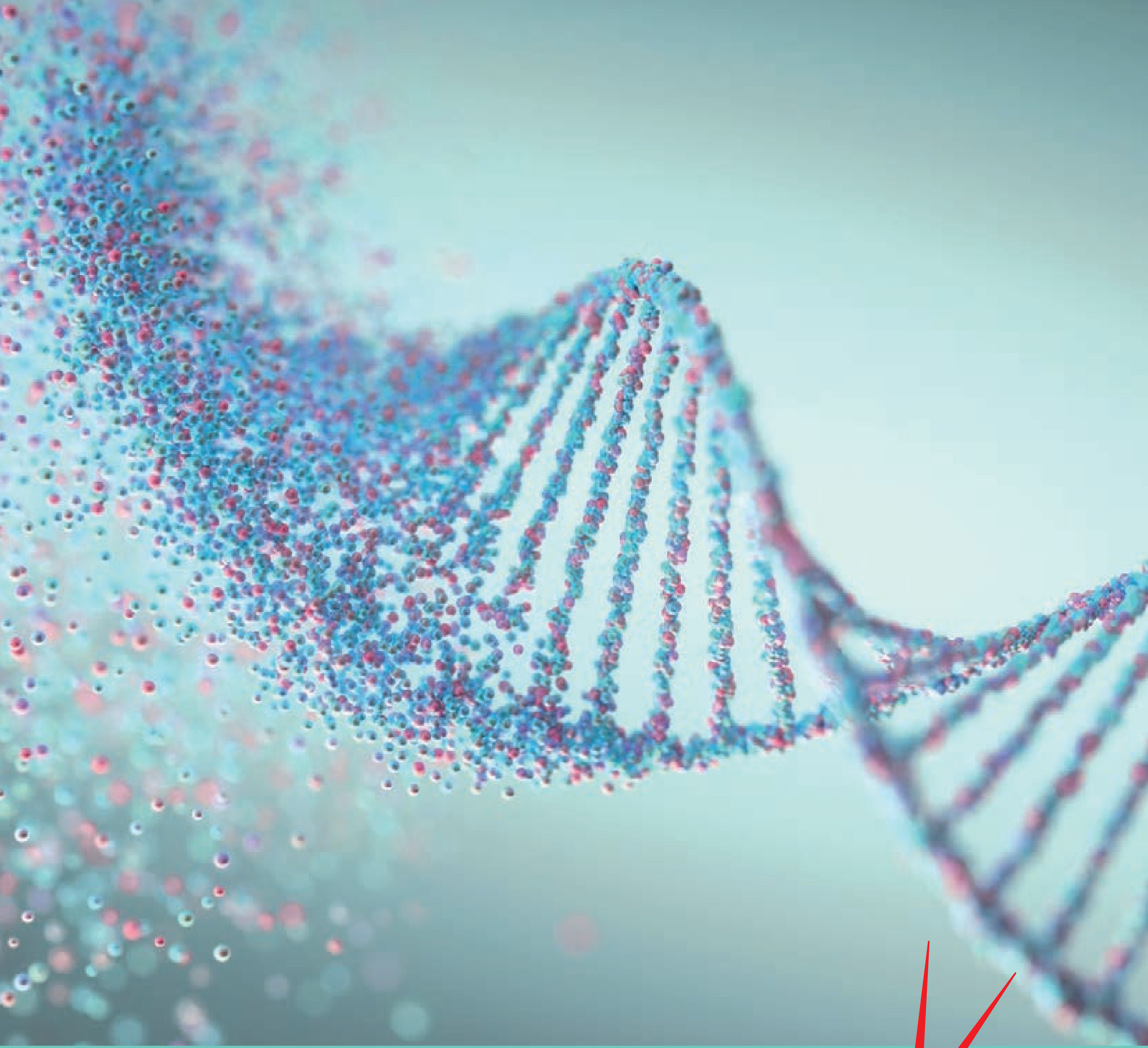

EVOLUTION OF MID-TIER ACCOUNTANCY FIRMS

2024 RESEARCH FINDINGS

ICAEW

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CHIEF EXECUTIVE'S FOREWORD

The global economy is under enormous pressure. Against a backdrop of intense geopolitical instability, a focus on the environmental and social impact of organisations' actions and the continued hangover from the COVID-19 pandemic, businesses need support and guidance. At the heart of providing this are ICAEW Chartered Accountants, who advise more than three million businesses across the UK.

ICAEW regulates around 11,500 firms, the majority of which are small practices and sole practitioners. Mid-tier firms – those with 11-249 partners – comprise around 100 ICAEW member firms, nestled between the Big Four and the rest of the market.

These firms provide a critical service, supporting and advising a diverse range of SMEs across the country. Their success contributes to economic recovery and supports the strengthening of trust in the wider profession. With this in mind, ICAEW commissioned research to understand the current and future state of these firms – which is summarised in this report.

We invited managing partners from UK-based mid-tier firms to take part in the research between November 2023 and January 2024. Based on 42 responses, we captured information about operating models, service lines and key opportunities and challenges – providing a snapshot of today's landscape and insight as to how it may evolve in the future. We are extremely grateful to all respondents for their engagement and to everyone who has supported this project.

I have welcomed the opportunity to meet with many of our members working in the mid-tier, to learn how they are playing their part in restoring trust, strengthening the economy, and supporting businesses and their owners. I recognise the vital role these firms play as trusted business advisers.

This research is just the beginning. The findings will inform and shape ICAEW's role in supporting firms and their clients. I hope this report also helps firms to better understand their position within the market and generates discussion and debate around some very topical issues.

Alan Vallance

Alan Vallance
Chief Executive

EXECUTIVE SUMMARY

Chartered accountancy firms have long served as trusted advisers to businesses, but they also have their own unique set of challenges. Today, they must adapt and evolve just like any other business. However, they face the additional challenge of doing so while ensuring they continue to meet the needs of their clients.

Given the many factors impacting our profession, this seemed an opportune moment to pause and reflect. By commissioning this research, we have provided an opportunity for firms to share their thoughts on the key issues impacting the sector now and what these mean for the future. Acknowledging that some of these challenges are felt more acutely depending on firm size, our first area of focus was the mid-tier.

Managing partners from more than 100 firms with 11-249 partners were invited to participate in the research, and we received responses from 40% of them. Among the respondents were a range of firms: 40% had between 11 and 20 partners, and the remainder had more than 20 partners. This wide range of participation allowed us to gather valuable insights into the trends and dynamics shaping mid-tier firms.

The research highlighted five key themes shaping the future of accountancy firms:

- Firm structure and operational model
- Leadership and culture
- Talent
- Technology
- Financial performance and service lines

"We have provided an opportunity for firms to share their thoughts on the key issues impacting the sector now and what these mean for the future"

Firm structures are evolving rapidly, with growth through mergers and acquisitions (M&A) occurring for nearly half of firms in the recent past, and more than half looking to pursue this activity in the next three years. This ongoing activity means that firms counted in this tier are in a perpetual state of flux. M&A has been a popular mechanism to help many firms satisfy their 'growth-led' culture. Some firms are embracing private equity investment, seeking capital and strategic partnerships to fuel growth and innovation. Other firms see an opportunity to distinguish themselves by remaining independent and growing organically. The emergence of private equity in the profession has polarised opinions, but it appears set to remain part of the range of structures operating in the mid-tier.

Leadership continues to be a cornerstone of success in the accounting profession, with a collaborative and a client-centric approach emerging as important to firms. Commercially astute and adaptable leaders are highly regarded providing the agility that enables firms to navigate complex challenges and seize opportunities.

Talent is the top challenge currently facing the mid-tier, with attraction and retention of qualified staff being the largest concern, and recruitment of trainees a secondary issue. The importance of future-proofing the skills of chartered accountants was recognised by firms, largely driven by changes in technology and the increasing breadth of work that they are likely to be required to perform. Firms recognise that they must be an attractive place to work. Nearly one-third of firms described their culture as 'caring' and while firms indicate a shift to more time working onsite, the majority still see hybrid working as the norm in the future. Investments in technology, offshoring and outsourcing initiatives can potentially help to address talent shortages and enhance operational efficiency.

Technology provides significant opportunity for the profession, but firms are cautious in their approach. In respect of technology adoption, most firms identify as being in the early majority of adopters, yet no firm describes themselves as an innovator, nor the firm culture as 'tech savvy'. All respondents had made investments in technology in the past three years, which were overwhelmingly perceived as worthwhile. There is strong commitment to invest further in the next three years, with a discernible shift towards investment in bespoke and AI-driven technologies, reflecting a strategic emphasis on tailored client solutions and operational excellence.

