Objectives.....	21
Assignment Question.....	22

Class Plan22

Analysis22

Conclusion.....39

Appendix40

 Case Exhibits40

 Teaching Note Exhibit45

References46

Case Study: Project Everest

On September 8th 2022 Carmine Di Sibio, Global Head of Ernst & Young Global Limited (EY), reached the basecamp for Project Everest, calling it “*a big step (...) in a very complicated process*”.¹ On this day, EY’s global leadership signed off on the project, initiating the second phase: putting it up for vote to EY’s 13,000 partners to decide on the plan to disrupt the professional service industry.

EY was one of the four largest audit and professional service networks worldwide, providing audit and consulting services to a broad range of clients in over 150 countries. Internally labeled as ‘Project Everest’, the plan was to split EY into two separate entities. EY’s consulting services would be spun off in an IPO, creating a new company, whereas the audit part of the business would remain privately held by its equity partners, continuing to operate as a global network of member firms.

The vote was scheduled for the upcoming weeks. The partners were confronted with the question of whether splitting up the well-established and profitable company to unlock new growth opportunities, create a first-mover advantage, and create competitive disruption in the very mature industry of audit firms was the right move. It was highly uncertain how the partners of the audit and consulting divisions would evaluate Di Sibio’s proposal and ultimately decide on casting their vote.

Carmine Di Sibio

Di Sibio was a company man. Born in Napoli, Italy, he moved to New York with his family at age three. Carmine, from a young age, assisted his parents in translating mortgage documents and tax forms and became the first in his family to graduate from college.² After joining EY in 1985, he worked his way up the firm’s ranks, first in the field of audit services for financial institutions and later in consulting roles, eventually becoming a partner in 1995. In 2019, he was appointed as the global Head of EY.

¹ Eaglesham, “EY Leaders Green Light Split Plan.”

² O’Dwyer, “Carmine Di Sibio: The EY Boss Planning the Most Radical Big Four Split in a Generation.”

Being characterized by colleagues as a modest, audit-tempered manager, more on the caretaking than on the disruptive side³, Carmine Di Sibio, global Head of EY, surprised the audit and professional service industry when, in spring 2022, the first reports on his vision for the company leaked to the public.

‘Everest’ was Di Sibio's ultimate project after his over 37-year stint with the company. As he approached the mandatory retirement age of 60 for EY managers, he received a two-year extension to oversee the proceedings of the proposed split. Moreover, he was set to become the CEO of the newly formed consulting entity, where he would not be subject to the mandatory retirement age.

EY

*“EY is a business that’s never been afraid to adapt. It’s in our DNA to constantly look where the megatrends are going – and then take action to get ahead of them”*⁴ - Di Sibio explained in an Interview after being asked to highlight EY’s history.

Founded in 1998 through the merger of Ernst & Whinney and Arthur Young & Co., EY has grown into one of the largest professional service firms worldwide. Its global footprint extended to more than 150 countries where over 365,000 employees performed professional services including: audit and assurance services, tax advisory, transaction advisory services, IT consulting and managed services, sustainability-, management and strategy consulting, valuation opinions, market research, risk management and legal advisory.

In 2022 the assurance service line which performed audits of companies’ financial statements posted revenues of 14.4 billion USD. EY’s tax practice earned 11.2 billion USD in revenue and its consulting operations contributed 19.6 billion USD to the total revenue of 45.2 billion USD. 47% of the revenue was earned in the Americas, 37% in EMEIA (Europe, Middle East, India and Africa) and 16% in Asia.⁵ EY’s global revenue had been growing constantly across all service lines and regions showing a CAGR of 7.9% between 2017 and 2022. **Exhibit 1** presents EY’s figures on financial performance over the past years.

³ O’Dwyer.

⁴ Di Sibio, “LEADERS Interview with Carmine Di Sibio, Global Chairman and Chief Executive Officer, EY.”

⁵ Ernst & Young Global Limited, “EY Achieves Highest Growth in Nearly Two Decades, Reports Record Global Revenue of US\$45.4b.”

EY was not a fully integrated and centralized company. It operated as a global network of 521 individual member firms set up as partnerships.⁶ Those individual member firms were affiliated by having entered agreements to share the EY name, common branding, knowledge and expertise, quality standards, and technology and systems.⁷

The individual member firms were connected in an operating entity, registered in the UK. This operating entity set the network's strategy and managed shared assets and services like common IT platforms. The global operating company was financed on a break-even basis by membership fees from the individual firms.⁸

The local member firms were fully owned by their partners, which were senior employees who, after reaching performance goals, were offered the possibility of becoming an equity partner of the firm. Each member firm had individual governance structures and was subject to national laws and regulators. The leadership of the partnerships participated in national and global committees that steered the global organization and set quality standards and operating policies.⁹ The EY Global Executive was the highest committee, including the top-ranking partners of the firm's functions, services, and geographies.¹⁰ EY did not have a board overseeing its management or national member firms.

The Big Four

The 'Big Four' was the widespread nickname of the four largest audit and professional service networks worldwide: Deloitte, EY, PwC, and KPMG. The Big Four were the result of industry consolidation that started in 1989. The former Big Eight accounting firms became four through a row of mergers and the collapse of Arthur Andersen due to its complicity in the accounting scandal surrounding Enron in 2001.

In 2022, the Big Four audited the financial statements of all the Fortune 500 companies and held 99.7% of the S&P 500 audit market share.¹¹ Despite many other accounting firms and networks existing, the Big Four were likely the only firms that could cover the world's largest corporations

⁶ Ernst & Young Global Limited, "EY Member Firms and Affiliates as at 01 June 2022."

⁷ Massoudi and O'Dwyer, "EY Explores IPO or Partial Sale of Global Advisory Business."

⁸ Foy and Foley, "EY Took on \$700mn in Debt for Doomed 'Project Everest' Spin-off Plan."

⁹ Ascher, "The Audit Industry: World's Weakest Oligopoly?"

¹⁰ Ernst & Young Global Limited, "Global Executive."

¹¹ Bramwell, "Total Audit Fees Paid by S&P 500 Clients Reached All-Time High in FY 2022."

due to their global footprints and multidisciplinary in-house expertise to provide full audit services.¹² Also, considering the wide revenue gap to the fifth largest accounting firm, the audit industry with the Big Four was widely considered an oligopoly on a global scale.¹³

Besides audit services the portfolio of professional services the Big Four firms offered was highly similar. All the Big Four firms had been growing at similar rates over the past years with none being dominant in the industry. **Exhibit 2** shows the Big Four firm's revenues and **Exhibit 3** presents the revenue split per business line.

Like EY the other Big Four companies were not fully integrated and centralized. They also acted as networks of autonomous member firms organized as national partnerships and connected by agreements to share branding and systems.¹⁴

Antitrust regulators regularly expressed their scrutiny over the market dominance of the Big Four.¹⁵ Their major market share left clients with little choice in appointing a company to perform the legally required audit of its financial statements and imposed great entry barriers for new competitors.¹⁶ Further concerns arose about the potential economic consequences if one of the firms failed due to regulatory actions or lawsuits, leaving its large base of clients without crucial professional services.¹⁷

Project Everest

Di Sibio and EY's global leadership began drafting the plan in confidential talks in late 2021. Project Everest envisioned splitting the organization of EY into two separate entities. The audit part of the business would remain privately held by its equity partners continuing to operate as a global network of member firms. EY's consulting services would, after the separation, be spun off in an IPO, creating a new publicly held consulting corporation. Internally, the audit network was labeled as 'AssureCo' and the consulting company as 'NewCo'. The EY brand was planned to remain with the AssureCo.¹⁸ The NewCo was planned to invest in and develop its own name and

¹² Moctezuma and Benau, "Why The Big 4 Are Leaders in The Audit Market? A Literature Review."

¹³ Ascher, "The Audit Industry: World's Weakest Oligopoly?"

¹⁴ Francis, Michas, and Seavey, "Does Audit Market Concentration Harm the Quality of Audited Earnings?"

¹⁵ Francis, Michas, and Seavey.

¹⁶ Francis, Michas, and Seavey; Ascher, "The Audit Industry: World's Weakest Oligopoly?"

¹⁷ Ascher, "The Audit Industry: World's Weakest Oligopoly?"

¹⁸ O'Dwyer, "Carmine Di Sibio: The EY Boss Planning the Most Radical Big Four Split in a Generation."

brand, completely independent from the existing EY branding. EY's arm of tax consulting and compliance services, as well as certain parts of its valuation practice, would be divided between AssureCo and NewCo.

The capital raised in the IPO would be used for windfall payments to audit partners to compensate them for giving up their stake in the spun-off business. Consulting partners on the other hand were to receive equity in the newly created NewCo.

Project Everest contradicted the 'Next Wave Strategy' that Di Sibio advanced in 2019 soon after taking over as global head of EY. The 'Next Wave' proposal was to grow the business as a whole by focusing on global integration and creating technology-enabled business platforms to achieve a leading role in business transformation. The rationale for the separation was simple. Splitting the current business would free both the audit and consulting side of conflict-of-interest regulations that prohibited providing consulting services to companies that EY simultaneously audited.

Regulatory pressure

Auditors were appointed by companies to perform legally required assessments if the produced financial statements correctly reflected the company's earnings and financial situation. Therefore, they would act independently, comply with strict quality standards, hold the management accountable, and withstand approving doubtful numbers to maintain a good client relationship. Consulting services were less strictly regulated and preferred to tailor their advisory services to the clients' interests to obtain subsequent engagements and fees. Thus, in every client engagement on the audit and consulting side, extensive documentation of independence and compliance was performed.

Arthur Andersen's involvement in the accounting scandal surrounding Enron in 2001 led to the US Congress passing the Sarbanes-Oxley Act in 2002. The Sarbanes-Oxley Act laid out overhauled regulations and established oversight committees for auditors. Section 201 dealt with auditor independence and prohibited accounting firms from performing various non-audit services to their audit clients. The prohibited services included bookkeeping, financial information system design

and implementation, valuation services, management or human resource functions, investment advisory, and legal services.¹⁹

Subsequently, the Big Four have been regularly scrutinized for breaching Section 201 by offering prohibited services, operating in grey areas, and utilizing audit mandates to sell consulting services after mandate rotations eventually.

