

THE YEAR AHEAD: 2023 IN ACCOUNTING

Building a foundation for the future

Accountants expect plenty of challenges over the next 12 months, but they're also making plans to move their firms forward.

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accountingTODAY

Introduction

In the heads-down, all-hands-on-deck environment of the COVID-19 pandemic, accounting firms found themselves working flat out just to keep their clients afloat and help them respond successfully to rapidly changing situations. As the sense of urgency abates somewhat, however, accountants have time to consider their own mid- and long-term challenges, and to face the difficult task of making plans about a very uncertain future.

Waves of disruptive technologies, major shifts in the demographics, nature and demands of the workforce, regulatory revolutions, changes in client expectations, and a host of other factors are radically altering how accounting firms operate, which services they offer, how they find and serve clients, what staff they recruit and retain, and much more. On top of that, rising inflation, a troubling economic situation and other short-term conditions mean that the near future is shaping up to be full of challenges.

And yet accounting firms of all sizes have raised their expectations for growth for 2023. Why?

To start, accountants have realized that they can do better than other organizations, even in the most difficult of economic environments. While growth rates shrank over 2020 and 2021, they stayed positive and firms had more work than they could handle.

More broadly, firms have begun to grapple with many of the perennial challenges they have been facing, from finding new ways to recruit and retain top talent (or to avoid needing talent in the first place), to embracing technology and – perhaps most importantly – pursuing a major shift from a compliance-first mindset to one that focuses primarily on higher-value advisory services.

This report explores the steps firms plan to take (and some that they're not planning, but possibly should take) as they look ahead to the next 12 months. These positive adaptations aim to lay a foundation for continued, and hopefully greater, success in 2023 and beyond.



Why read this report?

This report examines the growth strategies, service offering plans, practice management goals, major challenges and more of a representative range of accounting and CPA firms to offer useful benchmarks in planning for the next 12 months.

Key findings

- Accounting firms' expectations of growth suggest they expect a continued recovery from the drop in growth at the beginning of the COVID pandemic. Projected growth rates have shifted upward for 2023, with 47% of firms projecting growth at 6% or higher, versus 41% last year, and only 12% projecting flat or declining growth, versus 15% last year.
- While compliance services take up the largest share of accountants' time today on average, nearly half expect time spent on advisory services to grow in 2023 – but they expect to find that time largely from a reduction in time spent on administrative work.
- Recruiting and retaining good employees is a top challenge for accounting firms, with half expecting to hire new employees in 2023.
- Firms seem to have reached equilibrium in terms of where staff are working, with three-quarters saying that they expect the percentage of staff working remotely, hybrid or in the office to remain the same in 2023. And while 47% indicate a willingness to hire purely remote employees in the future, exactly the same number say they never have hired remotely in the past and never will in the future.
- Fewer than half of the professionals surveyed report their firm has a strategic plan and even fewer have a pipeline of prospective clients or a succession plan in place.
- Accounting firms spend an average of 21% of their budgets on technology and half expect spending to grow in 2023.
- Cannabis industry services are notably only offered or planned by 2-in-10 respondents, but that number more than doubles to 46% at firms with 100+ employees.
- Cybersecurity and price of technology top the list of technology challenges for accounting firms of all sizes. The largest firms are significantly more concerned about difficulties integrating legacy systems with new digital tools.

About this report

For accountants looking to lead their firms successfully into an uncertain future, one of the best guides they can use are the future plans, concerns and expectations of their peers across the profession. This report examines the growth strategies, service offering plans, practice management goals, major challenges and more of a representative range of accounting and CPA firms, offering useful benchmarks in planning for the next 12 months.

Research methodology

This research was conducted online between September 22 and September 23, 2022. A total of 340 accounting professionals completed this year’s survey. Previous-year comparison figures are drawn from Accounting Today’s 2022 Year Ahead survey conducted in late 2021.

Please note that the figures in some of the charts of this report may not always total to 100% due to rounding or multiple choice answers.