Service line offerings are expanding in breadth, and this presents opportunities and challenges for accountancy firms. While traditional service lines, such as tax, audit and accounting remain fundamental offerings, emerging areas, including environmental, social and governance (ESG) and tech app advisory services, are gaining prominence. By diversifying their service offerings, firms can position themselves as strategic partners to their clients, providing holistic solutions that address their evolving needs and contribute to sustainable growth and long-term success. There is, however, a disconnect with ESG. Firms recognise the growing demand to provide support to their clients, but less than half are taking ESG considerations into account in their own decision-making processes and none see this as a key cultural component of their firm.

Mid-tier accountancy firms stand at a pivotal juncture, poised to capitalise on emerging opportunities and address evolving challenges. By embracing change, fostering strong leadership and leveraging technological innovation, firms can navigate the complexities of the current economic landscape and emerge as strategic partners to their clients. As the profession continues to evolve, the demand for the expertise and professional services provided by chartered accountants remains robust, reaffirming the profession's role as a catalyst for positive change and sustainable growth in a dynamic global economy.

A NOTE FROM THE AUTHOR

Kat Hearn, Senior Technical Manager, Practice

I hope that the insights gleaned from this research will serve as a valuable resource for mid-tier firms as they navigate the complexities of the evolving market landscape. By offering a comprehensive analysis of key trends and challenges facing the profession, ICAEW aims to empower firms to assess their position, identify opportunities and understand how other mid-tier firms plan to evolve. I hope these findings will inform strategic decision-making, foster innovation and, ultimately, contribute to the continued success of firms in the mid-tier.

Working within the Practice Team at ICAEW provides me with an opportunity to shape the support and resources available to all our members in practice. It's incredibly rewarding to be part of an initiative that directly impacts and enhances the journey of our members and member firms.

If you would like to discuss our methodology or findings further, please contact me at kat.hearn@icaew.com

"By embracing change, fostering strong leadership and leveraging technological innovation, firms can navigate the complexities of the current economic landscape"

1. FIRM STRUCTURE AND OPERATIONAL MODEL

THE CURRENT LANDSCAPE

The enduring popularity of Limited Liability Partnerships (LLPs) for accountancy firms remains prevalent, with 71% of those surveyed confirming it was their firm's current structure. Most firms (90%) also had a well-established relationship with an alliance, association or network.

The research findings also confirm how active the mid-tier has been in respect of mergers and acquisitions in recent years and the reality of a new trend – the rise in firms opting to secure private equity (PE) investment. (See charts 1.1, 1.2)

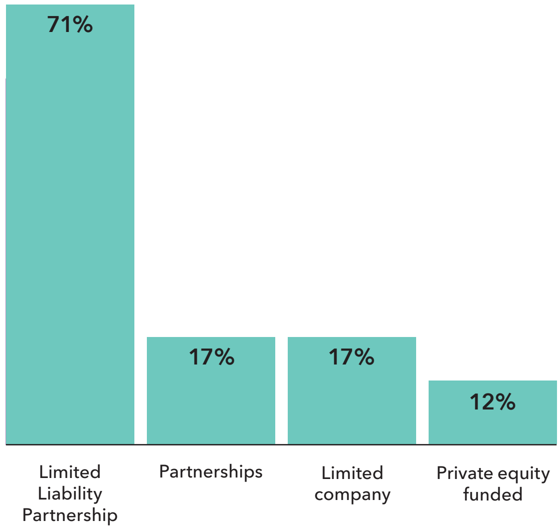
ICAEW LENS

David Franklin, Managing Director Belonging and Support

Alliances, associations and networks provide a great forum for like-minded firms to gain insights into the profession and stay at the forefront of change. It is not easy leading any organisation, but it is encouraging to see that the mid-tier firms are leveraging these affiliations to reap the same benefits that the larger firms obtain through their own global networks.

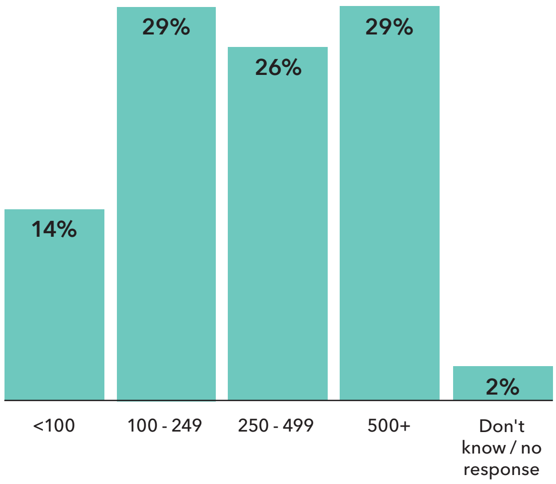
FIRM STRUCTURE

1.1 FIRM LEGAL STRUCTURE*



*A number of respondents selected a combination of structures meaning the responses total more than 100%.

1.2 FIRM SIZE BY NUMBER OF EMPLOYEES



ALLIANCES, ASSOCIATIONS AND NETWORKS

Belonging to an alliance, association or network can yield numerous benefits, ranging from knowledge sharing and professional development to business opportunities and industry influence. (See charts 1.3, 1.4)

When asked, 90% of firms confirmed they belong to an alliance, association or network. For the most part, these are long-standing affiliations, with just 10% entered into in the past three years. With only 5% of these firms looking to join a new arrangement in the next three years, the findings would suggest that firms are satisfied with their existing provision.

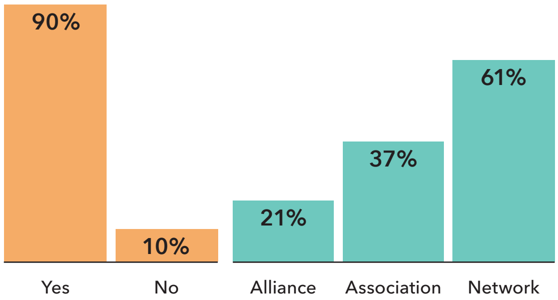
Of the firms belonging to an alliance, association or network, 5% belong to a combination of two types of arrangements, and a further 5% belong to all three. No firm, however, indicated that they belong to multiple arrangements of the same type, suggesting that the values and benefits derived from each may differ. Overwhelmingly, respondents agreed that the main benefits of these affiliations were global reach and client referrals. Of the 93% of firms that reported growth in their client base in their most recent financial year, 14% of this new work originated from a referral from an affiliate relationship.

90%

of firms confirmed they belong to an **alliance, association or network.**

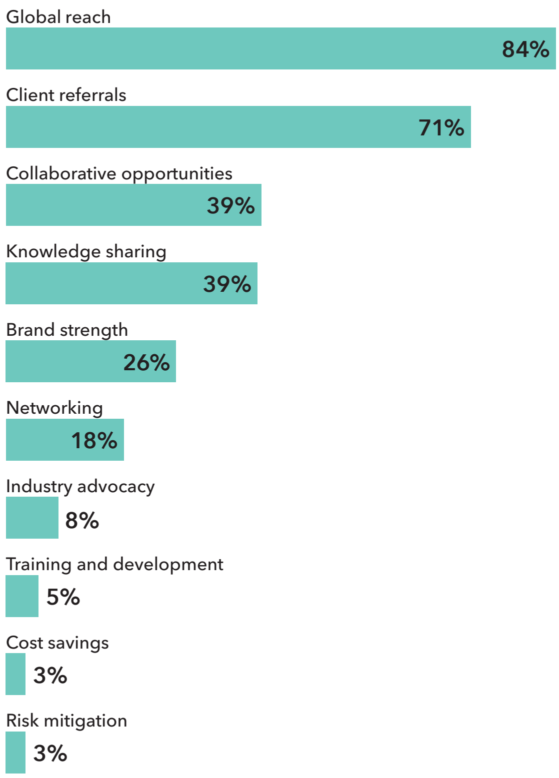
BELONGING TO AFFILIATIONS

1.3 FIRM AFFILIATION WITH ALLIANCES, ASSOCIATIONS AND NETWORKS*



*Some firms belong to multiple arrangements hence results do not add to 100%

1.4 MAIN BENEFITS OF AN AFFILIATION



MERGERS AND ACQUISITIONS

Mergers and acquisitions (M&A) present significant opportunities for growth and expansion within the profession, allowing firms to combine resources, expertise and market presence. Several transactions in the past 12 months have been documented in the press with firms either consolidating smaller practices or acquiring divisions or regional offices of other mid-tier firms. (See charts 1.5, 1.6)

While some accountancy firms favour lower-risk organic growth, the mid-tier has been active in using M&A for growth to meet client demand. The majority of respondents (64%) confirmed that their firm had acquired another in the past and 17% had been part of a merger. Of firms that had experienced fee growth in the past year, 21% was attributed to M&A.

M&A activity is not without its challenges, including cultural integration, internal restructuring, regulatory complexities and client retention concerns. However, these do not appear to act as a deterrent to those who were surveyed.