Around Spring 2022 the US Security and Exchange Commission started intensifying investigations of conflicts of interest in large accounting firms. The focus lay on identifying sales of non-audit services that interfered with the required independence whilst reviewing the company's financial filings.²⁰ SEC Enforcement Director Gurbir Grewal stated: *"(...) We will have a firm commitment moving forward to continue to target (...) auditor independence cases"* and *"cases around earnings management"*.²¹ Earlier months had seen the SEC imposing fines related to audit independence misconduct on several Big Four companies^{22 23}. On the other side of the Atlantic regulatory scrutiny of the interaction of auditors and consultants within Big Four firms was also growing. In 2020, the Financial Reporting Council (FRC) of the UK published guidelines for the operational separation of audit practices within the Big Four firms, asking them to submit their implementation plans by October.²⁴ This was to isolate auditors from influences from other parts of the firm and ensure that audit practices did not receive revenues for introducing business to other parts.²⁵

"We need to be decisive (...) to control the destiny of our businesses, and not have it defined for us by external forces" - EY stated in internal communication²⁶ and cited the regulatory environment as a main consideration in its rationale behind Project Everest.

New growth opportunities

In his long career at EY, Di Sibio experienced first-hand the rapid growth of the consulting business and the conflicts-of-interest regulations surrounding the audit and consulting practice. After being

¹⁹ Sarbanes Oxley Act of 2002.

²⁰ Michaels, "WSJ News Exclusive | Big Four Accounting Firms Come Under Regulator's Scrutiny."

²¹ Michaels.

²² Maurer, "PwC to Pay \$8 Million to Settle SEC Charges Over Auditor Independence and Improper Conduct."

²³ Security and Exchange Commission, "SEC Charges Ernst & Young, Three Audit Partners, and Former Public Company CAO with Audit Independence Misconduct."

²⁴ Financial Reporting Council (FRC), "Operational Separation of Audit Practices."

²⁵ Financial Reporting Council (FRC), "Operational Separation Principles July 2020."

²⁶ Eaglesham and Brown, "EY's Breakup Plan Means Windfalls for Partners."

an audit partner for EY's key accounts in the financial service industry, he transitioned to establishing EY's consulting practice in risk management and regulatory services.²⁷ In recent years, he has seen EY's consulting arm become a major contributor to driving the firm's topline growth. Between 2017 and 2022, EY's consulting services showed a CAGR of 22.4%, compared to the audit's CAGR of only 2.6%. Simultaneously, investments in improving audit quality consumed capital generated in consulting operations.²⁸

Despite the relative success of the firm as a whole, the conflict-of-interest regulations were a serious growth barrier for EY's business. As EY's consultants were prohibited from offering their services to audit clients and vice versa, the addressable market was reduced for both.

Amongst the Big Four firms, this was a particularly large issue for EY. In 2022 EY audited most leading technology companies in the US. Google, Apple, Amazon, Meta, Oracle and Salesforce had appointed EY as their auditor. Therefore, EY's consultants could not engage with those clients in managed service contracts for IT platform technology. Due to the boom of digitalization in the wake of the COVID pandemic and the long-term duration of such contracts, this professional services field was highly attractive.²⁹ Additionally, advising other clients in their IT implementation of systems provided by EY's audit clients was also off-limits.

After a successful separation, NewCo's consultants would be able to offer unrestricted services to almost a third of S&P500 companies currently audited by EY. Vice versa, the then independent audit firm could approach current EY consulting clients.

NewCo's and AssureCo's value proposition

"Now is the time to jump to new growth curves for both businesses", an internal EY document proclaimed.³⁰ For EY's internal presentation material highlighting the benefits of the business separation, see **Exhibit 8**.

The NewCo's pitch to investors was a unique position in the market by offering clients design and delivery capabilities at every stage of advisory processes. Its business would be a combination of high-margin management consulting business in addition to managed-and outsourcing services and

²⁷ Ernst & Young Global Limited, "Carmine Di Sibio."

²⁸ O'Dwyer, "Inside EY's Break-up Plan."

²⁹ Eaglesham and Brown, "EY's Breakup Plan Means Windfalls for Partners."

³⁰ Eaglesham and Brown.

tax advisory to balance volatility.³¹ In addition to internal capabilities, it would engage in alliances and strategic partnerships to improve market coverage and foster rapid growth. Easier access to capital would fund growth by investing in technology and talent.

As a public company the NewCo's governance would be simplified from the previous partnership model. This was expected to improve efficiency by global integration, enable efficient steering through a lean board and leadership structures and increase the global mobility of employees. Also, the leaner structure as a public company would allow for easier integration of acquisitions and fast growth.

Besides financial benefits for the business, NewCo's value proposition to employees included providing access to new clients and attractive compensation structures, as equity could be offered as an incentive even below partner level.

The then independent auditors in AssureCo were believed to have an advantage in the auditing market. They would gain credibility by no longer being subject to scrutiny over independence. Furthermore, appointing AssureCo as auditors would no longer restrict the consultancy services the audited company could inquire about.³²

Financials of the deal

For guidance on the spin-off and listing process of the consulting arm, EY turned to Wall Street's most prestigious advisors. In February 2022, investment bankers from Goldman Sachs and J.P. Morgan were appointed to develop a feasibility study of a public listing and a possible valuation of EY's consulting business. By May 2022, the bankers had confirmed the viability of an IPO.³³

The plan was to sell 15% of the consulting business on public markets, raising between 10 and 11.5 billion USD.³⁴ Consulting partners were to receive 70% of the equity, each around seven times their annual pay. The remaining 15% would be retained as stock rewards to incentivize employees and future partners.³⁵

³¹ Foley and O'Dwyer, "To Split or Not to Split."

³² Eaglesham and Brown, "EY's Breakup Plan Means Windfalls for Partners."

³³ Eaglesham and Brown.

³⁴ Eaglesham and Brown.

³⁵ Eaglesham, "WSJ News Exclusive | Ernst & Young Leaders Expected to Approve Plan to Split Accounting Company."

The valuation range for the consulting arm was set between 67 and 77 billion USD. This valuation would place NewCo’s multiple amongst the highest of comparable public consulting firms such as Accenture, Tata Consultancy, and Capgemini. **Exhibit 4** presents the financial and valuation metrics of comparable public consulting companies.

The valuation assumptions were based on optimistic growth forecasts. The benefit of additional consulting services that could be sold to existing clients after the split was believed to be in the billions.³⁶ NewCo was expected to have a starting revenue of 24 billion USD which would grow between 15% and 20% for the next three years, aiming for a profit margin of 16%. The AssureCo would have a baseline revenue after the split of 18 billion USD and was projected to grow at 7% yearly.³⁷

In addition to raising equity, the NewCo would tap debt markets to borrow an additional 17 to 18.5 billion USD.³⁸ Most of the so planned circa 30 billion USD funds to be raised were required to cover pension liabilities and pay off the partners of the AssureCo. In the proposed deal they were expected to receive payouts exceeding two to four times their annual compensation depending on their seniority and geography.

Since Project Everest was made public, EY has received various calls from private equity buyers interested in acquiring its consulting operations. However, Di Sibio believed that EY was too large for a private deal.³⁹ Another inquiry was made by a strategic acquirer looking to become a leading player in professional services.⁴⁰

Competitors reactions

*"I now feel it is inevitable. We do believe there is a first mover advantage. We also believe the competition at some point in time will also have to respond"*⁴¹ Alex Baldwin, one of EY’s Global Managing Partners, declared to journalists.

³⁶ O’Dwyer, “EY Bosses Approve Radical Break-up of Big Four Firm.”

³⁷ Eaglesham and Brown, “EY’s Breakup Plan Means Windfalls for Partners.”

³⁸ Eaglesham and Saeedy, “WSJ News Exclusive | EY Breakup Plan Stalled on Partners Split.”

³⁹ Eaglesham and Brown, “WSJ News Exclusive | Accounting Firm EY Grapples With Partner Pay, Bear Market in Breakup.”

⁴⁰ O’Dwyer, “Carmine Di Sibio: The EY Boss Planning the Most Radical Big Four Split in a Generation.”

⁴¹ Jones, “EY Sees Other Big Four Firms Mirroring Its Proposed Split.”

And indeed, EY's Big Four competitors were not shy of giving their opinions in response to Project Everest. Deloitte's Global CEO, Joe Uczoglu turned to the public, opposing the rationale behind the proposed split. Despite acknowledging the restrictions arising from independence regulations regarding audit and consulting services he stated:

“our multidisciplinary model (...) is going to continue to be foundational to our strategy going forward. We have an enormous alignment to our commitment to the multidisciplinary partnership model – and it is not even a close call.” And despite not mentioning EY by name, he went on: *“If another organization believes the grass is greener under a different model – well, that’s the beauty of the free market”. “We’re going to spend our hours every day to keep nurturing” (the firm) “not tearing it apart”.*⁴²

Similar reactions came from The Global Head of KPMG Bill Thomas: *“(selling the consulting business) would monetise the goodwill of our firm (...) at the expense of the next generation”.*⁴³

The challenges

The challenge of splitting EY's global operations was immense from the start. Each of the 365,000 employees was to be assigned to either the AssureCo or NewCo. Internal systems and processes would have to be separated. A split would mean a significant shift in the firm's culture by breaking up the partnership model whose culture had influenced EY over the past decades.

With the set-up as a global network of member firms, each entity was subject to local legislators and regulators approving the separation. EY's governance did not allow top-down decision-making. Any form of changing the operating model or separating the business would require the vote of equity partners from the audit and consulting arms across each member firm. Convincing the partners of the split would depend not only on the viability and vision of the business going forward, but also on the pay-outs and other financial compensations they were set to receive.

The detailed assignment of practices and employees to AssureCo or NewCo proved tricky. In audits of company's financial statements, the audit teams regularly collaborated with tax teams, teams from valuation services, and ERP experts to check the client's financial reporting. Those teams, however, also had a large footprint in consulting services. Therefore, it was imperative to ensure that AssureCo would remain equipped with sufficient resources to conduct large-scale audits and

⁴² Uczoglu, Deloitte Global CEO's perspectives on the value of our multidisciplinary model.

⁴³ O'Dwyer, “Carmine Di Sibio: The EY Boss Planning the Most Radical Big Four Split in a Generation.”

serve its current client base. Especially splitting the tax practice was expected to be challenging due to different national regulations and its involvement in audit and consulting services.

Besides the operational challenges, NewCo's success was not guaranteed. Despite the global market for management consulting services in 2022 being estimated at 974 billion USD⁴⁴, the then-unrestricted NewCo would remain in a field of fierce competition, even considering a possible edge over Big Four competitors. **Exhibit 4** presents relevant public competitors.