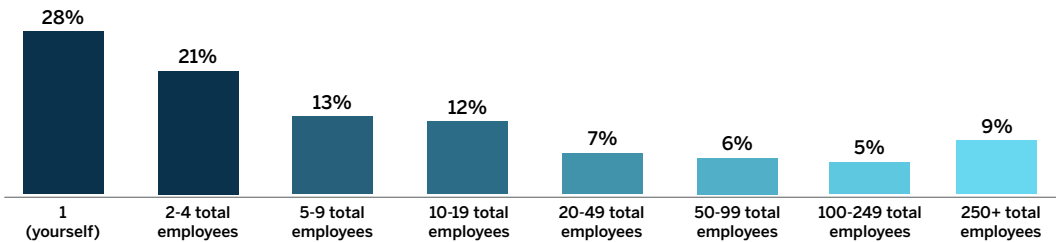
Respondent profile

The composition of the research cohort reflects the accounting profession as a whole, highlighting one key fact: the majority of firms are very small businesses, with just over half having only one partner.

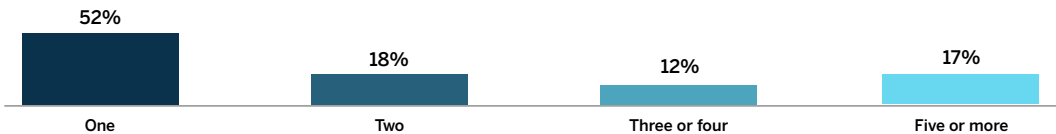
What kind of firm are you employed by?



Including yourself, how many full-time employees are employed by your firm?



How many partners does your firm have?

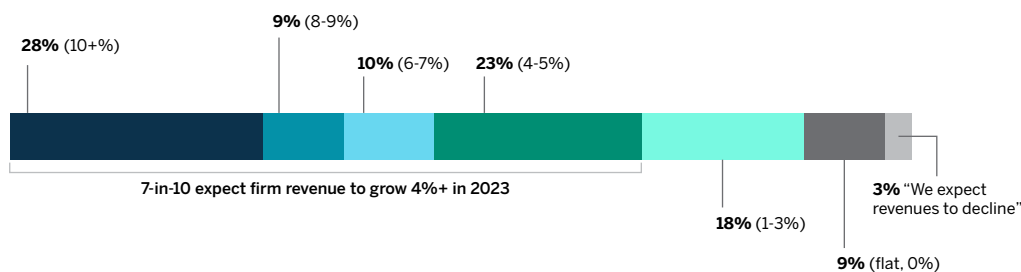


Expecting a better year

A key element of firms' plans for the next year is their expectation of how successful they'll be – and as it turns out, they are somewhat more confident about 2023 than they were about 2022.

With the pandemic waning (or at least beginning to have a less drastic impact on the economy), accounting firms' growth projections are shifting into a slightly higher gear. It's not a wholesale rush to boom times by any means, but it suggests that they expect the profession will continue to make up the momentum lost in 2020 and 2021, when the average growth rates for the top 100 firms, for instance, were cut in half, dropping from roughly 8% to roughly 4%. Fully 70% of this year's respondents expect growth of 4% or more, and 47% expect growth of 6% or more in 2023 (see Figure 1).

Figure 1: Accounting firms expect strong growth in 2023

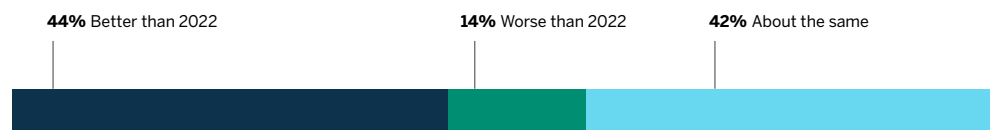


Source: Arizent, The Year Ahead Accounting Survey, 2022
Base: Total Respondents n=340

Question: By what percent do you expect your firm's revenue to grow in 2023?

