

Hartford Business Journal

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February 6, 2023 **FOCUS: ACCOUNTING**

Accounting firms struggle to attract, retain talent as tax season opens

By Matthew Broderick, Hartford Business Journal Contributor

In early January, Drew Andrews, managing partner and CEO of Hartford-based accounting firm Whittlesey, made an unusual hire — he added a remote employee in California to his 160-person staff.

It's a decision, Andrews said, that would have seemed inconceivable for a regional firm like his five or 10 years ago.

The move, however, is not simply a recognition of an increasingly remote workforce, but also reflects a broader trend of labor shortages impacting the accounting industry.

More than 300,000 U.S. accountants and auditors have exited their jobs in the past two years, a 17% decline, U.S. Bureau of Labor Statistics numbers show. The exodus

has been driven by more than retiring Baby Boomers; young and mid-career professionals — ages 25 to 34 — have been leaving accounting as well.

Demanding hours, increasing complexity of tax law changes and more desire for work-life balance — especially among early-career employees — have all been contributing factors in the sector's workforce woes.

“Our business is still very hours-driven, particularly during the busy (tax-filing) season,” Andrews said.

Industry shift

But as this year's busy season kicked off in January — and runs through the April 18th tax-filing deadline — firms are hard-pressed to secure the staff necessary to meet the demand.

As of November 2022, there were more than 177,000 accounting and audit roles posted, the highest number of openings since 2008, according to workplace data provider Revelio Labs Inc.

On average, data shows, those roles took 56 days to fill, more than 20% longer than the previous year. A survey of U.S.-based companies by HR consultancy Robert Half International found that 87% of respondents said it was increasingly difficult to find talent for general accounting, financial reporting and financial planning.

Those trends have placed a premium on labor costs as accounting firms compete for workers.

“(The industry) is seeing increased pay, signing bonuses, more flexible work environments and remote work,” said Michael Brooder, managing partner of national accounting firm Marcum’s Hartford office.

Earlier this month, KPMG — one on the Big Four U.S. accounting firms, which has a downtown Hartford presence — announced it was earmarking \$160 million to adjust salaries upward to retain its 35,000-person workforce. Those types of financial incentives — more easily absorbed by larger industry players — have made it harder for small- to mid-sized local and regional accounting firms to acquire new talent.

That — in addition to a shift by many accounting firms from more transactional tax-related work to business consulting services — has accelerated the industry’s consolidation trend, Brooder said.

“As firms evolve to more consulting, many don’t have the resources to fund or start up those services that their clients are looking for,” he said.

In the last six months, according to Brooder, Marcum has completed acquisitions of smaller firms in New Hampshire and Maine. Increasingly, mergers and acquisitions are as much about securing talent as they are about growing revenue.

It’s a trend that’s likely to continue as the pipeline of next-generation talent to replace retiring Baby Boomers is slowing.

Between 2012 and 2020, the number of U.S. college students earning a degree in accounting decreased nearly 9%, according to the Association of International Certified Professional Accountants.

One factor in the drop-off is the additional education and costs required to earn a certified public accountant license, which accounts for 30-credit hours — roughly the equivalent of a fifth year of college — and can cost thousands in tuition and fees.

U.S. ACCOUNTANTS AND AUDITORS

2021 MEDIAN PAY: \$77,250 per year, \$37.14 per hour

TYPICAL ENTRY-LEVEL EDUCATION: Bachelor's degree

NUMBER OF JOBS, 2021: 1,449,800

PROJECTED EMPLOYMENT CHANGE, 2021-31: 81,800

PROJECTED EMPLOYMENT CHANGE %, 2021-31: 6% growth

Source: U.S. Bureau of Labor Statistics

John Turgeon, partner and managing director at CPA firm CohnReznick in Hartford, which has 4,000 employees nationwide, including 250 in Hartford, said part of the challenge the industry faces is the need to rebrand itself.

“Oftentimes, people look at the accounting profession as taxes and audits,” he said. “And those are core services, but we do way more than that.”

With a greater focus on value-added consulting services, the sector — and roles — have changed dramatically since Turgeon started his career 40 years ago, he said.

“We offer services including cybersecurity, government contracting and technology,” Turgeon said.

Rising costs

Like many sectors of the economy, the accounting industry is also being transformed by the role of technology, which is fast replacing many of the historic entry-level roles that first- and second-year employees would have performed.

But in a sector that's driving value through relationship and advisory support, Turgeon said, routine tasks like data crunching are most efficiently – and cost effectively – performed through AI technology.

But technology upgrades are an additional expense that can be burdensome for smaller firms forced by labor market demands to pay a premium for talent.

Glastonbury-based regional accounting firm MahoneySabol LLP, has scaled back some expenses by reducing its office footprint by 40% in light of its remote workforce, and is creating more shared office space, according to firm co-founder Michael Sabol.

Sabol said the inflationary pressures combined with the shortage of available staff is making accounting firms more selective in taking on new clients – and forcing firms to pass along higher fees.

“The cost of (accounting) services across the board is going to keep going up,” he said. “And you’ll see smaller firms [merging] together and larger firms buying smaller ones.”

The labor crunch and need for capital to invest in talent and technology has opened up accounting to a growing interest from private equity firms, with one of the first such deals closing in 2021.

That's when TowerBrook Capital Partners purchased an ownership interest in New York CPA firm EisnerAmper LLP.

It's a new wrinkle in an industry that Andrews said has changed a lot during his nearly 40-year career.

"I think we'll see more change in the industry in the next three to five years than we've seen in the last 40," Andrews said. "The key for the profession and for firms is adaptability to change."