Accenture was the most comparable company for the NewCo and certainly a blueprint in the plans for EY's consultants. It was spun off from Arthur Andersen in 2000 and offered a portfolio of general consulting and IT services. Since its IPO, Accenture's market value increased over 1,900% and evolved into a consulting giant posting over double of EY's advisory revenue. **Exhibit 5** shows the stock price performance of Accenture after the spin-off.

Macroeconomic conditions

When Di Sibio and EY's global leadership started discussing in late 2021 about potentially splitting the business, the world's economy was in bright conditions. Financial markets and global trade were greatly recovering from the COVID pandemic. The S&P 500 closed 2021 on an all-time high and the number of IPOs on major US exchanges had been the highest in over 20 years.⁴⁵ However, by September 2022 the macroeconomic environment had changed, and the sentiment of financial markets was characterized by uncertainty, inflation, and rising interest rates.

Russia's invasion of Ukraine and subsequent surging commodity and consumer prices hit the world economy. By Summer 2022, the Federal Open Market Committee viewed inflation, geopolitical uncertainty, tightened financial conditions on global markets, and reduced consumer spending as the major contributors to slowing economic growth.⁴⁶

Until March 2022 the US federal interest rate stood at 0.25. Following rapidly growing inflation throughout the year, the Federal Open Market Committee of the Fed decided to take measures and increased the interest rate multiple times. This subsequently led to higher borrowing costs for US

⁴⁴ The Business Research Company, "Management Consulting Services Market Analysis, Size And Trends Global Forecast To 2022-2030."

⁴⁵ Ritter, "Initial Public Offerings: Updated Statistics."

⁴⁶ Ritter.

companies. **Exhibit 6** shows the development of the U.S. Effective Yield Corporate Bond Index throughout 2022.

In July, confronted by journalists with the cloudy economic situation and its implications on Project Everest, Di Sibio confidently declared *“the difference in debt cost is immaterial to the deal”, “we can absorb that (...) and we don’t see an issue in the macroeconomic perspective.”*⁴⁷

In September 2022 the Fed’s interest rate hike put the rate to 2.5%. Additionally, the Fed stated that it anticipated ongoing increases.⁴⁸ Having started 2022 at an all-time high, the S&P 500 was down 25% by September as illustrated in **Exhibit 8**. Stock valuations were severely negatively affected by inflation and rising interest rates with experts giving pessimistic outlooks for the near future.⁴⁹ US IPOs on major exchanges fell from 235 in 2021 to only 13 until September 2022, and the US market was on track to set the record for the lowest IPO proceedings since 2003.⁵⁰

Internal reactions

In the weeks and months following the public announcement of Project Everest employees expressed hopes and concerns about what was in for them in the deal. Consulting staff and partners had a generally positive feeling about the split. They were optimistic about the growth opportunities for the business and their careers. Also, excitement about the shift of culture, away from the perceived nitty gritty, old-fashioned, and bureaucratic audit partnership heritage of the firm towards an agile consulting firm, was spread amongst EY’s consultants.

The audit staff had a harder time finding upsides from the proposed split. A large rationale for joining EY as a junior employee in the audit was the wide range of working areas and possible career paths that could be explored. Staff transitions, cross-assignments, and collaboration between EY’s audit and consulting business were regular. With two separate entities, this benefit of the multidisciplinary model would be cut. Especially senior partners on the audit side had an eye on the significant payments they would receive if the deal went through. Younger partners and senior managers were more concerned about how AssureCo’s staff and competence base would look after

⁴⁷ *EY Prepares For Its Breakup.*

⁴⁸ Board of Governors of the Federal Reserve System, “Minutes of the Federal Open Market Committee, July 26–27, 2022.”

⁴⁹ Jaisinghani, “US Stock Market Forecasts: Bank of America Sees New Low for S&P 500 Index.”

⁵⁰ Ritter, “Initial Public Offerings: Updated Statistics.”

the split and if it would be sufficient to maintain the current operating model and the expected additional business. Below the partner level, financial upsides for audit staff were not in sight. Uncertainty regarding the future was omnipresent and employees on all levels were increasingly poached by Big Four competitors.

The decision

Time kills all deals – one of Wall Street’s dealmakers' most cited quotes appropriately applied to Project Everest. With the decision originally planned to be made in June⁵¹ and the omnipresent uncertainty for clients and employees about EY’s future, time was pressing, so on September 8th, 2022, EY’s leadership approved the separation.

Now it was Di Sibio’s call to put Project Everest to the vote of the firm’s over 13,000 partners. He was confident: “*(our) leaders would not put this forward unless we thought it was the right thing to do*”.⁵² After months of internal and external debate and the shift from sunny outlooks to economic headwinds it was highly doubtful how the partners would ultimately evaluate Di Sibio’s vision. When confronted at the ballots with deciding on the firm’s, their personal, and their employees’ future, would they agree that putting Project Everest forward was the right thing to do?

⁵¹ Eaglesham, “WSJ News Exclusive | Ernst & Young Leaders Expected to Approve Plan to Split Accounting Company.”

⁵² O’Dwyer, “EY Bosses Approve Radical Break-up of Big Four Firm.”

Literature Review

In the literature review, theories, and scientific findings relevant to the case are obtained and put into perspective. A body of evidence is constructed as a theoretical foundation for analyzing the case. The review focuses on two aspects of the case: promoting and implementing a transformative strategy and divesting by splitting an existing business via a spin-off. A particular focus lies on management's rationale and role in deciding and executing strategy implementation and divestitures via spin-offs. Additionally, a review is conducted on analyzing strategy and understanding synergies as competitive, firm-inherent factors under the resource-based view of the firm with a focus on synergies in interrelated firms.

Management's role in strategy implementation

Research attributes a significant effect of successful strategy implementation on top management (Y. Li et al., 2008; Schaap, 2012). Visionary leadership, especially in strategy implementation, is associated with effectiveness. Visionary leaders communicate a strategic vision in a persuading way to employees, who then contribute to the realization of the vision. However, Ateş et al. (2018) find that visionary leadership cannot overcome unalignment between middle and top management.

Several researchers focus on the relationship between top and middle management in strategy implementation within organizations. If top and middle management are not aligned on the overarching strategy, there is less consensus and commitment within the organization. Furthermore, the visionary leadership of top management does not automatically transfer to middle management. Hence, strategic alignment between top and middle management is conditional for visionary leadership to be effective in transformational projects (Ateş et al., 2018). Heracleous (2000) concludes that if middle management disagrees with the strategy, it will likely hinder the implementation. Thus, a common understanding of the goals to be achieved is a success factor for implementing a strategy (Miller, 1997; Noble, 1999). Schaap (2012) comes to a similar conclusion, summarizing that alignment on a strategy throughout the organization plays a crucial role in a successful implementation. This alignment can be achieved through frequent organizational communication to create shared attitudes toward the strategy. Kaufman (1990) adds to the requirement of internal consensus that external stakeholders must approve of the plan not to hinder or postpone the implementation process.

Noble (1999) notes that despite the literature's conclusive evidence that consensus regarding a strategy is positively related to firm performance, this relation is likely moderated by additional factors.

An additional factor that the literature identifies as positively contributing to successful strategy implementation is joint rewards across management levels and involved departments (Chimhanzi & Morgan, 2005; Schaap, 2012). Furthermore, top management's visibility in communicating and implementing strategy is attributed with a decisive role in strategy implementation (Y. Li et al., 2008; Noble & Mokwa, 1999; Peng & Littlejohn, 2001).

Kim and Mauborgne (1991) focus on strategy implementation in multinational enterprises and find that perceived fairness and procedural justice in formulating global corporate strategies is important for successful implementation. Procedural justice increases managers' commitment, trust, and cooperation in the firm's global entities.

Interestingly, the additional factors such as joint incentives and a strategy formulation and implementation process that are perceived as fair likely contribute to the alignment of management throughout the company (Kim & Mauborgne, 1991). The literature provides sufficient evidence that consensus throughout the organization regarding a strategy is a primary success factor for strategy implementation.

Splitting a business via a spin-off

In a corporate spin-off, a firm's asset is split into a separate entity. The shares of the spun-off entity are allocated to the shareholders of the parent company (Prezas & Simonyan, 2015). Spin-offs do not dilute equity or transfer ownership from existing shareholders. After the distribution of shares, the management and operation of the spun-off entity are separate from the divesting firm (Krishnaswami & Subramaniam, 1999).

Spin-offs are generally associated with positive abnormal returns and outperform indices, creating value for the spun-off entity and the divesting firm. The literature provides several reasons for a firm to divest via a spin-off. Spin-offs enable a firm to resharpen its strategic focus, mitigate damage control through portfolio management, and reward stockholder loyalty. (Pearce & Patel, 2022).

Firms with high growth opportunities and firms that require external capital are likelier to engage in spin-offs and divesting activity (Krishnaswami & Subramaniam, 1999). Krishnaswami and Subramaniam (1999) analyzed 118 corporate spin-offs on major American exchanges to find that firms engaging in spin-offs have higher levels of information asymmetry regarding value, cash flows, and operating efficiency than industry and size-matched counterparts. Subsequently, to the spin-off, the information asymmetries decrease significantly. They conclude that spin-offs are a feasible way to reduce information asymmetries between management and the public market before tapping external capital markets for fundraising. Spin-offs also signal that the spun-off business is undervalued or not appropriately managed (Davies & Van Wesep, 2018). Additionally, Mazur (2015) finds that spin-offs increase a company's M&A opportunities.

As for macro- and industry factors, Duhaime and Grant (1984) could not prove a connection between economic cycles and spin-off decisions. Powell and Yawson (2005) find that high industry concentration increases divesting activity after analyzing a sample of 947 divestitures in the UK between 1986 and 200. They argue that divesting becomes the most likely option as takeovers are challenging due to antitrust rules. Thywissen et al. (2018) add business life cycles, a changed competitive landscape, and regulatory changes as driving divestment factors.

In addition to economic factors and considerations contributing to divestitures via spin-offs the literature also deals with management's involvement in the process.

Davies and Van Wessep (2018), in an analysis of 501 divestments with data between 2012 and 2014, find that managers are financially incentivized to divest as most divestments do not harm executives' compensation. On average, executives benefit from divestitures through their personal compensation schemes, which are closely tied to short-term stock performance. This benefit increases with the size of the divestment and labels the focus on short-term stock gains as an egoistic motive by management. Feng et al. (2015) draw a similar conclusion after analyzing a sample of 113 spin-offs between 1993 and 2006. They find that CEOs with strong personal financial incentives are more likely to perform corporate spin-offs.