Accountants are also expecting a somewhat happier tax season, with survey respondents slightly more optimistic going into 2023 than they were going into 2022 – no doubt hoping that the fading away of pandemic relief programs will mean fewer tax return complexities and, hopefully, a more responsive Internal Revenue Service (see Figure 2).

Figure 2: The majority of firms expect the 2023 tax season to be the same or better than last year



Source: Arizent, The Year Ahead Accounting Survey, 2022
Base: Total Respondents n=340

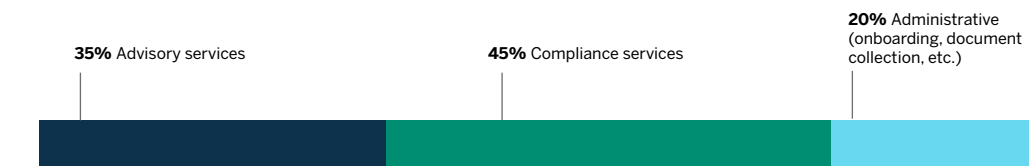
Question: Do you expect the tax season in 2023 to be better than , the same or worse than 2022?

47% indicate a willingness to hire purely remote employees in the future

Advisory: The foundation of the future

While accountants have long prided themselves on their role as their clients' most trusted advisor, the core of their work has often been compliance-driven, revolving around regulatory mandates and tax deadlines (see Figure 3).

Figure 3: Compliance plays a major role in accounting firms' services
Average percent of time spent in each area

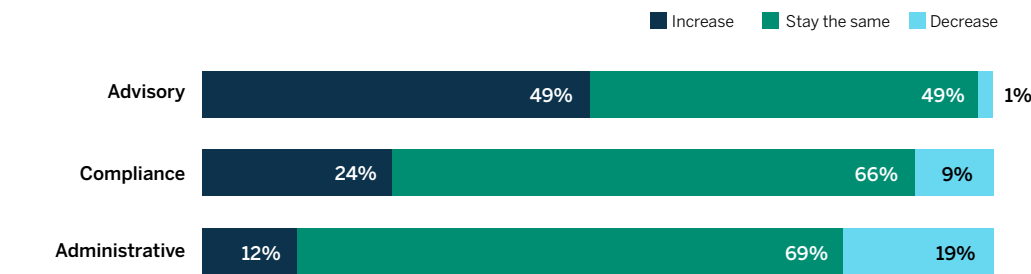


Source: Arizent, The Year Ahead Accounting Survey, 2022
Base: Total Respondents n=340

Question: Thinking about the time you spend serving clients, how much is spent in each of the following areas?

That compliance work, however, is being increasingly commoditized by technologies like robotic process automation and, even more, artificial intelligence. With that in mind, more firms are switching to an emphasis on advisory services, which tend to both offer more value to clients and be more profitable for firms. Firms increased their time spent on advisory work in the past year, and fully half of them expect to increase it again in 2023 (see Figure 4).

Figure 4: Half of firms expect to spend more time on advisory services in 2023



Source: Arizent, The Year Ahead Accounting Survey, 2022
Base: Total Respondents n=340

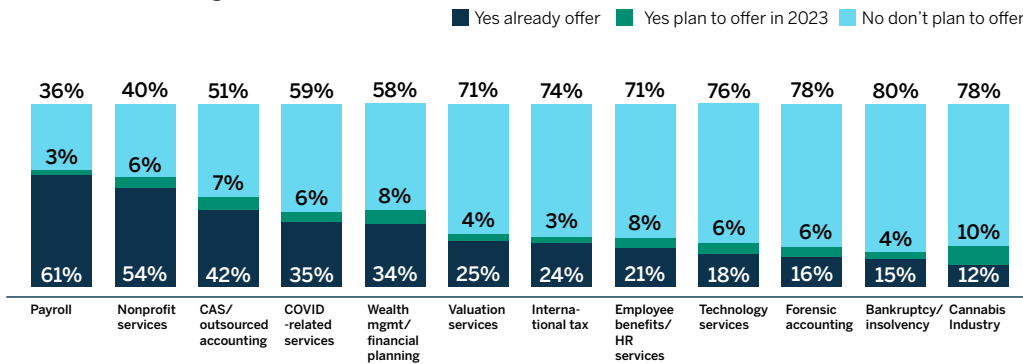
Question: How do you expect the amount of time you spend doing each of the following activities to change in the coming year?