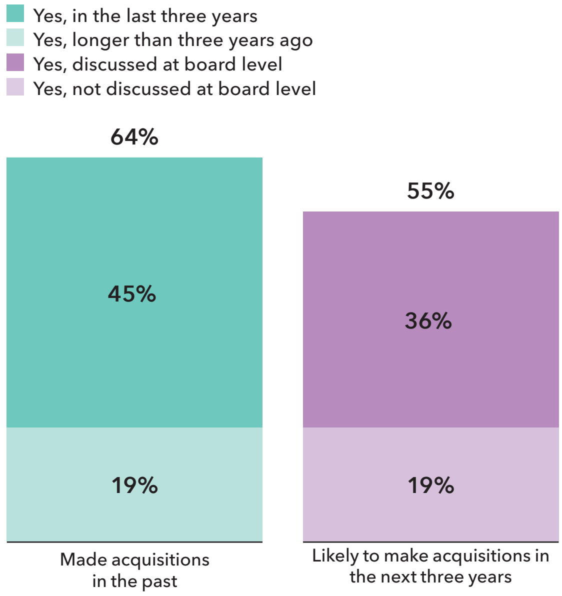
Whatever the approach, growth is an important item on firms' agendas, with 29% of firms describing the culture of their firm as 'growth led'. Looking ahead, using M&A to achieve rapid growth and build capacity appears set to continue in the mid-tier. More than one-fifth (21%) of respondents stated that their firm would look to merge with another in the next three years, and more than half (55%) are looking to make an acquisition. This propensity towards M&A was reinforced by respondents when asked for the key opportunities for their firm's future, with 19% listing it among their top three.

Respondent said:

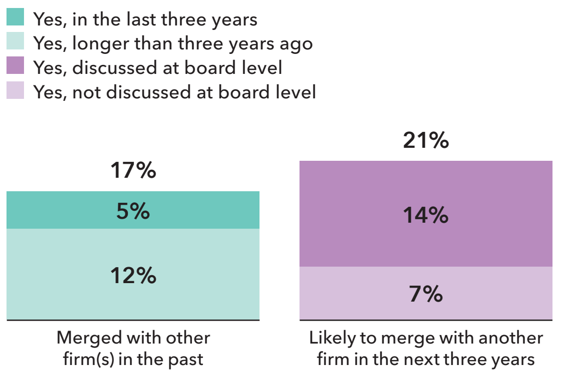
"We see opportunity in acquiring other great firms to be the powerhouse of the North"

MERGERS AND ACQUISITIONS

1.5 ACQUISITIONS



1.6 MERGERS



PRIVATE EQUITY

A more recent trend in the sector is the influx of PE investment. Of those surveyed, 12% confirmed their firm had secured PE investment, and 80% of that investment had occurred in the preceding three years. (See charts 1.7, 1.8)

The research found that 19% of firms felt PE was attractive to them. These were the same 19% that had already secured PE investment or expected to in the next three years.

Despite the relatively small number of firms looking to pursue this route, PE was widely acknowledged to be a major disruptor by respondents, with 57% ranking PE investment as a top three macro trend impacting the profession.

While more respondents described PE as a top three opportunity (12%), than a top three challenge (7%), a significant number of firms are resistant to this model, with concerns raised over investors' impact on autonomy, client relationships and cultural alignment. Close to two-thirds of respondents (62%) said that PE was "not [or] not at all attractive" to their firm. Furthermore, 17% of respondents saw remaining independent as an opportunity.

When discussing the opportunities around PE investment, respondents cited the ability to invest in technology, particularly artificial intelligence (AI) and automation, and the opportunity for growth. With 93% of firms surveyed looking to make further investments in technology, capital injections from PE investors could be a great enabler and allow firms to get ahead of the curve. Equally, for those firms looking to pursue strategic acquisitions, broaden their geographic reach, attract talent and diversify their service lines, PE offers the potential to accelerate the process.

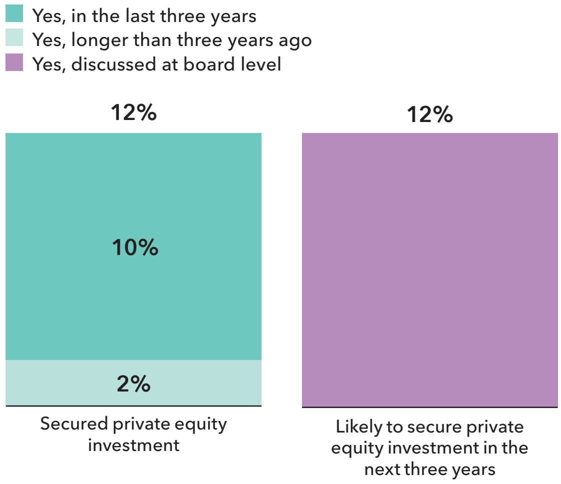
PE investors can also bring valuable expertise and strategic guidance, supporting firms in seizing new business opportunities.

Respondent said:

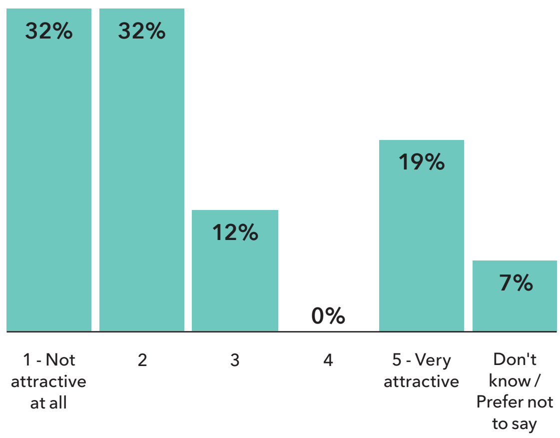
"There is opportunity for PE investment to help achieve AI, automation and outsourcing"

PRIVATE EQUITY

1.7 PRIVATE EQUITY INVESTMENT



1.8 ATTRACTIVENESS OF PRIVATE EQUITY INVESTMENT



Respondent said:

"[PE provides] the ability to look differently at acquisitions and lateral hire opportunities"

Conversely, maintaining independence may support firms in upholding their unique identity, values and client approach, which some firms believe could be jeopardised under external ownership. More than one-fifth of respondents (21%) described the culture of their firm as 'family-like', and a further 17% as 'traditional', which may not be seen as a natural fit for PE investment. One respondent suggested that there were already "disgruntled clients" unhappy with accountancy firms taking on PE investment, and that remaining independent was an opportunity for their firm.

Comments from those looking to remain independent highlighted a sentiment that a PE model did not value people in the same way as traditional partnership structures. One respondent stated that staying away from PE was an "opportunity to recruit good staff that PE-backed firms under-appreciate". Another cited their firm's desire to: "... retain a 'traditional' people-focused practice model which, in the light of increased private equity involvement in other practices, may make us more attractive."

A third respondent said: "We remain a privately owned network of businesses. [We see an] opportunity to attract other like-minded firms who wish to avoid PE funding and all that goes with that."

ICAEW LENS

Sarah Ghaffari, Director Communities, Business and Practice

The mid-tier sector is highly acquisitive and dynamic, presenting opportunity for synergy and collaboration.

PE houses are actively seeking investment in accountancy firms due to their stable revenue streams, diversified client base, strong cash-flow generation, and potential for value creation through operational improvements. A question for the future is whether there will be a technological chasm between those firms that have embraced private equity and those that have not. Will hesitant firms keep pace with investment in tech through other means, such as self-financing or perhaps through leveraging their collective network's developments?

There is an enormous spectrum of opinion on whether it is the right time for firms to pursue PE investment and it seems likely that this landscape will continue to evolve in the years ahead.

2. LEADERSHIP AND CULTURE

THE PARTNER TO STAFF RATIO

On average, firms have one partner for every 15 members of staff, with the lowest ratio recorded of one to five and the highest of one to 20. Of those surveyed, 83% said their firm had appointed new partners in the previous financial year, demonstrating that, notwithstanding widely documented talent challenges within the profession, there is a pipeline of candidates progressing to partnership. (See chart 2.1)

CULTURE

Culturally, the descriptors that resonated most with participants were 'collaborative', 'client-centric' and 'caring'.