Researchers analyzed the effects of the divesting process on the outcome. Thywissen et al. (2018) conclude that the involvement of middle management only has a positive impact on the outcome after the divestment decision is already made by top management. Gopinath and Becker (2000)

conclude that managerial communication during the divestiture process increases the perception of justice, trust, and commitment on the employee's side and enhances organizational efficiency.

Thywissen (2015) develops a framework to assess a strategic divestiture decision. Building on an extensive review of academic literature, he emphasizes cognitive biases, personal characteristics of management, corporate governance, and corporate culture as influential factors in addition to environmental influences and the general context of the divestment decision.

Resource-based analysis of capabilities and synergies in multi-business firm's

The resource-based view of the firm (RBV)

The resource-based view of organizational capabilities focuses on a firm's endogenous factors as sources of competitive advantage (Wójcik, 2015). The firm is not an adaptor to external factors but can compete successfully by acquiring, developing, and deploying scarce resources and capabilities (Connor, 2002). Its view stands in clear differentiation to the research of Porter (1980; 1991), who sees the foundation of competitive advantage in the firm's positioning relative to its competitors and other external factors. Despite scholars acknowledging the difficulty of determining the resources and capabilities that establish a competitive advantage without knowing the external environment, the RBV is widely utilized to explain the effect of firm-inherent factors on competition (Black & Boal, 1994).

Scholars developing the resource-based view, classify resources with different criteria. Grant (1991) sees technological, financial, and reputational resources that are unevenly distributed amongst competitors and thus a differentiating criterion in competition. Barney 1991 distinguishes between physical capital (e.g. technology, property and equipment, location, and access to raw materials), human capital (e.g. experience, intelligence, and relationships), and organizational capital (e.g. formal reporting and planning structure, coordinating systems, a firm's culture, and relationships amongst organizational units within a firm and with its environment). A consensus amongst researchers seems to exist that resources can be tangible and intangible (Wójcik, 2015).

Resource-based strategy analysis

To utilize the concept of the resource-based view, Grant (1991) develops a framework for resource-based strategy analysis in which the firm's internal resources serve as the foundation for strategy formulation.

The resources serve as input for the firm's capabilities. Relevant capabilities of a firm to be identified in the strategy analysis are activities that a firm does more effectively than its competitors. A competitive advantage arises if the capabilities have rent-generating potential and the required resources are sufficiently present. If the analysis concludes that there are missing resources for capabilities, investments in the firm's resource base are necessary.

A sustainable competitive advantage is achieved if the resources have a long-term rent-generating potential. The resources must be scarce, valuable, durable, difficult to identify and understand, imperfectly transferable, and not easily replicable. With these criteria being fulfilled, competitors cannot imitate the advantage by efficiently replicating the resource portfolio through investments or market transactions. Thus, the competitive advantage remains unique to the firm (Barney, 1991; Fernández et al., 2000; Grant, 1991).

Intangible resources consist of knowledge or information and can be dependent or independent of people in the organization (Fernández et al., 2000). Such resources as know-how, reputation, culture, and networks are seen to be more complex and more challenging to replicate and, therefore more likely to foster a sustained competitive advantage (Hall, 1992).

Following the framework, the right strategy is the one that best utilizes the firm's internal resources and capabilities with respect to external opportunities to achieve sustained competitive advantages (Grant, 1991).

Interactions and synergies between resources

Impactful publications in the field of corporate strategy argue that diversified firms, by sharing and transferring resources and capabilities across areas of business, create synergies to obtain a competitive advantage (Ansoff, 1965; Porter, 1985). This applies to considerably diversified firms (Martin & Eisenhardt, 2017), but also within-industry diversified companies (S. X. Li & Greenwood, 2004). Scholars see the resource-based view of the firm as the basis for explaining

such competitive advantages arising from interfirm synergies (Black & Boal, 1994; Iversen, 1998; Markides & Williamson, 1994).

Black and Boal (1994) argue that competitive advantages do not arise from single resources but from specific relationships between them. In this way, the interactions and connections between resources build a network across all of a firm's resources that foster organizational synergies. Those complex interactions and dependencies between resources lead to casual ambiguity in identifying a single resource's impact on the system and which resources are inputs to a capability. Therefore, transferring capabilities by transferring selected resources is unlikely to be successful. (Black & Boal, 1994; Fernández et al., 2000).

Sharing and transferring resources within the firm can lead to achieving more efficient use of the firm's resource base compared to a non-synergetic use (Iversen, 1998). Synergies arise if resources and capabilities that are present in one part of the company are simultaneously utilized in other parts to create additional value by revenue enhancement or cost savings (Fernández et al., 2000). Thus, resources can be input into multiple capabilities and competitive advantages simultaneously (Itami & Roehl, 1991).

Markides and Williamson (1994) find distinct ways in which capabilities can enable synergies. Knowledge and expertise are generated by creating and maintaining capabilities, which can be leveraged to enhance other assets or create new assets in different fields of the firm's business. Furthermore, related diversification can develop new competencies that can be utilized to improve existing resources and capabilities. Synergies from complementary activities within a firm are more likely to create sustained competitive advantages as they involve more complex systems and are based on interactions between assets and not on the sole ownership (Iversen, 1998; S. X. Li & Greenwood, 2004).

A firm's control of more valuable assets allows for more synergies if they are exploited with a suitable strategy. Farjoun (1998) concludes that if a firm's business activities are related in multiple dimensions, for instance, tangible resources and skills are more likely to arise. Robins and Wiersma (1995) use a theoretical framework based on the RBV to examine interrelationships between businesses within a firm. They find that companies with highly interrelated businesses outperform firms with lower interrelated businesses.

Conclusion

Overlaps between management's role in strategy implementation and divestitures

Drawing connections between the topics of management's role in strategy implementation and divesting in spin-offs holds noteworthy implications. A spin-off is always connected to a significant strategic decision. Thus, findings from both areas apply. In both fields, the literature shows the importance of environmental factors, corporate governance, and the impact of management characteristics. Management's financial incentives likely moderate the uncovered required alignment between top and middle management for strategy implementation. Research conclusively shows that management is biased towards divesting for personal and short-term financial gains. Therefore, the alignment in deciding on a divesting strategy can be corrupted by distributing incentives on all management levels at the expense of employees or other stakeholders.

Competitive advantages and synergies of interrelated firms

The literature suggests that intangible resources based on knowledge and networks are especially likely to create sustained competitive advantages. Furthermore, competitive advantages of interrelated businesses are set to be enhanced by intrafirm synergies of complementary resources and activities. However, in line with the fundamental concept of RBV strategy analysis, competitive advantages are only sustainable if they are not replicable by competitors through imitation or market transactions.

Teaching Note

Pedagogical Overview

Central issue and considerations of the case

In the case, the central issue concerned is a well-performing firm reviewing its strategic and organizational dimensions to preemptively address uncertainty in external factors and unlock growth potential in a mature industry by separating its business.

The primary consideration in the decision is evaluating whether the benefits of separate businesses outweigh the costs and uncertainty attached to the separation and the loss of existing synergies between the business units. Additionally, it must be determined how sufficient alignment in the organization can be created to execute the separation.

Localization within the discipline

The case is suitable for teaching introductory corporate strategy development and analysis courses. It offers various opportunities to apply core concepts and frameworks of strategy analysis. It furthermore touches on considerations surrounding divestments in a spin-off and IPOs. Additionally, the case illustrates the complexity of various stakeholders influencing a multinational firm's strategy development process.

Learning Objectives

1. Reinforcement of structured strategy analysis utilizing frameworks. Building skills for identifying strategic internal and external factors influencing a firm and evaluating their relevancy in strategy formulation processes. Derive analytic conclusions following structured strategy-analysis approaches.
2. Developing skills in assessing complex strategic transformations by separating an existing business. Identify how internal capabilities and competitive forces change for separated businesses.
3. Enhancing knowledge of a firm's resources and capabilities as the basis for competitive advantages. Develop skills for identifying relevant resources and capabilities, appraising their potential for competitive advantages, and understanding their value-creating interactions.

4. Sharpen skills in identifying and analyzing the positions of diverse stakeholders involved in strategy formulation and decision process. Develop awareness of partial interests amongst different stakeholders and how their individual perspectives impact and bias the strategy evaluation.

Assignment Question

The following question is a suggestion to help students prepare for the in-class discussion:

- What are EY's Goals in Project Everest and how should they be achieved?

Class Plan

- 1 Why is EY reviewing its strategy and organizational structure?
- 2 Are the forces influencing Di Sibio's strategic considerations unique to EY, or do they apply to the whole industry?
- 3 What are the relevant resources and capabilities of EY's business model? How do they create sustained competitive advantages?
- 4 If you were a consulting partner at EY, how would you vote on Project Everest and why? How about if you were an audit partner?
- 5 If the vote fails, what could be possible alternatives to further pursuing Project Everest?
- 6 What are your recommendations for Di Sibio? How do you evaluate Project Everest, and how would you proceed?

After the six discussion questions, the instructor can provide the students with **Teaching Note Exhibit 1**, containing information on how Project Everest proceeded.

Analysis

1. Why is EY reviewing its strategy and organizational structure?

Several factors impacting EY are the basis for its strategic and organizational review:

Regulatory pressure: Regulating bodies in the US and UK critiqued the interconnectedness of audit and consulting services within multidisciplinary professional service firms and expressed their intent to further push for organizational separation. A forced split in the future poses a significant

threat to EY's multidisciplinary business model. Competitors might anticipate regulatory actions and find themselves in a favorable position.

Reputational damage: As auditors and consultants that the clients' stakeholders rely on, reputation is critical in the industry. EY has had scandals and investigations regarding breaches of independence regulations and misconduct in client engagements. As the EY brand is used across all service lines, reputational damage is reflected on business units not directly connected to the unit responsible for the damage.

Competitive rivalry within the Big Four: The industry of accounting firms is very mature. The Big Four exhibit slow but constant growth rates. Between 2018 and 2022, their revenues grew at CAGRs between 1.89% and 4.36%.

The Big Four dominate the audit industry by size, service offering, and reputation. Their immense expertise, talent pool, technological systems, and long-lasting client relationships make it difficult for new entrants to compete. The field of audit is heavily regulated, so disrupting innovations or substituting services that satisfy the requirements are very unlikely.

The Big Four firms grew highly similar in service offering, size, geographical footprint, organizational setup, reputation and quality. Due to this homogeneity, the competitive rivalry is considerably high. The firms cannot charge price premiums to their clients as they target the same customers, without substantial differentiation in their services. Although firms may enjoy advantages in certain geographic areas, there is generally high competition amongst all Big Four firms in every region, in all service lines.