Commoditization doesn't mean that compliance work isn't growing; in fact, the demand for it is increasing (think of the many government programs rolled out during the pandemic where businesses needed their CPAs' help to comply). So, accounting firms don't expect to decrease the amount of time spent on compliance – in fact, a quarter (24%) expect to increase it. Where they hope to make up the time is through cutting back on administrative work, via measures such as streamlining onboarding and using technology to automate data transfers.

13% of respondents expect their firm to acquire a competitor in 2023

Of course, saying that accountants are building up their advisory services begs the question which services, exactly, they're offering (see Figure 5). Of the top three services, payroll and nonprofit services are largely compliance-based and have long been staples of the accounting profession. But CAS is relatively new, having grown to prominence only in the last five years or so – and it perfectly reflects the growth in more consultative services, as the definition morphs from Client Accounting Services to Client Advisory Services. The rest of the list is heavy with advisory offerings, from perennials like wealth management to relatively new – and fast-growing – areas like benefits and HR services, and technology services.

Figure 5: Accounting firms most often offer payroll, nonprofit and CAS services today



Source: Arizent, The Year Ahead Accounting Survey, 2022
Base: Total Respondents n=340

Question: Does your firm have, or plan to add in 2023, any of the following service lines or industry specializations?

More plans for 2023

Accounting firms are laying the foundations for long-term success by building up their advisory services, but they are also making more immediate plans to see their way through 2023. To grapple with the enormous amount of work coming their way and the workload compression caused by ever-tighter deadlines (and ever-later client deliverables), slightly more than half of them are looking to hire full-time staff (and many more are turning to part-timers) (see Figure 6).

Figure 6: Half of firms expect to hire new employees in 2023



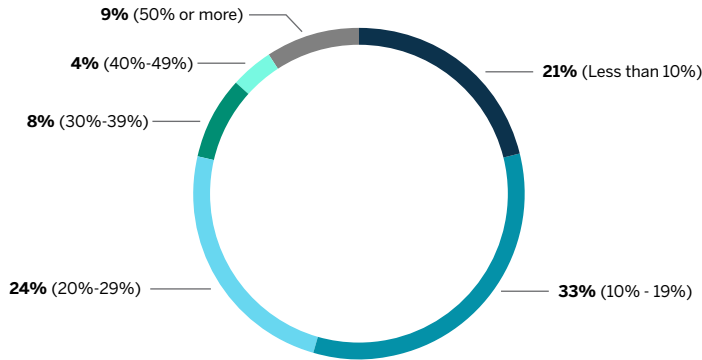
Source: Arizent, The Year Ahead Accounting Survey, 2022
Base: Total Respondents n=340

Question: To the best of your knowledge, how many full-time staff does your firm expect to hire in 2023?

14% of respondents expect their firms to undergo a leadership change in 2023

Finding new staff, however, remains an enormous issue for the profession (one that's only become worse in the past few years) and that's one reason that accounting firms have been turning to technology to help automate as much of their work as they can (see Figure 7). But it's not just a defensive move: new solutions are allowing firms to unlock and enhance new advisory services, too.