Interestingly, no firms identified as 'risk taking' or, perhaps more surprisingly, 'tech-savvy', highlighting a potential disconnect between the current culture of firms and how they may need to evolve to meet clients' future needs. (See chart 2.2)

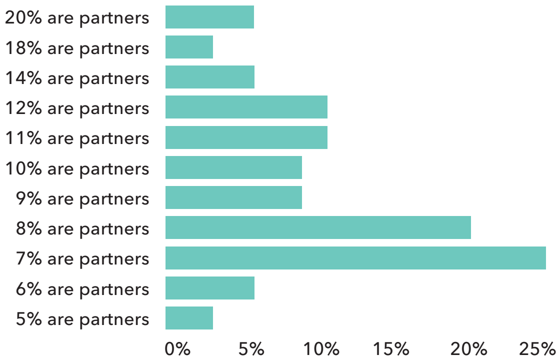
LEADERSHIP SUCCESSION

When asked about the top talent challenges facing their firm, 14% of respondents identified the 'attractiveness of partnership' in their top three and 45% identified 'succession planning'. The increasingly complex regulatory environment has heightened the risks associated with partnership models. Partners must navigate challenging compliance requirements and, in some cases, face potential penalties for breaches. This may be undesirable, deterring some individuals from pursuing partnership positions. Of those surveyed, 17% of respondents agreed that the increase in, and complexity of, regulation was one of the top three challenges facing their firm.

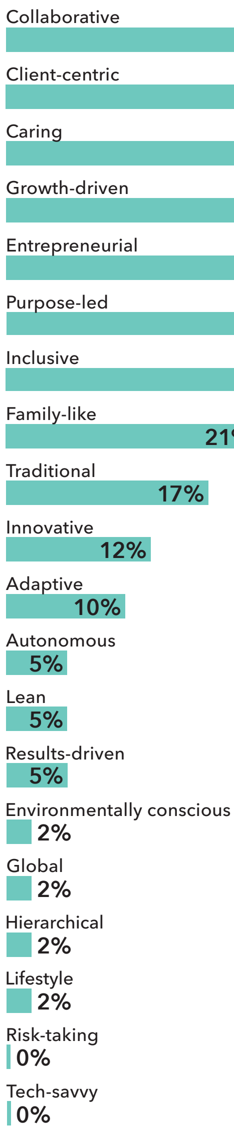
Meanwhile, generational shifts in ambitions and attitudes towards work indicate that becoming a partner may be a less attractive prospect than in the past. Gen Z, those born from the mid 1990s until around 2010, are often cited as prioritising flexibility, personal development and socially meaningful work over traditional, hierarchical (or linear) career paths. The challenge facing firms, as one respondent commented, is the "lack of ambition of Gen Z to become future partners".

FIRM PROFILE

2.1 % OF STAFF THAT ARE PARTNERS



2.2 TOP THREE DESCRIPTORS OF FIRM CULTURE



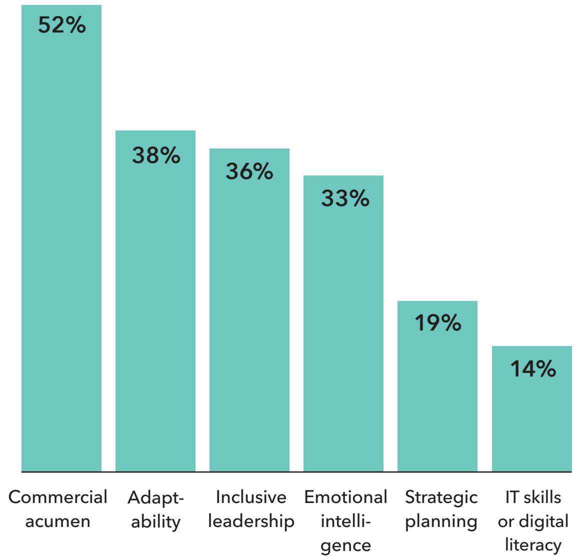
LEADERSHIP SKILLS AND MEETING CLIENT NEEDS

With 17% of respondents agreeing that increasing client demands are one of the top three macro trends impacting the profession, it is not surprising that ‘commercial acumen’, ‘adaptability’ and ‘emotional intelligence’ were identified as key skills needed for the next generation of practice leaders. (See chart 2.3)

These skills neatly align with what respondents predict to be changes in clients’ needs in the coming years, with 33% of respondents anticipating clients will want more value for money, 31% more tailored support, and 14% a more personalised relationship. (See chart 2.4)

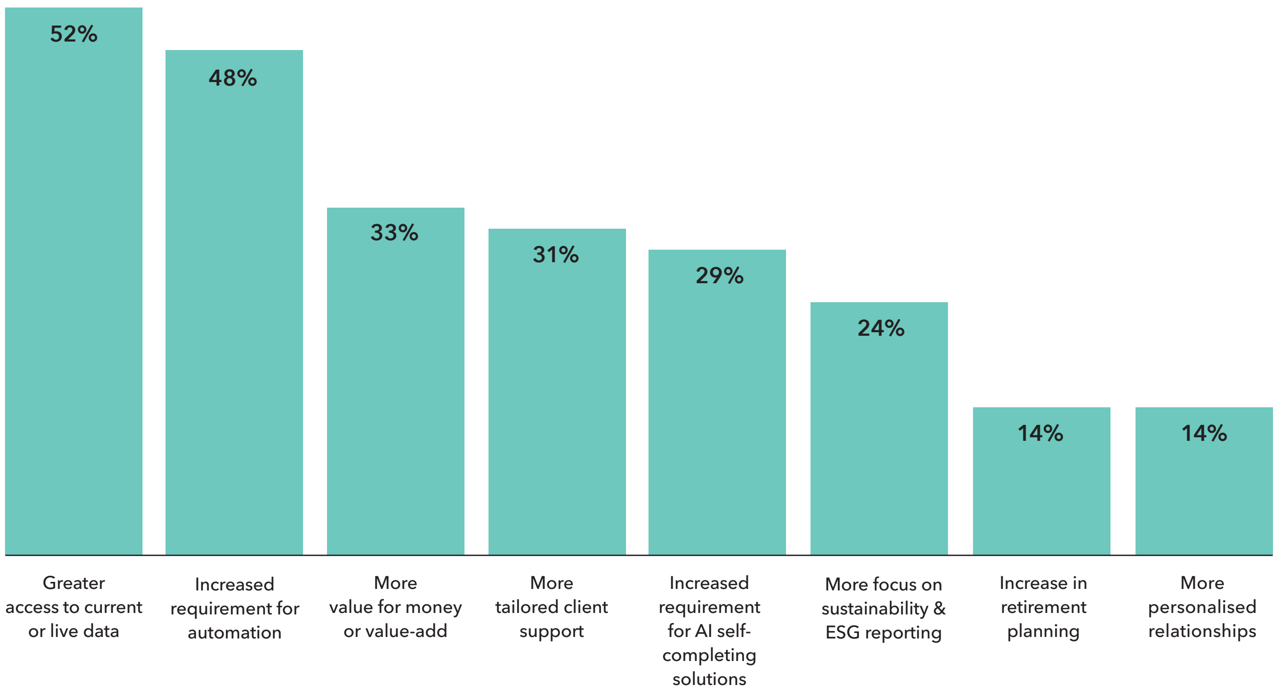
FUTURE LEADERS

2.3 TOP THREE SKILLS FOR THE NEXT GENERATION OF PRACTICE LEADERS



FUTURE CLIENTS’ NEEDS

2.4 MOST SIGNIFICANT WAYS CLIENTS’ NEEDS ARE LIKELY TO CHANGE IN THE NEXT THREE YEARS



TECHNOLOGY DISCONNECT

Firms anticipate that clients will expect them to be at the forefront of new technologies. The majority of respondents (52%) expect clients to request greater access to current or live data, 48% predict an increase in automation and 29% in use of AI solutions. Despite these predictions and widespread commitments to investing in technology, 'IT skills and digital literacy' was selected by just 14% of firms as an important skill set for future leaders, and even fewer (12%) selected 'innovation'. While recognising technology as important for firms in the future, 'tech-savvy' was not identified as a cultural descriptor by any respondent.

SERVICE PROVISION

In addition to the need for a tech focus and a more personalised approach to support client needs in the future, those surveyed anticipate an increase in client demand for ESG services (24%), retirement planning (14%) and wealth management (2%). Firms' leaders will need to be adaptable and ensure that their teams have the right skill sets to provide these services. However, there seems to be a disconnect between some of the skills perceived as needed by the leaders of the future and the future demands of clients.

While close to one-quarter of those surveyed thought that ESG knowledge and skills would be demanded by clients in three years' time, no respondent selected 'ESG knowledge' as a top three skill for their future leadership (see chart 2.3). As the ESG demands from clients evolve, firms will need to consider how they adapt and structure their teams to deliver this service line.

ICAEW LENS

Sharron Gunn, Chief Operating Officer

As a profession we are on the cusp of change in terms of the work we do and how we do it. Firms need to future-proof themselves to ensure they keep up with the pace of change and demands placed on them by regulators, clients and other stakeholders.

There is much to think about – how technology will impact recruitment strategies, how to ensure the firm is an attractive employment proposition for staff at all levels, and how to balance the benefits of office working with a cultural desire for flexibility in the post COVID-19 world.