Despite the industry being considerably stable, past developments such as the mergers of accounting firms leading up to the Big Four and the failure of Arthur Andersen have shown that the accounting firm industry is prone to consolidation. The competitive intensity combined with asset-light business models and the independence of national partnerships increases the risk of being absorbed by competition if one firm falls behind in the competitive environment.

Self-cannibalization under the current organizational structure: Conflict-of-interest regulations prohibit consultants from offering services to EY's audit clients and vice versa. Thus, every new client EY's s wins is a potential cannibalization of the other arm's addressable market. In the firm that offers both services, this self-harming mechanism cannot be avoided.

Growth opportunities for consulting services: An emerging field is projects in managed services in collaboration with tech companies. In managed service contracts, certain IT services are outsourced to an external provider. EY audits a substantial share of the largest US tech companies (O'Dwyer, 2022). Due to conflict-of-interest regulations, EY is limited in engaging in partnerships with those tech companies and offering their services in projects to clients.

Pressure from consulting partners: Managers of EY's consulting services feel restrained in seizing opportunities by regulations prohibiting them from engaging with EY's audit clients. They see the conservative partnership organization, with its culture rooted in the audit side of EY's business, as unsuitable for modern, fast-paced, and agile consultancies.

Competition and requirement for innovation in the consulting market: EY's independent partnerships result in complicated governance processes, hindering agility and decision-making. EY faces intense competition in the consulting industry which requires continuous adaptation to clients' needs, investments in technology, and M&A activities for inorganic growth. Without investments, the competitive position of EY's consulting businesses is threatened.

Increasing challenges in the macroeconomic environment: The economic situation through 2022 is in an apparent downturn. By September 2022, the S&P 500 was down 25% from an all-time high at the beginning of the year. Inflation was rising, and the Fed increased the federal interest rate multiple times from 0.25 to 2.5%, expecting further increases. Rising consumer prices, inflation, and geopolitical uncertainty arising from Russia's invasion of Ukraine will likely pressure EY's margins and clients' spending on professional services. New revenue and margin enhancements paths are required to counteract unfavorable macroeconomic developments.

The previously analyzed factors help explain why an organizational architecture that performed well in the past and remained widely unchanged over many years is under increasing pressure for change.

2. Are the forces influencing Di Sibio's strategic considerations unique to EY, or do they apply to the whole industry?

The potential reactions of competitors to developments affecting the industry suggest that it is important to analyze commonalities and differences within the industry in the degree of exposure to external factors.

Macroeconomic forces

Unfavorable macroeconomic conditions equally affect EY's competition, especially its closest Big Four rivals. The Big Four are highly similar in corporate financing, service offerings, and geographical footprints. Thus, their exposure to macroeconomic risk is very comparable. Compared to listed consulting companies, EY's exposure to macroeconomic risks is lower as it is not dependent on investors' sentiment on public markets.

Regulatory pressure

All Big Four firms offer audit and consulting services and are organized as networks of independent partnerships. Therefore, the same regulatory scrutiny exists regarding conflict-of-interest matters, and the same pressure from regulating bodies to separate the audit business from other services applies. If regulators would force a split, all Big Four firms would face the challenge of splitting their highly complex organizations. Outside of the Big Four, the regulatory pressure for professional service firms is lower. Consultancies that do not offer audit services are not subject to the conflict-of-interest regulations derived from section 201 of the Sarbanes Oxley Act (Sarbanes Oxley Act of 2002, 2002) and therefore less pressured.

Structure and required flexibility

The requirement to remain innovative and agile and to be able to invest in technology and M&A applies to all Big Four firms and broader competition equally. In terms of the pace of decision-making, all Big Four firms are limited by their setup as partnerships with complex governance structures. Public competitors or smaller, more specialized firms may be less restrained. On the other hand, smaller competitors do not have the financial capabilities at a global scale to invest in technology and M&A activities like EY and the Big Four.

Reputation

The reputational damage has been an issue especially relevant to EY due to recent scandals and investigations surrounding its audit practice. Especially the scandal surrounding the German payment processor Wirecard in 2020 damaged EY's reputation as an auditor and reflected on the whole company. In the wake of Wirecard's insolvency, investigations uncovered that the company had fraudulently misstated account balances of almost two billion USD for years. EY was Wirecard's long-time auditor and did not discover suspicious activities or missing funds in its

audits. Despite denying wrongdoing and claiming to be the victim of a sophisticated fraudulent scheme, EY faced heavy backlash in the press and from regulators investigating its audit activities (Storbeck, 2021).

Competitive rivalry

EY's financials, in comparison to its direct competition, do not suggest that it is particularly suffering under competitive rivalry. Regarding revenue of the Big Four, in 2022 EY ranks third with 45.2 billion USD. It is ahead of KPMG with 34.6 billion but trails Deloitte's 59.3 billion and PwC's 50.3 billion. EY's revenue has steadily increased across all service lines and geographies, showing a CAGR of 3.1% between 2018 and 2022 compared to the Big Four average of 3%.

Self-cannibalization and growth opportunities

The pressure from consulting services to be free of limitations arising from conflict-of-interest regulations is likely higher for EY than its competitors.

In terms of revenue per business segment, EY's share of consulting revenue from total revenue, 41%, was fairly behind Deloitte's 61% and ranked third within the Big Four. On the flip side, EY's share of Audit and Assurance revenue stood at 34% compared to 21% at Deloitte and ranked third. Thus, EY has a particularly large base of audit clients not addressable by consulting services. Furthermore, EY audits many leading US tech companies (O'Dwyer, 2022). Thus, it cannot engage in alliances and cooperation for managed IT services, where EY would collaborate with technology companies to provide their services to EY's clients. EY's Big Four competitors and other consultancies are free to cooperate with EY's audit clients from the technology industry.

In summary, compared to its competition, EY is not particularly vulnerable to major changes in the regulatory environment or macroeconomic conditions. In terms of growth potential, EY shows more potential than the competition because of its audit client structure. Also, reputational risks are more prevalent for EY.

3. *What are the relevant resources and capabilities of EY's business model? How do they create sustained competitive advantages?*

The concept of the resource-based of the firm (RBV) detailed in the literature review is applied to assess EY's resources, capabilities, and their interplay to create competitive advantages. The analysis largely follows Grant's (1991) framework for strategy analysis under the RBV.

EY's relevant resources

EY has several relevant resources that are predominantly intangible and based on people, networks, and knowledge.

Brand and reputation: The EY brand is globally recognized and associated with state-of-the-art professional services that clients can trust and rely on.

Relationships: Throughout its history, EY has established deep relationships with clients, regulators, and other relevant stakeholders. These relationships are bundled in the EY network but stem from partnerships closely connected to the local economies and societies.

Organizational structure: EY operates as a network of independent partnerships with over 13,600 equity partners (Ernst & Young Global Limited, 2023). In a partnership model, the firm is entirely owned by its equity partners, who are compensated through equity appreciation and dividend payments. These equity partners are the firm's top management and are responsible for client acquisition. The partnership model fosters the feeling of ownership by management. It allows for predictability and trust through long-term relationships within the company and with clients (Lent, 1999).

Systems and Technologies: EY maintains several IT systems tailored to its services (e.g. project management applications, data analysis systems, knowledge management tools, etc.).

Expertise and Workforce: With multidisciplinary service lines in all global partnerships, EY covers a wide range of expertise. Through its global network, EY has a talented workforce with vast industry, functional, and regional knowledge. The expertise is manifested informally in the workforce and formalized in internal knowledge management systems.

Worldwide Offices: The EY organization of independent partnerships achieves a global footprint in expertise through the physical presence of EY offices and employees in over 150 countries.

EY's relevant capabilities

- EY can independently conduct full-scale audits for companies, regardless of their size, complexity, or geographical footprint.
- EY can fully deliver complex consulting projects that span multiple disciplines and regions.
- With its strong regional footholds, EY can leverage its size and long-term relationships through national partnerships to anticipate, develop, and influence practices surrounding professional services.
- EY can utilize its branding to create trust and signal the quality of its work to stakeholders across all service lines and geographies
- EY can create customer loyalty and valuable, long-lasting client relationships.
- EY can attract a skilled workforce across service lines and regions.

Following Grant (1991), capabilities create sustained competitive advantages if they have rent-generating potential and are unique to the firm and thus hardly replicable for competitors (Barney, 1991; Fernández et al., 2000; Grant, 1991). Due to the characteristics of EY's resources as intangible and capabilities being based on knowledge, networks, and reputation, the replication of EY's competitive advantages by competitors is likely to be complex (Fernández et al., 2000; Hall, 1992). Especially knowledge-based capabilities are suitable to create synergies and strengthen other resources and capabilities of a firm with interrelated businesses by transfer and simultaneous usage (Farjoun, 1998; Iversen, 1998; Markides & Williamson, 1994).

- The capabilities to conduct global audits and consulting services are highly complex, comprised of various resources and their interplay. Furthermore, they have clear rent-generating potential. However, all Big Four firms have such capabilities, thus, they create no sustained competitive advantage for EY.

Conducting large-scale audit engagements requires deep expertise in local regulations and how the audited company operates. Audits are data driven and tailored software is necessary to facilitate effective procedures. Cross-functional expertise is required in complex audits regarding the audited company's tax, law, valuation, and internal systems. This expertise must be present, identified, assigned, and coordinated in the project. The availability of a wide range of knowledge that can be

applied across EY's businesses, enhancing service quality, is a clear synergy between the dedicated service lines. All Big Four firms possess the resources and capabilities to conduct large-scale audits.

Various functional and industry-specific expertise and regional proximity is required for complex consulting projects. The demand for consulting services is volatile in scale and scope; thus, flexibility, constant expertise development, and investments in technology and M&A activity are necessary. All Big Four firms and a wide range of international consultancies have such capabilities.

- The capability to utilize its organizational structure and size to anticipate, develop, and influence practices surrounding professional services may be less complex. However, it relies on intangible resources not replicable by competition outside the Big Four. The rent-generating potential is only indirectly evident through EY's consistent leading role in the accounting services industry. Due to the imitability by Big Four competition, this capability does not create a sustainable competitive advantage.

This capability stems from long-term relationships with governments and regulating authorities in all geographies EY operates in and deep client relationships that are often maintained over decades. Long-lasting client relationships are fostered through the partnership model that allows for regional proximity and long-term orientation in business. The relationships created by the extensive network of EY partners throughout the organization are utilized to obtain market intelligence and establish recurring business engagements with clients across service lines. EY has direct contact with the industry's most influential actors and obtains extensive knowledge of trends and developments. With its large footprint in the industry, EY can shape how new and existing regulations are applied in practice, setting standards for other competitors. As for prior capabilities, this also applies to EY's Big Four competition.