Figure 7: Accounting firms spend 21% of their budgets on technology on average

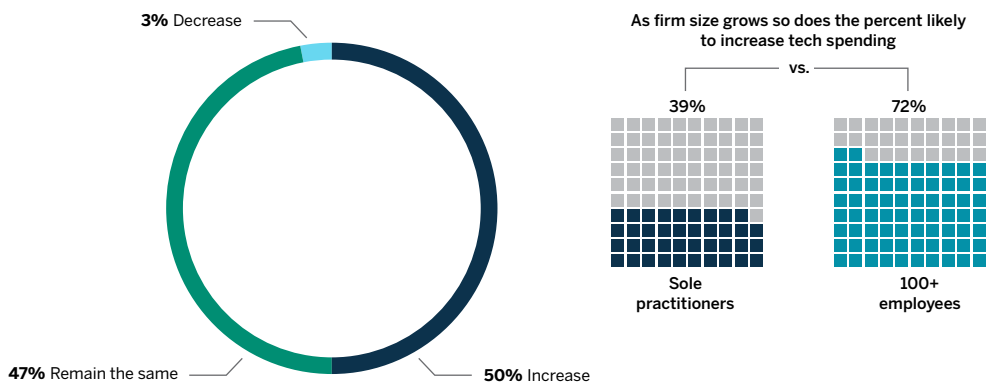


Source: Arizent, The Year Ahead Accounting Survey, 2022
Base: Total Respondents n=340

Question: What percentage of your firm's budget goes to technology?

That's why fully half of the firms surveyed plan to increase their spending on technology in 2023 – and the number is even higher for larger firms (72%), where the move to higher-value and tech-enabled services is often furthest along (see Figure 8).

Figure 8: Half of firms expect to increase their technology spending in 2023



Source: Arizent, The Year Ahead Accounting Survey, 2022
Base: Total Respondents n=340

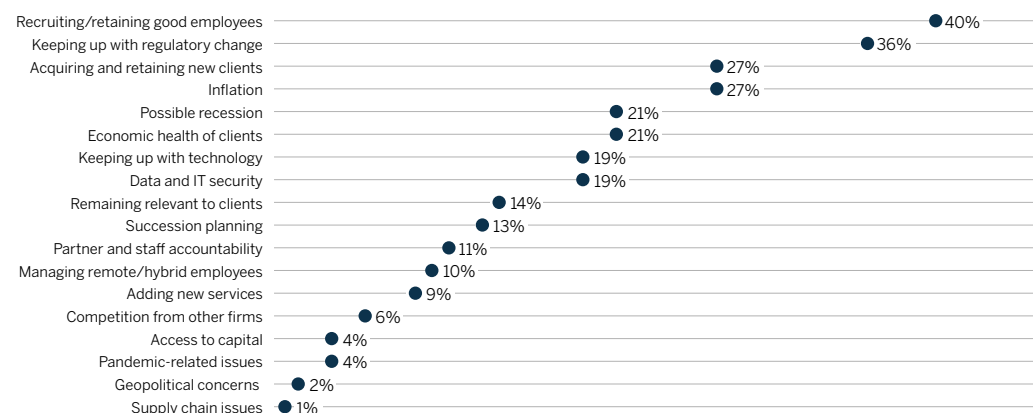
Question: How will your technology spending change in 2023?

69% report that price is the biggest barrier to switching technology brands

Challenges old and new

As firms make plans to navigate the future, however, they face a mix of perennial challenges and brand-new hurdles that are impeding their progress both now and in the long-term (see Figure 9).

Figure 9: Talent is the top challenge for accounting firms followed by keeping up with regulatory change, new client acquisition and inflation



Source: Arizent, The Year Ahead Accounting Survey, 2022
Base: Total Respondents n=340

Question: What are the top three biggest issues facing your firm in 2023?

Finding employees with the right skills to staff complex new advisory engagements, for instance, is a major problem due to the most commonly cited challenge that firms face: the war for talent. This has plagued the profession for more than a decade and only intensified during the Great Resignation.