3. TALENT

RECRUITMENT AND RETENTION

When asked about macro trends driving change in the profession, 52% of respondents cited talent shortages and this resonated across firms of all sizes.

When asked to identify the top three challenges facing their firm, 70% of respondents listed a talent-related issue as their highest concern and a further 18% listed it as one of their top two.

Just 9% of respondents did not mention a talent-related concern in the top three challenges facing their firm. Conversely, only 13% of respondents referred to talent being a key opportunity for their firm.

"Recruitment of qualified staff was a top talent challenge for 67% of respondents, while recruitment of trainees was considered a challenge by 10%"

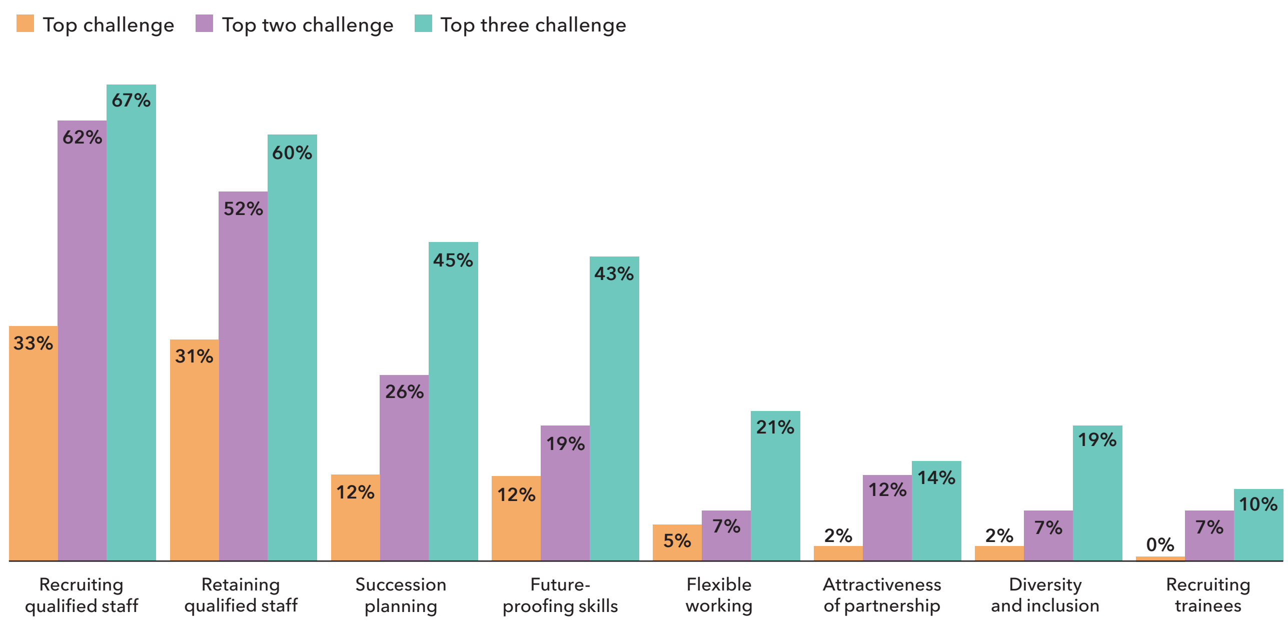
Only 10% of respondents selected recruitment of trainees as a top three talent challenge within their firm, indicating that this is not a widespread issue for the mid-tier. The story changes dramatically when looking at qualified staff, where recruitment and retention were cited respectively by 67% and 60% of firms surveyed as the main talent concern. While it is not clear at what levels these challenges occur, there are likely to be many contributing factors, including:

- increased scrutiny at more senior levels;
- a greater desire for work-life balance; and
- a competitive and buoyant job market.

A top three talent challenge for 43% of those surveyed was 'future-proofing skills', which speaks to the need to ensure the quality of staff in the long term. Meanwhile, 45% of respondents confirmed that 'succession planning' was a key talent challenge. This seems to acknowledge the importance of retaining sufficient talent to maintain the partnership and its leadership team, which is corroborated by 14% selecting the 'attractiveness of partnership' as a challenge. (See chart 3.1)

TOP TALENT CHALLENGES

3.1 THE TOP THREE TALENT CHALLENGES FACED BY FIRMS



TALENT CONSIDERATIONS

While the ACA qualification provides trainees with up-to-date technical skills and knowledge, it is imperative that firms play a key role in developing their qualified staff to maintain quality within the workforce, supporting retention in a competitive market.

People and technology
The rapid introduction of technology to automate what were once manual tasks means that firms need staff who are proficient in traditional accounting disciplines, but also adept at using such tech. With 93% of respondents expecting their firm to invest in technology in the next three years, the ability of staff to upskill, particularly those, for example, who studied the ACA before data analytics was embedded into the syllabus, will be vital for their careers and the success of the firm. Firms must strive to achieve the right balance between investment in tech and investment in people, and ensure that the two work together.

Specialist expertise
With the broad range of services that firms offer, they need a pool of talent with expertise in different specialisms. Particular areas of interest are environmental, social and governance (ESG) and tech app advisory as these service lines are in the early stages of development and primed for growth, with 10% and 14% of respondents respectively identifying these one of their top three areas for growth.

In addition, staff need to be increasingly aware of relevant regulation and legislation, dependent on which service line they work in. This highlights the importance of Continuing Professional Development (CPD) for qualified staff, with firms and individuals investing in lifelong learning to ensure staff remain technically competent to perform their roles.

The challenge for firms will be to consider adapting their recruitment strategies in the light of new services being offered in favour of new specialist roles, such as data scientists and ESG experts.

Effective interpersonal skills
With firms predicting that future clients will require more tailored support (31%) and demand a more personalised service (14%), effective communication and interpersonal skills will continue to be very important to build strong client relationships and collaborate effectively. Investing in business and professional skills at all levels within the firm would appear to be money well spent.

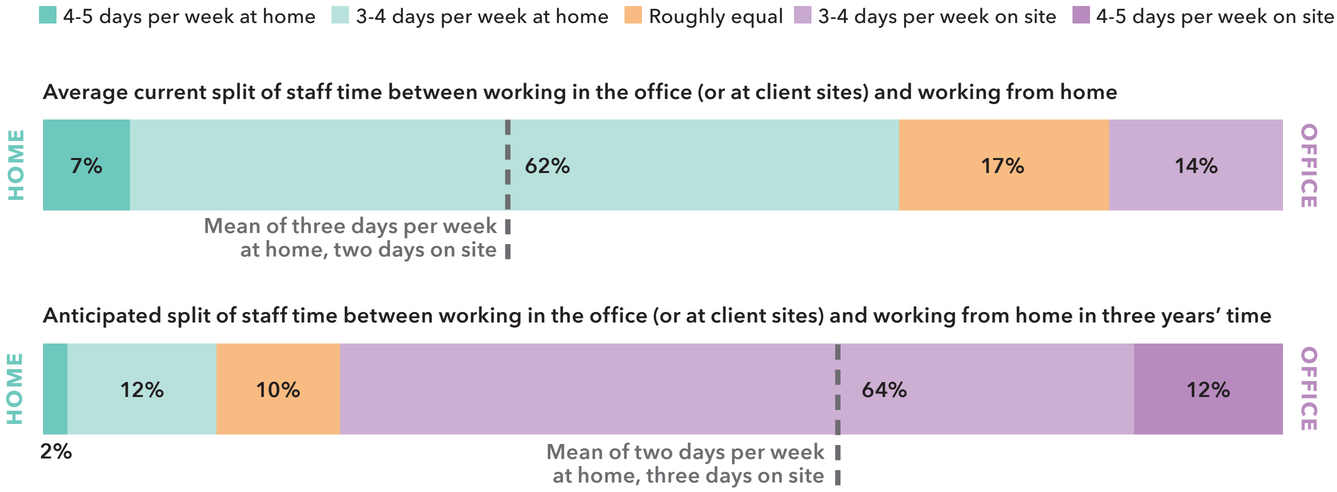
Culture
Gen Z have a different outlook on life to previous generations, prioritising social responsibility, diversity, work-life balance and sustainability. Just 2% of firms surveyed described the culture of their firm as ‘environmentally conscious’, despite 38% stating that ESG considerations did impact decision-making at board level.