- The capability to utilize its branding to create trust and signal the quality of its work to stakeholders across all service lines and geographies is less complex but highly valuable and inherently firm-specific. As all Big Four firms enjoy excellent reputations, the capability is not unique to EY and thus does not create a sustained competitive advantage.

EY has established a reputation for quality and trustworthiness through years of providing quality audit and consulting services under a common brand and interacting with various stakeholders. The

reputation attached to the EY brand is created, maintained, and shared by all service lines, which benefits the whole organization. On the other hand, the entire organization also bears scandals and reputational damage connected to the brand, regardless of a specific service line's responsibility. Long-term relationships and trust are significant in the professional service industry, which makes the EY brand valuable.

- The capability to attract talent across service lines and regions is less complex and relatively easy to replicate by a broad range of competitors and can thus not be categorized as a sustained competitive advantage.

EY's attractiveness as an employer originates from its reputation as a leading professional service firm offering diverse career paths across different areas of expertise in an international environment. However, talent attraction and retention are also heavily driven by monetary compensation, which competitors can match or exceed.

In conclusion, EY has various capabilities that are complex, valuable, rare, and not easy to replicate. The capabilities and competitive advantages are greatly enhanced by synergies from utilizing resources across EY's multidisciplinary organization. However, this is mostly only true when considering competition outside of the Big Four. Due to the high similarity in resources, capabilities, and organizational structure among the Big Four companies, no capability is inimitable or unique. Thus, EY cannot create sustained competitive advantages with its current organizational structure and remains subject to intense competition within the industry.

***4. If you were a consulting partner at EY, how would you vote on Project Everest and why?
How about if you were an audit partner?***

The evaluation of the deal from the perspective of a consulting and an audit partner is analyzed in two steps before drawing a conclusion: 1. Competitive assessment of the respective company (AssureCo and NewCo) after the deal in a SWOT analysis ; 2. Personal interests and incentives of the partners in a deal.

SWOT AssureCo

Strengths

AssureCo would maintain the EY brand and the structure of a worldwide network of individual partnerships. Leveraging the brand, AssureCo benefits from a strong reputation of credibility, and continuity in the auditing industry. AssureCo's business model is proven by a long track record in conducting global audits. It would keep a well-defined culture and governance structure, ensuring operational efficiency and consistency.

Weaknesses

The spin-off of tax advisory, valuation services, and ERP advisory into the NewCo may result in a loss of expertise and capacity necessary for executing complex audit mandates and potentially impact service quality. With fewer career opportunities for internal transfers to consulting positions, AssureCo may struggle to attract junior staff, leading to talent acquisition and retention challenges.

Opportunities

AssureCo can strengthen its credibility as a specialized and independent auditor with no consulting-related conflict-of-interest concerns. The addressable market for AssureCo increases as EY consulting clients can be tapped for auditing services. This offers opportunities to enter new segments and increase revenue.

Threats

AssureCo faces intense and direct competition from other Big 4 auditors that operate as multidisciplinary firms. Inadequate resources, such as staff and assets, may hinder AssureCo's ability to meet the needs of current clients and fulfill mandates effectively, risking client dissatisfaction, reputational damage, and loss of business.

Operating as a non-multidisciplinary firm with an uncertain competitive position can potentially disadvantage AssureCo in securing mandates and attracting top talent.

Payouts received under the deal structure and competitive weakness can lead to partners leaving the firm. The departure of top-performing partners would directly impact revenues and organizational stability.

SWOT NewCo

Strengths

NewCo has a robust foundation of expertise enabling it to deliver a wide range of consulting services. It has the capabilities to provide comprehensive services to its clients. With stable tax revenues complemented by more volatile consulting revenues, NewCo maintains a balanced portfolio of service offerings, mitigating financial risks associated with market fluctuations.

NewCo would abandon the partnership model to establish a governance structure suitable for a public company. Increased centralization and a clear board structure would allow for simplified governance and improve decision-making and operational efficiency. Decision-making power would be distributed more transparently, and compensation could be more performance-oriented than in a partnership model. Equity incentives in stock compensation offer attractive compensation schemes and motivate employees to contribute to the company's long-term success.

Compared to the previous model of independent national networks of firms, global integration under one entity facilitates collaboration among employees, enables transfers between working locations, and promotes knowledge sharing and synergies across regions and client industries.

Weaknesses

NewCo must establish a new brand as a consulting-only entity. First, the brand perception will be inferior to the previous EY branding and require substantial marketing investment. The absence of audit services and the loss of a large share of EY's former employees and revenue base may impair NewCo's market power compared to multidisciplinary firms, negatively affecting its competitive position.

Transitioning from an audit and accounting firm heritage to a consulting-focused culture may result in organizational and operational challenges. Employees who are uncomfortable with the culture change might leave the organization, and establishing a new culture that fosters a strong competitive position will require time and investment.

Opportunities

NewCo would be free of restrictions prohibiting services to AssureCo's audit clients. Especially audit clients from the technology sector are likely to expand the customer base and increase

revenues as NewCo can engage in strategic alliances with them. The alliances create opportunities for NewCo to enhance its service offering and enter new and fast-growing markets for projects in managed IT services and IT implementation.

As a public company, NewCo has access to capital markets, which eases fundraising for equity and debt. In an IPO and subsequent fundraising activities, NewCo can raise funds to cover transformation costs and invest in growth opportunities.

Threats

As a stand-alone consulting firm, NewCo faces intense competition in the industry, with several global players offering services.

The difficult macroeconomic situation poses a threat to NewCo in several dimensions. NewCo's valuation and stock performance in tight capital markets with underperforming indices are likely to be unfavorable. Thus, the amount raised in an IPO is highly uncertain. As a public company, NewCo would be more directly affected by the volatility of stock markets and investor sentiment.

NewCo requires funds to pay off the audit partners and invest in rebranding, restructuring and growth. If NewCo cannot raise sufficient funds, the whole deal is not feasible. Additionally, the economic downturn has a negative effect on clients spending on consulting services. This puts the ambitious growth targets of NewCo in danger and further impairs NewCo's valuation. Interest rates directly affect the cost of borrowing for the debt that NewCo will raise in the spin-off process. NewCo's profitability and financial stability will be negatively impacted if interest rates remain high or increase further. Additionally, public entity disclosure requirements are higher than private firms. This increases the risk of competitors gaining insights into NewCo's operations.

Individual motivations in a deal

Connecting scholars' findings regarding management's alignment in transformational projects and spin-offs from the literature review with the case analysis, it is evident that partners' approval primarily depends on individual incentives and compensation.

For audit partners, the one-of payout they receive for giving up their stake in the multidisciplinary firm is the main consideration in a deal. The main point of concern for audit partners is whether individual payouts are perceived as fair and high enough and if NewCo can fund them. A second

point of concern is that AssureCo maintains a sufficient resource base to continue serving clients in full-scope audits.

Consulting partners are focused on the growth opportunities of their business in the NewCo. Therefore, a deal must be executed, and NewCo must be in a viable position after the split to seize the growth opportunities. As for personal incentives, the partners eye their equity compensation in a public company. Their equity stake in NewCo must be valued favorably in public markets, which again requires a positive outlook for NewCo after the separation.

Conclusion

Audit partners will vote yes when their payouts are perceived as high enough, and AssureCo maintains the capabilities necessary to serve its existing clients without reducing service quality.

The consulting partners' vote is presumably in favor of Project Everest. Di Sibio, as the deal's main architect, would head NewCo, so the deal structure will likely benefit NewCo. However, each consulting partner's vote will depend on their individual assessment of business opportunities in NewCo and evaluation of how successful an IPO would be, as it directly impacts their compensation through equity.

5. If the vote fails, what could be possible alternatives to further pursuing Project Everest?

Cancel Project Everest and maintain the current organization

Pros: Calling off Project Everest to maintain the current structure would end the looming uncertainty for all stakeholders and free internal resources working on Project Everest for daily operations. Management could shift its attention to the challenging economic situation, and no funds would be further burned in developing the project.

Cons: Giving up on Project Everest would have a negative signaling effect. EY's top management around Di Sibio would lose credibility because it could not convince EY's partners to pursue the plan. Employees would not be rewarded for months of uncertainty. EY would suffer severe reputational damage to its clients as it offers consulting services for business separations but cannot separate itself. The large amount of funds already used in developing Project Everest would not lead to any economic benefit.

Sell the consulting business to a private equity or strategic buyer

Pros: In a private sale of the consulting business, the purchase price and deal structure can be negotiated more precisely compared to an IPO. Private deals are less dependent on macroeconomic conditions because of the more structured process of negotiating a valuation (Bharath & Dittmar, 2010; Ewens & Farre-Mensa, 2020). Therefore, EY's partners and stakeholders would have more certainty regarding the financial status of their pay-outs and stock compensation. Remaining a private company, NewCo would have to release less information to the public than the disclosure requirements of an IPO process. Thus, its intellectual property would be more protected.

Cons: Private equity deals are primarily a mid-term oriented, with average holding times of around four years (Valkama et al., 2013). Thus, uncertainty over the company's long-term ownership would remain. A private deal would bring a clear majority shareholder with likely large voting power on business decisions. It is uncertain if the buyer would follow the plan and rationale originally proposed in Project Everest and if further major restructuring would follow. If the acquirer were a competitor, continued uncertainty by restructuring and integration measures would be highly likely.

Separate the firm now and sell / go public later

Pros: In this option, the audit and consulting businesses are virtually split at first. By gradually separating the operational processes between the businesses, an AssureCo and NewCo would be established within the same legal entity. In this way, both businesses have more time to ensure operational readiness. The legal separation and sale could be postponed until the general economic conditions and global capital markets seem more favorable.

Cons: An operational separation without subsequent sale and fundraising creates an in-between state that dissolves business synergies without creating additional value. There would be no certainty of how long the in-between state would exist until NewCo is entirely separated and spun off. This would leave EY vulnerable to competition in the industry and create mistrust of clients and employees.

6. What are your recommendations for Di Sibio? How do you evaluate Project Everest, and how would you proceed?

Evaluation under resource-based perspective

The resource-based strategy analysis of Project Everest provides relevant findings. Under the current organizational set-up, EY cannot create sustained competitive advantages in the Big Four industry and thus is subject to fierce competition. This can make a change in the organizational structure feasible, to allow for the creation of new competitive advantages based on new resources and capabilities and their configuration.