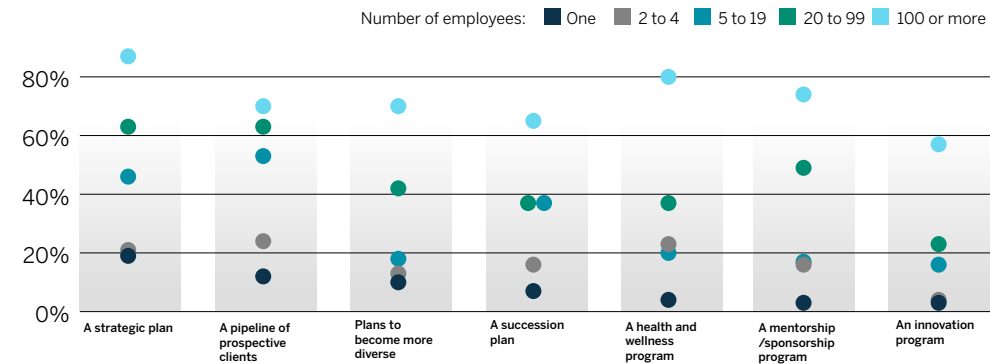
Firms are also hampered by their need to keep up with regulatory change, which is coming at a faster pace than ever before and covering a broader range of areas, from traditional ones like the Tax Code and U.S. GAAP, to new ones like the Securities and Exchange Commission's proposals around climate disclosures. Keeping their technical skills up to snuff on all these regulatory regimes is a constantly moving and ever-receding target.

The retirement of their baby boomer clients and firms' moves into new service areas are making the continual pursuit of new clients one of the top three challenges for firms of all sizes. This exemplifies another problem in the profession: a tendency not to plan strategically, particularly smaller firms.

Less than a quarter of the smaller firms in this year's survey have a formal pipeline of client prospects in place; less than a quarter of them have strategic plans; and less than a fifth have succession or exit plans (see Figure 10). With competition for clients fiercer than ever and a significant majority of firm owners looking to retire over the next decade, this failure to plan may have serious repercussions. To be fair, the larger firms get, the more likely they are to have these kinds of strategic plans in place, but as noted, the vast majority of firms are relatively small.

65% of firms with 20 or more employees report recruiting is a top challenge

Figure 10: Larger firms are more likely to have strategic plans and prospect pipelines

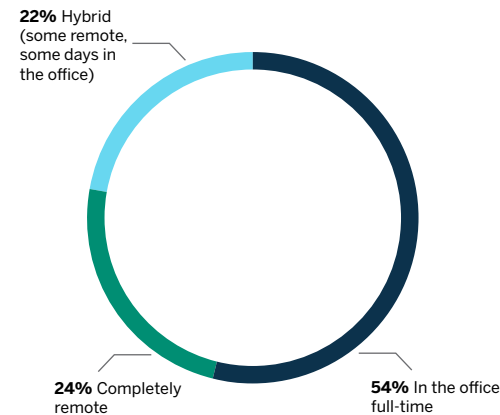


Source: Arizent, The Year Ahead Accounting Survey, 2022
Base: Total Respondents, One employee n=94; 2-4 n=70; 5-19 n=87; 20-99 n=43; 100+ n=46

Question: Does your firm currently have, or plan to implement in 2023, any of the following programs?

One challenge of more recent vintage that firms have been grappling with is how to handle a remote workforce – a problem that sprang up literally overnight in March of 2020 and has been bedeviling managers and partners ever since, as they struggle with making sure remote staff are productive and try to figure out if and when to bring them back into the office. A full 46% of staff are now either completely remote or working in a hybrid environment – numbers that would have been unthinkable just three years ago (see Figure 11). The one consolation managers and firm leaders can take is that the new configurations seem to have stabilized, with approximately three-quarters of those surveyed saying they expect them to stay the same in 2023 (see Figure 12).

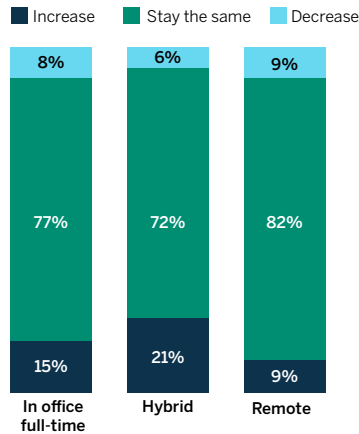
Figure 11: One quarter of firms operate solely on a remote basis



Source: Arizent, The Year Ahead Accounting Survey, 2022
Base: Total Respondents n=340

Question: With the total summing to 100% of your staff, what percent of your employees are working in each scenario?