This disconnect may be contributing to the retention challenge within firms, as Gen Z seek employers that resonate with their beliefs and values. Although, when asked which words best described the culture in their firms, ‘caring’ was the third most popular choice, behind ‘collaborative’ and ‘client centric’. A sizeable proportion of respondents (21%-26%) also described their firms as ‘entrepreneurial’, ‘purpose-led’, ‘inclusive’ and ‘family-like’. (See chart 2.2 on page 13)

“With ‘collaborative’ selected most often by respondents as the best descriptor of their firms’ culture, people remain at the heart of mid-tier accountancy practices”

SHIFTS IN HYBRID WORKING

3.2 EXPECTED CHANGES IN HOME VS. OFFICE WORKING



THE HYBRID-WORKING DEBATE

The COVID-19 pandemic catalysed a significant shift towards hybrid working models, blending remote and office work (either in firm or at a client site), which has disrupted long-standing patterns of working within the sector. Of those surveyed, 12% believe hybrid working is a key macro trend impacting the profession.

Survey respondents indicated that client-facing staff are currently working on average two days in the office (or at client sites) each week. Looking to the next three years, respondents predicted this would change to staff spending the majority of their time in the office and at client sites. The portion of firms offering fully remote work is set to be nominal (2%), while at the other extreme 12% of those surveyed indicated that they anticipate a return to staff working fully on-site. (See chart 3.2)

Changes to working patterns must allow firms to compete in recruiting and developing top talent while meeting the firm and client requirements to be on site. Hybrid working must be balanced with and aligned to individual client expectations. Close to one-third of those surveyed (31%) predicted that clients will want more tailored support in the future. Meanwhile, 14% believe clients will require more personalised relationships and their firm's ways of working will need to deliver on this.

When asked what word best described their firm's culture, the most popular choice was 'collaborative' – which was selected by 45% of respondents. As hybrid working arrangements can create communication gaps and reduce spontaneous interactions among team members, there is a disconnect between that working model and many firms' collaborative culture, driving a shift back to working in the office.

ICAEW LENS

Will Holt, Managing Director Education and Training

This research reflects the exciting changes to the nature and scope of the role of an ICAEW Chartered Accountant, as well as current challenges mid-tier firms are experiencing in attracting and retaining experienced talent. While the ACA will continue to evolve to equip future talent pipelines, the research also highlights the importance of CPD to support our current members in upskilling.

4. TECHNOLOGY

THE TECHNOLOGICAL ERA

Increasingly, technology is being adopted within the profession and its impact is felt by all firms to some degree. The widespread use of cloud computing and integration of automated systems have revolutionised the way accountants go about their day-to-day tasks. More efficient data management, real-time financial reporting and predictive analytics have enabled firms to provide clients with enhanced knowledge to better support their businesses. Looking ahead, artificial intelligence (AI) and robotic process automation (RPA) are in rapid development and will soon (if not already) form part of the accountant's toolkit.

The mid-tier firms are in a relatively unusual position, less likely than the larger firms to have developed their own software previously, but they are now looking to invest in this type of resource where off-the-shelf packages fail to meet their needs.

ATTITUDE TO TECHNOLOGY

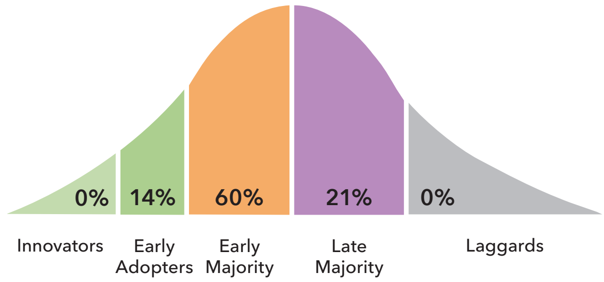
Respondents identified where their firm sat on the technology adoption curve (see chart 4.1) and, for the most part, they considered themselves to be either 'early adopters' (14%) or in the 'early majority' (60%) – two-thirds of these were firms with more than 20 partners. One-fifth of respondents (21%) indicated their firm fell within the 'late majority', but encouragingly no one described their firm as a 'laggard'. With such rapid developments in the technology space, it is perhaps unsurprising that no firm described themselves as an 'innovator' on the curve. This corresponds with no respondent choosing 'tech savvy' when asked to describe their firm's culture.

Firms anticipate positive returns from their technology investments. One-third of respondents included 'new or improved technology' in their top three opportunities for the future of their firm. On the other side of the coin, the rapid evolution of technology means that firms are cautious about the risks of not keeping up with developments, with 31% of respondents stating that remaining current in this field was one of their firm's top three challenges.

Although technology is expected to play a significant role in the future firm landscape, the anticipated skill set for future practice leaders does not yet fully align. Only 14% of respondents identified 'IT and digital literacy skills' when asked about the qualities required from future leaders and just 12% highlighted 'innovation'.

TECHNOLOGY ADOPTION

4.1 FIRMS SELECTED THE DESCRIPTOR THAT BEST MATCHED THEIR APPROACH TO TECHNOLOGY



Innovators are the very first individuals to embrace and adopt new technologies.

Early adopters are the tech-savvy enthusiasts who follow innovators and are quick to adopt new technologies.

The **early majority** are the first significant wave of mainstream consumers who adopt a technology.

The **late majority** are those who adopt technology after the initial surrounding hype has subsided, and it has become accepted as a common part of everyday life.

Laggards are the last group to adopt new technologies. They continue to use their existing solutions until they are no longer viable or available.

"The main drivers for adopting new specialist software are time, quality and cost, but there is also a people element that underpins the successful implementation of new technology"

ICAEW mid-tier technology research 2023

INVESTMENTS IN TECHNOLOGY

While those surveyed did not see their firms as innovators, technology is clearly a high priority, with all firms confirming they had invested in at least one form of tech in the past three years.

Virtual infrastructure and cloud-based technology
Virtual infrastructure and cloud-based software were the most common investment choices. Of the firms that invested in cloud-based and virtual tech in the past three years, every respondent rated the investment as 'worthwhile' or 'very worthwhile'. (See chart 4.2)

The mid-tier appears committed to investing further, with 69% of respondents' firms looking to invest more in virtual infrastructure and 79% looking to enhance their cloud-based software offering in the next three years.

With more than half of respondents (52%) predicting that clients will need greater access to current or live data, 48% anticipating clients wanting more automation and 29% suggesting clients will require AI self-completing solutions, investment in cloud software and virtual infrastructure makes sound sense.

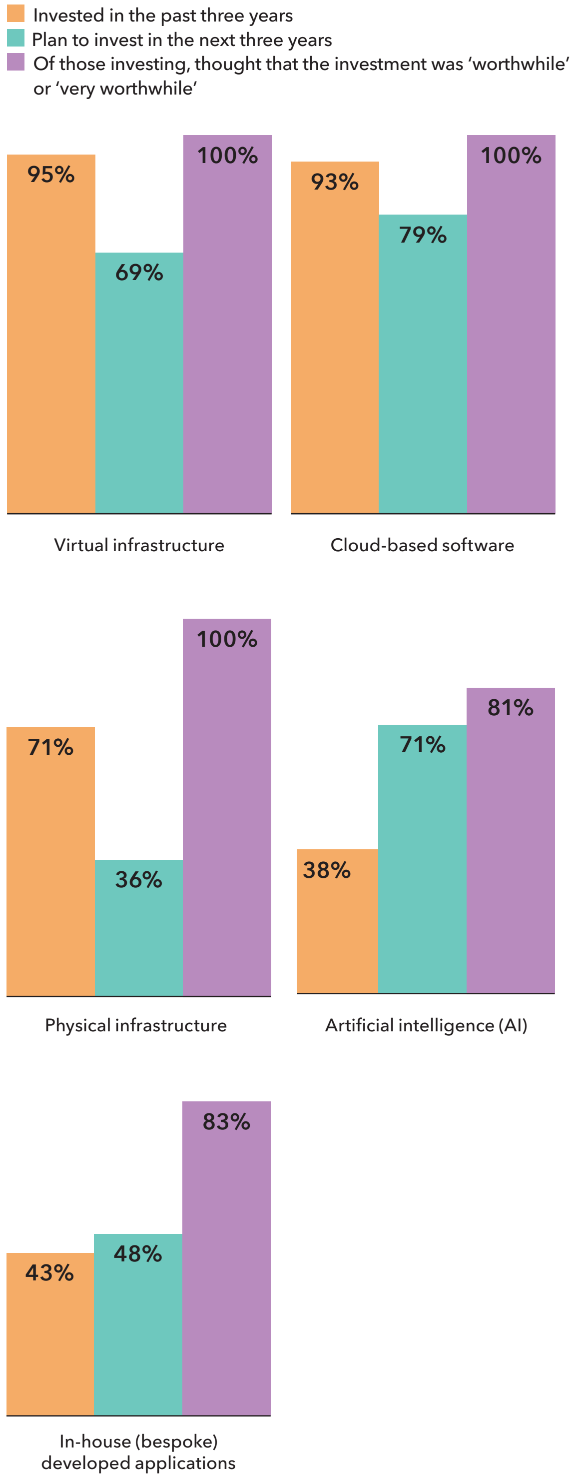
Physical infrastructure
A sizeable number of firms continue to invest in physical infrastructure and hardware. More than 70% of firms had made such investments in the three previous years and all agreed it was 'worthwhile' or 'very worthwhile'. However, as virtual infrastructures become fully developed and integrated, future investment is set to decline – just 36% of all respondents agreed that their firm would be looking to invest in physical infrastructure in the next three years. (See chart 4.2)

Artificial intelligence
When respondents were asked to choose three macro trends having the most impact on the accountancy profession, the impact of generative AI was ranked highest (alongside talent shortages). Close to one-fifth of respondents (19%) said it was the top macro trend, and 40% of respondents featured it as one of their top three.