Additional resources and capabilities to be gained after a potential split include financial resources for NewCo after the fundraising. Also, each firm could establish new relationships with clients of the respective other firm. By leaving the partnership model, NewCo gains the opportunity to develop new organizational and cultural capabilities.

However, under Project Everest, NewCo loses the EY branding and its brand equity. AssureCo loses access to required cross-functional expertise that is assigned to NewCo after the split. It is uncertain if AssureCo's resource and capability base would be sufficient to maintain the capability of conducting complex audit mandates entirely.

Both firms would lose a considerable share of the network and shared relationships that the one-entity EY enjoys. Shared technology and systems can be separated, but operating costs are likely higher as they must be operated independently after the split. AssureCo would no longer be able to provide various career opportunities, diminishing its capability of attracting top talent in the industry.

The significant split of resources under Project Everest threatens the current competitive advantages of the consulting and audit division, which are not sustained but still valuable. Furthermore, the synergies of the shared resources and capabilities between the audit and consulting part would be erased. Therefore, the competitive position of AssureCo and NewCo after the split is likely weaker than in a multidisciplinary setup and separation is not advisable.

Evaluation of competitive assessment and Individual's motivations in a deal

The prior question's analysis confirms the various benefits of separation in terms of general regulatory and competitive factors for EY and individual growth opportunities for AssureCo and NewCo. The crucial part of Project Everest, however, is a successful spin-off and IPO. NewCo's business case is based on optimistic growth forecasts and sufficient financial power to fund payouts, transformation costs, and growth right from the start. Without the head start of a successful IPO, it will likely suffer in the competitive environment of consulting firms. Only with enough financial power can NewCo make large enough concessions to the audit partners in terms of the structure of the split and their payouts to convince them to approve a deal.

Analysis of IPO and fundraising feasibility

EY's consulting services showed high growth, with a 22.4% CAGR between 2017 and 2022. The proposed valuation range lies between 67.7 and 77.7 billion USD. This is based on 2022 financials, assuming 15-20% revenue growth in the first years with a profit margin of 16%. The forecasted revenue growth seems reasonable, given the historic growth and market opportunities. The profit margin is close to the average of 18.3 of comparable firms. Additionally, multiples are also similar. NewCo's revenue multiple would range between 2.8 and 3.2, compared to the average of 3 in the peer group. Its EBITDA multiple between 17.6 and 20.2 compares to the average of 18.3.

Accenture serves as a comparable case of spinning off a consulting practice. Its stock has shown a 1,900% increase in stock price since its IPO, proving the fundamental rationale of NewCo's pitch to investors.

However, the IPO plan and assumptions leading to the valuation range were made in economically favorable conditions. By September 2022, the S&P500 was in a downward movement, and the number of IPOs was at a record low. This signals an unfavorable environment for raising equity at high valuations. Furthermore, the general economic downturn negatively affects clients' spending on consulting services, which puts NewCo's growth plans at risk. On the other hand, NewCo can also be viewed as an attractive investment opportunity in challenging markets with few other IPO investment opportunities.

The Corporate Index Effective Yield (**Exhibit 6**) increased from c. 2.7 to 5% from February to September 2022. This increases NewCo's cost of debt at approximately the same rate. The

borrowing costs of 17 to 18.5 billion USD to be raised in debt under the proposed deal structure directly affect NewCo's profitability and risk of financial distress.

General conclusion and recommendation

The literature concluded that top management's visibility, as well as joint incentives across the organization and perceived procedural fairness, is decisive for successful strategy implementation and alignment of management on a strategy (Kim & Mauborgne, 1991; Noble & Mokwa, 1999; Peng & Littlejohn, 2001).

Di Sibio is viewed as the architect of Project Everest within the firm and openly communicates the deal within the firm and with external stakeholders. Despite his efforts to create and promote an appealing vision of EY to its partners, the joint incentives necessary to create an alignment are only realizable in an IPO at a high valuation.

Considering the unfavorable economic conditions and their relevance to NewCo's IPO and post-IPO performance, a spin-off and listing around September 2022 is not advisable. The IPO performance is not expected to generate sufficient financial power to make concessions to audit partners to approve the split.

If the vote fails, Di Sibio's reputation as EY's global leader will be severely damaged as he could not create alignment in the firm to agree to his strategy. Despite Di Sibio's strong personal incentives in a deal (e.g., financial compensation, legacy as the leader that transformed EY, avoiding mandatory retirement age, the position of CEO of NewCo), with the approval of a deal being uncertain it is not advisable to put Project Everest up for a vote.

When turning to alternatives of Project Everest, it becomes apparent that EY requires stability and playability. This is to focus on the challenges that were the initial basis for the strategic review and to calm the turmoil of months of debate regarding Project Everest. Thus, further negotiations with private buyers do not seem sensible. The groundwork for increasing operational efficiency and separating audit and consulting services within EY was laid out during the project's process. The concepts and learnings can be utilized for resumed separation considerations when the external environment of EY is more favorable. Thus, it is advisable to postpone Project Everest to focus on daily operations and uniting EY's leadership after months of dissent and uncertainty.

Conclusion

Developing and analyzing the case provided deep insights into professional service firms' industry and their business models. As the Big Four are attractive employers for graduates, this is valuable for students contemplating their careers after university. Furthermore, the case fostered my awareness of the complexity of transformations in multiorganizational enterprises, which arise from the interconnectedness of organizational structure, business model, stakeholders, and macroeconomic factors.

The main challenge in working on the case was to focus on fundamental strategic issues and how academic concepts aid in analyzing them, given Project Everest's broad range of topics and issues.

Several topics appeared to be worth further investigation. Consideration of the impact of individual factors influencing the execution of Project Everest (communication, leadership, organizational structure, macroeconomic environment, and the strategy itself) appears to be an interesting field. Also, the competitive dynamics of considering a disrupting move in a mature and highly competitive industry.

Noteworthy aspects to follow surround the future of the Big Four industry. Project Everest, despite being called off, influenced the industry's leaders and left cracks in the foundation of EY's established organization. The plans developed under the Project will likely be pulled out of the drawer again in more favorable economic conditions. Time will show if the destiny of Big Four firms is in audit and consulting separated setups. The fundamental factors uncovered in the case and the success of Accenture's spin-off in 2001 clearly hint in this direction.

Appendix

Case Exhibits

Exhibit 1 EY financial and headcount figures from 2017 to 2022 (revenue in billion USD)

	2022	2021	2020	2019	2018	2017
Total People	365,399	312,250	298,965	284,018	261,559	247,570
Revenue by Service Line						
Assurance	14.4	13.6	12.8	12.7	12.5	11.6
Tax	11.2	10.5	9.8	9.5	9.0	8.2
Consulting	13.8	11.1	10.6	10.2	9.6	8.5
SaT ^a	5.8	4.8	4.1	4.0	3.6	3.1
Total	45.2	40.0	37.2	36.4	34.8	31.4
Revenue by Geography						
Americas	21.1	17.7	17.2	16.7	15.6	14.5
EMEIA ^b	16.8	15.7	14.2	14.1	13.9	12.2
Asia-Pacific	7.3	6.6	5.8	5.5	5.3	4.7
Total	45.2	40.0	37.2	36.4	34.8	31.4

Source: Company reports

^a Strategy and Transactions is a part of EY's consulting portfolio that provides operational transaction advisory services

^b Europa, Middle East, India and Africa

Exhibit 2 Big Four firms' total revenue from 2018 to 2022 (revenue in billion USD)

	2022	2021	2020	2019	2018
Deloitte	59.3	50	47.6	46.2	43.2
PwC	50.3	45	43	42.4	41.3
EY	45.2	40	37.2	36.4	34.8
KPMG	34.6	32.1	29.2	29.8	29

Source: Company reports

Exhibit 3 Revenue split per service line of Big Four firms, FY2022

	Audit & Assurance	Tax Services	Advisory
Deloitte	21%	18%	61%
PwC	38%	24%	38%
EY	34%	26%	40%
KPMG	37%	21%	42%

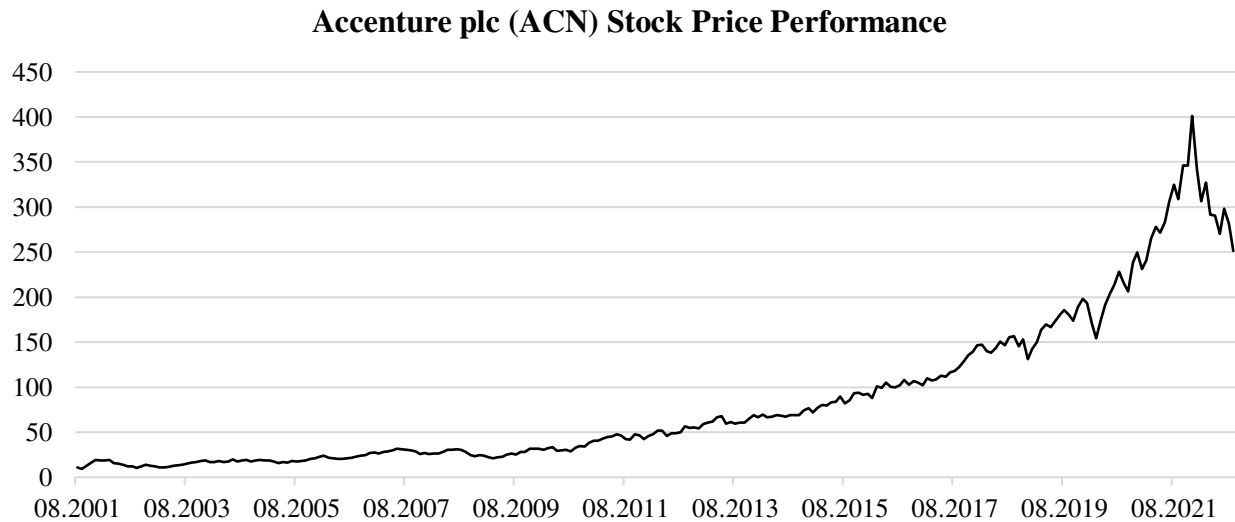
Source: Company reports

Exhibit 4 Financial and valuation metrics of comparable public consulting companies and expected figures for NewCO (revenue and market cap in billion USD)