Figure 12: Three-quarters of firms expect their in-office, remote and hybrid policies to stay the same in 2023

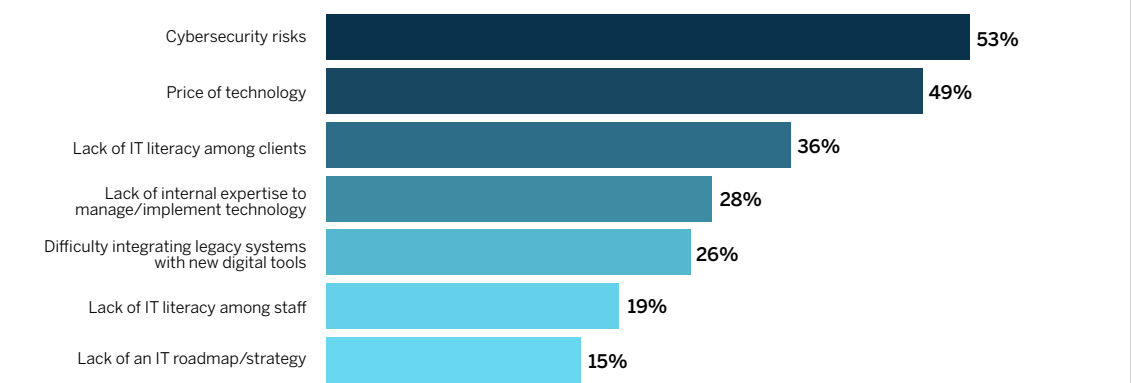


Source: Arizent, The Year Ahead Accounting Survey, 2022
Base: Total Respondents n=340

Question: How do you expect the number of workers in each situation to change in 2023?

Finally, as much as technology is helping firms manage staff shortages and supporting new service lines, it brings its own problems. Given the vast amounts of client data they have access to, accountants are a natural target for hackers, so it's no surprise that cybersecurity is a top concern, while the technology investments firms feel they need to make to keep up with the future direction of the profession explain why cost is their second biggest concern (see Figure 13).

Figure 13: Cybersecurity and cost top the list of technology challenges for accounting firms of all sizes



Source: Arizent, The Year Ahead Accounting Survey, 2022
Base: Total Respondents n=340

Question: What are the top technology challenges facing your firm in the coming year?

Conclusions

- Accountants are expecting a somewhat better year in 2023, with a shift upward in their growth expectations and plans for more hiring and increased technology spending.
- Accounting firms are looking to increase their focus on advisory work, but mainly by streamlining or otherwise lowering the burden of administrative tasks, not by moving away from compliance.
- The new hybrid work environment seems to have stabilized, with roughly half of accounting firm staff either entirely or partly remote. By and large, firms aren't expecting that breakdown to change, though about one-fifth (21%) say they may see an increase in employees choosing a hybrid work environment.
- While accountants are somewhat concerned about inflation and how their clients will weather the economic storm in the next 12 months, their primary concerns remain the war for talent and keeping up to date on regulatory changes, both areas that are getting harder and harder.
- Accounting firms remain behind the curve when it comes to strategic and other long-term planning. Only two-fifths (41%) have a strategic plan; even fewer have a succession plan (28%), a formal pipeline of client prospects (39%) or an innovation program (16%).
- Outside of traditional tax, audit and accounting services, payroll and nonprofit services are the most common accounting firm offerings, followed by CAS.

How to move forward

- As more and more compliance work is commoditized, accounting firms should examine their service mix to see how much is focused on advisory work.
- Firms that haven't instituted formal strategic plans, succession plans and prospect pipelines should look at formulating them for 2023.
- Technology budgets and priorities need to be assessed on a regular basis to make sure firms are investing enough in the right areas.
- As much as half of staff choose to work remotely at least part of the time and firms need to make sure they're supporting that.
- With no end in sight to the staff shortages plaguing the profession and the capabilities of technology growing constantly, firms should explore automating as much of their work as possible.



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