To date, 38% of respondents' firms have invested in AI, of which three-quarters were firms with more than 20 partners. However, the survey results suggest that a strong shift is coming. Over the next three years 71% of respondents expect their firms to make an investment in AI as products are refined and become more readily available. (See chart 4.2)

TECHNOLOGY INVESTMENT

4.2 THE TECHNOLOGIES THAT FIRMS HAVE OR PLAN TO INVEST IN



Bespoke, in-house solutions
A significant minority of firms have opted to design their own in-house IT solutions, with 43% of respondents confirming spending on this in the previous three years (72% of this investment was from firms with more than 20 partners). The perception of value on these investments differed from that of infrastructure investments. While 44% stated these projects were 'very worthwhile', 39% described them as 'fairly worthwhile' and 11% felt it was too early to say. Despite this slight hesitancy on their value, 94% of the firms who have invested in bespoke IT solutions plan to make further investment in the next three years. Overall, 48% of respondents said their firm was planning to invest in such projects in the future. (See chart 4.2)

OPPORTUNITIES AND CHALLENGES

As firms integrate new technologies into existing practices, they will need to upskill their staff to ensure they have the knowledge and capabilities to maximise its efficiencies. Comments from respondents suggest that firms see the benefit of training staff to leverage technology to enable them to concentrate on jobs that technology cannot do. As one respondent put it: "[There is an opportunity to invest in] RPA and AI to improve business efficiency and free up staff resource to offer client-facing services."

Moving forward with technology is not without its challenges, particularly the pace of change. When asked to describe the key challenges facing their firm, 31% of respondents referenced introducing, understanding, and keeping up with technology. "[The challenge is] staying ahead of technology/AI," as one respondent said. Overall, the challenge of technology came second only to the difficulties around recruitment.

With multiple options and potential routes to pursue available, some respondents expressed uncertainty about how best to tackle the challenges around technology. One respondent questioned the difficulties in understanding how best to embed RPA and AI tools: "Do you develop your own team and tools or engage third parties?"

ICAEW LENS

Esther Mallowah, Head of Tech Policy

Many firms have already embraced AI in the automation of certain tasks, but there is potential to do more, allowing firms to focus on human-led, value-add activities. As generative AI models and capabilities find their way into an increasing range of products and services, firms must develop and implement usage policies and controls to manage the potential risks.

Respondent said:

"[There is an opportunity to invest in] RPA and AI to improve business efficiency and free up staff resource to offer client-facing services"

There is a perception among a small group of firms that PE investment will lead to a widening gap between firms who are able to invest in technology and those who cannot afford to do so. One respondent said: "[The challenge is] competing against private equity-backed firms with more resource."

Those firms that do decide to embark on PE investment may garner advantages in technology advancement. Regardless of where the finance is sourced, future spending on technology clearly remains a priority for firms.

The overall sentiment from the research is that investing in technology presents significant opportunities and will be critical for firms in enhancing efficiencies and expanding their service offerings to clients. However, there is also a recognition of the risks associated with investing in the wrong technologies and the challenges of keeping up with the rapid pace of technological change. Firms must take a strategic approach to technology adoption and ensure alignment with their overarching business goals.

ICAEW LENS

Ian Pay, Head of Data Analytics and Tech

The use of technology is key to firms' abilities to unlock growth and improve the experience for clients and staff. The technology landscape is evolving rapidly, so it has never been more important to keep up to date with the latest developments and ensure that digital skills play a vital role in the training of staff.

Meanwhile, the growth of advisory services – in particular, supporting clients on their digital transformation journeys – looks set to transform the sector, too, but will require a step-change in internal technological capabilities.

5. FINANCIAL PERFORMANCE AND SERVICE LINES

FIRM FINANCIAL PERFORMANCE

The research shows that demand for a wide range of accountancy services remains strong, with 93% of respondents seeing fee growth in their last financial year. The main drivers of growth were identified as:

- new clients (95%);
- increasing charge out rates (82%); and
- existing clients spending more (64%).

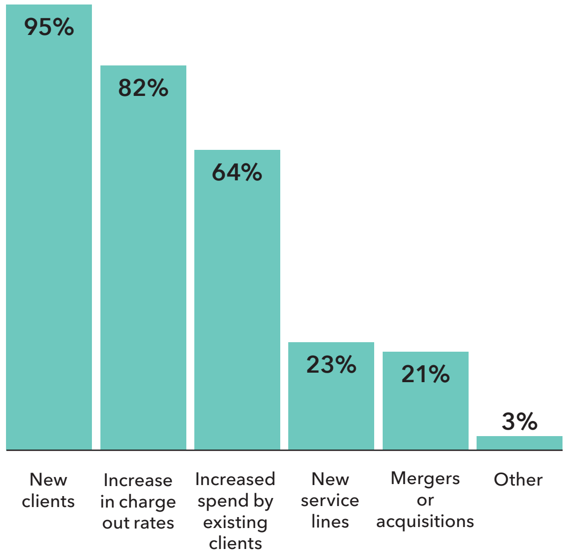
(See chart 5.1)

The trend for profit growth appears set to continue, with those responding on anticipated growth for the next three years estimating a mean annual increase of 10%-11%. (See chart 5.2)

Traditional service lines remain at the core of respondents' business models, with income from accounting, audit and tax generating 73% of revenue for the latest financial year. (See chart 5.3)

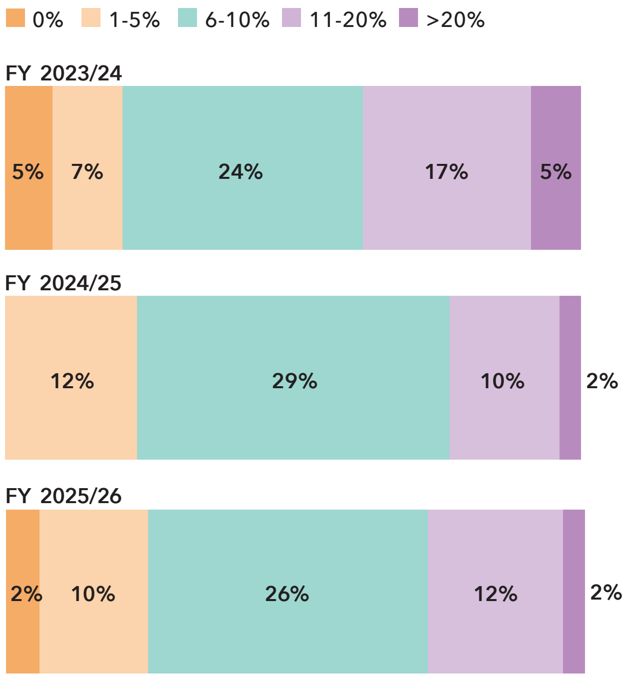
KEY CONTRIBUTORS TO FEE GROWTH

5.1 KEY CONTRIBUTORS TO FEE GROWTH IN THE LAST FINANCIAL YEAR



ANTICIPATED PROFIT GROWTH

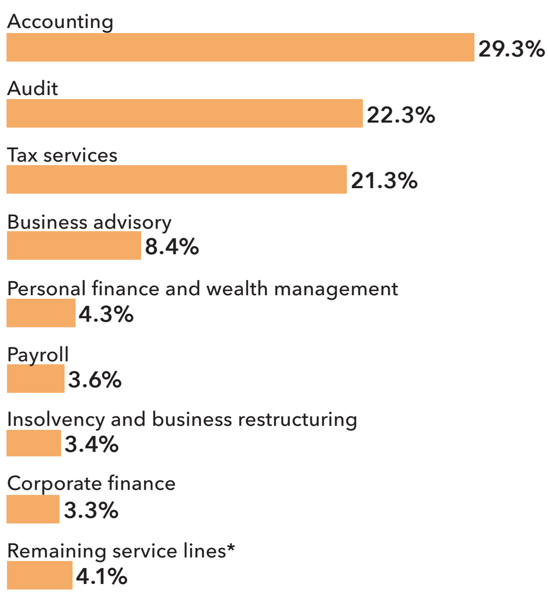
5.2 ESTIMATED ANNUAL PROFIT GROWTH IN THE NEXT THREE YEARS*



*Figures exclude respondents who said 'don't know' or gave no response, so do not total 100%.