	FY22 Total Revenue	FY22 EBITDA Margin	FY22 Market Cap	Revenue Multiple	EBITDA Multiple
Accenture PLC	61.59	20%	182.67	3.0	14.9
Tata Consultancy Services	25.26	27%	143.83	5.7	21.3
Infosys Ltd	16.03	25%	77.09	4.8	19.5
Capgemini SE	23.54	14%	29.17	1.2	8.9
Booz Allen Hamilton Corp.	8.36	11%	12.74	1.5	14.2
FTI Consulting Inc	3.03	13%	5.55	1.8	13.8
NewCo (base case)	24.00	16%	67.67	2.8	17.6
NewCo (optimistic case)	24.00	16%	77.67	3.2	20.2

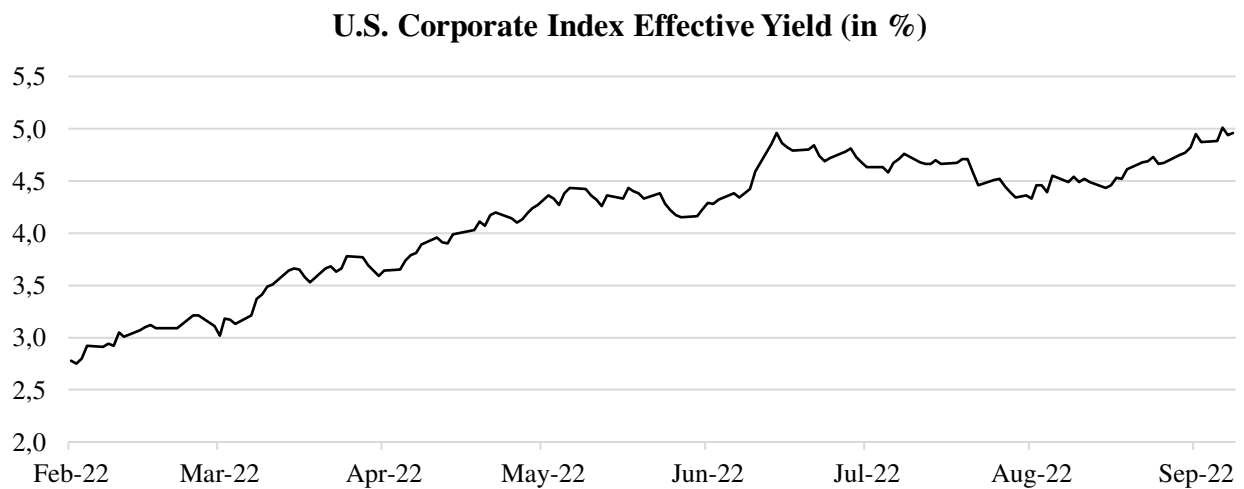
Source: Refinitiv data for comparable firms and EY figures for NewCo

Exhibit 5 Accenture plc (ACN) stock price performance from 2001 to 2022 (adjusted for stock-splits, in USD)



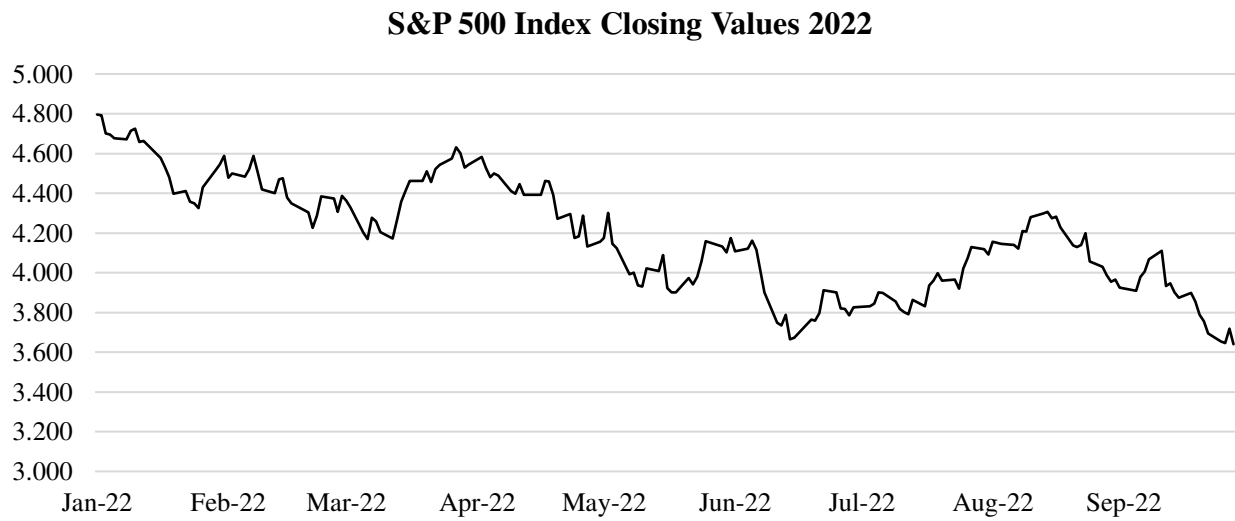
Source: CRSP data

Exhibit 6 U.S. corporate index effective yield for investment grade debt, 2022, monthly (in percent)



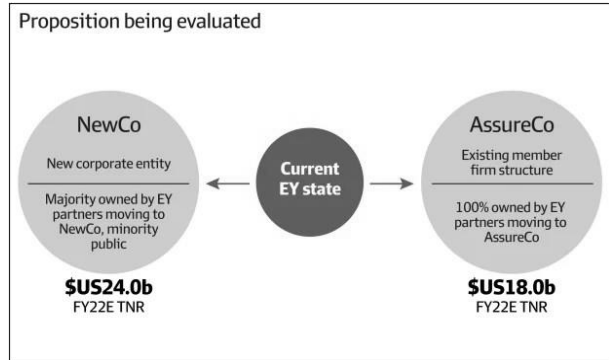
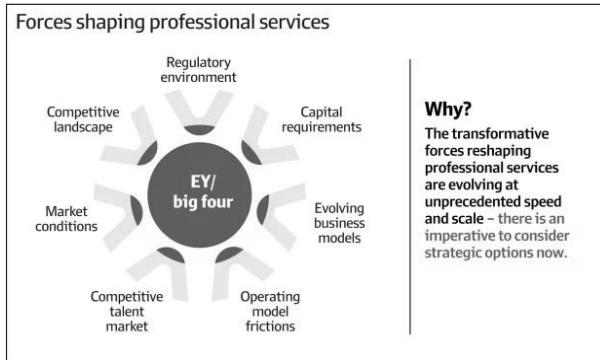
Source: Federal Reserve Economic Data, Economic Research Division – Federal Reserve Bank of St. Louis

Exhibit 7 S&P 500 index closing values in 2022

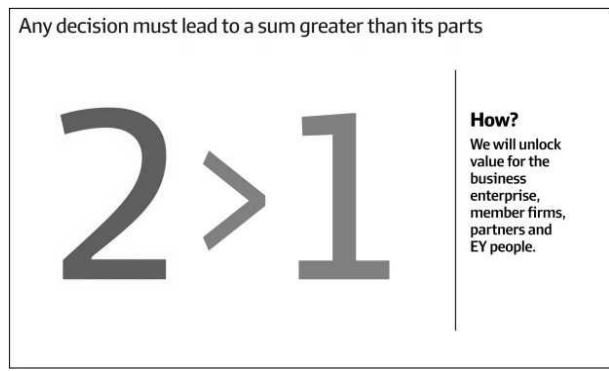


Source: Refintiv data

Exhibit 8 Pitch deck used for several internal calls to communicate Project Everest to EY's employees



- ### NewCo benefits and long-term value
- ▶ Corporate entity helping clients grow and transform and solving the most complex, challenging issues facing business and society.
 - ▶ Unique in the market, with a radically different approach that connects design and delivery at every step across advise, transform and operate.
 - ▶ Expand alliances and strategic partnerships.
 - ▶ Raise external capital to accelerate growth by investing in tech, solutions and people.
 - ▶ More acquisitive.

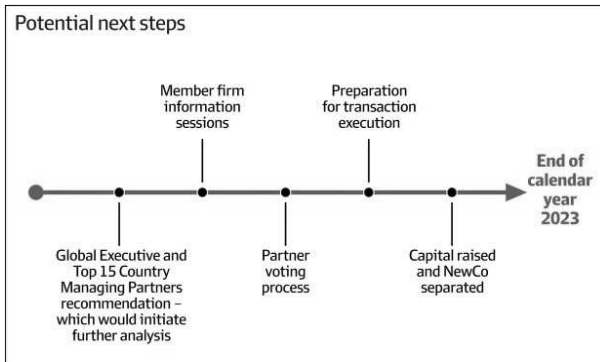


In summary: Building an even better working world

Enable trust and transparency across society	Help transform business and government to deliver better outcomes for all their stakeholders	We will pursue this if we believe we will unlock greater long-term value for all our stakeholders by becoming two purpose-led, standalone businesses.
Expand total addressable market with fewer independence restrictions	Growth through improved capital efficiency, focused investment, and better ability to acquire and divest	
[Create] stronger employee value proposition to attract and retain the best talent	Advance our best-in-class customer service and execution model	

What's in it for you?

Shape the future Boldly leading professional services Access to new clients	Build on our strengths Purpose Values Culture DE&I
Grow faster Number of promotes Faster promotions Mobility	Share in the rewards Pay Skill building Wellbeing



Source: EY company material. Retrieved from: Gonzales, A. 2022. Goingconcern.com.

<https://www.goingconcern.com/ey-consulting-audit-split-slides/>

Teaching Note Exhibit

Teaching Note Exhibit 1 Proceedings and events after the case

Project Everest was never actually put up for vote amongst EY's partners. By 2023, the plan was still heavily discussed within the organization and internal dissent regarding the leadership and deal structure was significant. Approx. Seven hundred million USD were spent on internal and external costs developing the project thus far (Foy & Foley, 2024).

Especially the US part of EY, which accounted for most of the firm's revenues, openly opposed the plan. In March 2023, the leader of EY's US operations, without aligning with EY's global leadership, announced that Project Everest, despite its advanced stage, would not proceed.

A range of concerns drove the opposition to Project Everest. These included doubts about the resilience of the audit-focused business, uncertainty about the viability of a NewCo IPO in a challenging economic climate, and the question of how the tax practice should be divided between AssureCo and NewCo.

Shortly after Project Everest collapsed, Di Sibio announced his retirement after a one-year transition period during which his successor should be appointed (Foley & O'Dwyer, 2023). The fallout from Project Everest's failure coincided with a general downturn in the consulting industry. EY was challenged to implement cost-cutting measures and restore unity within the firm and trust with its clients.

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