FEE INCOME BY SERVICE LINE

5.3 APPROXIMATE SHARE OF FEE INCOME BY SERVICE LINE IN THE LAST FINANCIAL YEAR



*Other service lines include: Consultancy **1.4%**, Other **0.9%**, Audit of public interest entities **0.8%**, Forensics/fraud **0.6%**, Tech/app advisory including cyber **0.3%**, ESG **<0.1%**

OUTSOURCING AND OFFSHORING

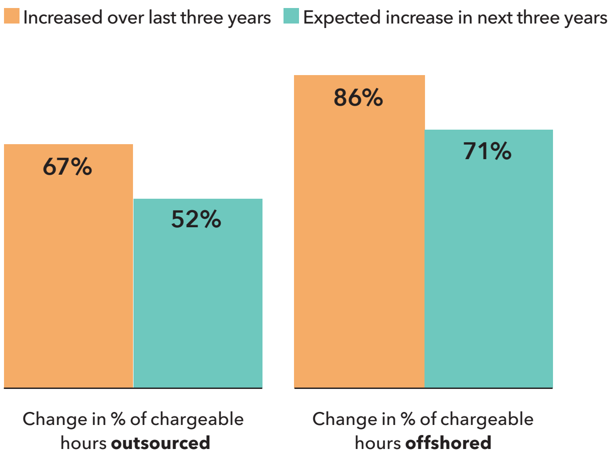
With widespread issues in recruitment and retention of qualified staff felt across the sector, half of respondent firms have already offshored or outsourced at least one service line, most commonly: accountancy, tax, audit and payroll.

A small number of respondents (7%) listed offshoring/outsourcing as one of the top three future opportunities for their firm, citing the capacity that such models can create. While most respondents did not consider offshoring and outsourcing as a key opportunity for their firm, the results did show that their use has increased over the past three years and that this trend is expected to continue. (See chart 5.4)

One respondent highlighted the need to "maintain a personal service" as a challenge associated with moving service lines to third-party providers or teams overseas. While firms understandably need to build capacity and maintain profit margins, some clients may not be in favour of these approaches as they value a personal touch.

CHARGEABLE HOURS

5.4 OUTSOURCING AND OFFSHORING OF CHARGEABLE HOURS



"The number of chargeable hours offshored by firms using such models has increased by 86% over the past three years, and they predicted a further 71% increase in the next three years"

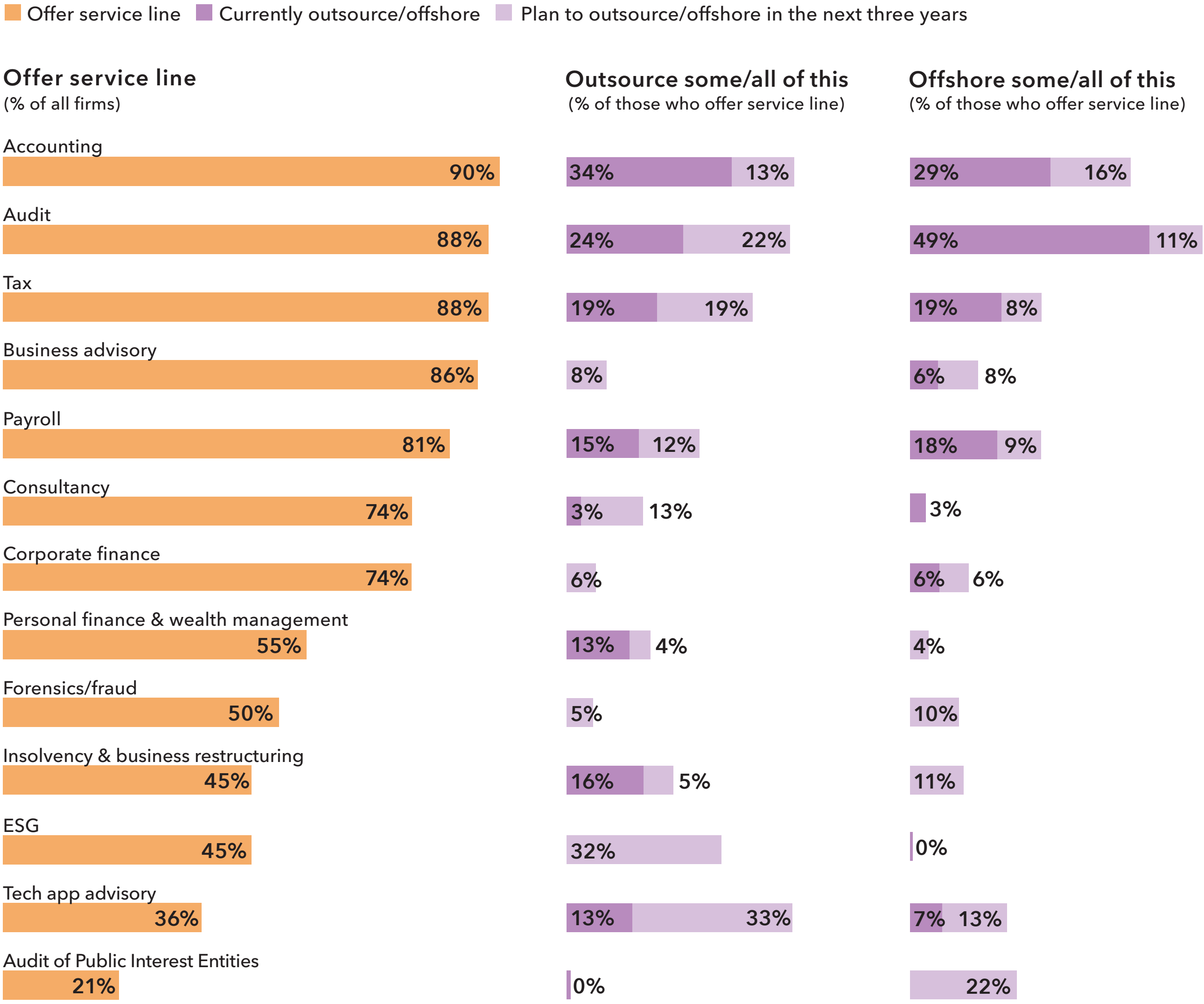
ICAEW LENS

Iain Wright, Managing Director, Reputation and Influence

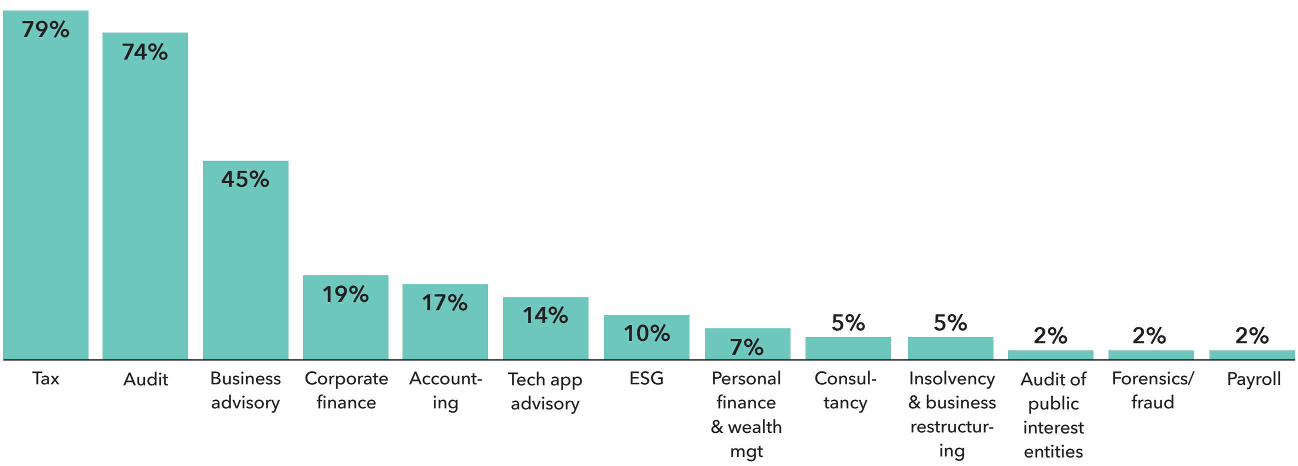
Outsourcing has the potential to be a valuable option to firms and there are certain service lines, such as accountancy or payroll, which lend themselves well to this model. However, for this to work successfully there needs to be a strong control framework in place to ensure quality is not compromised. Given retention issues in the profession, the use of offshoring by firms may increase, although this creates its own tensions and dynamics.

CHARGEABLE HOURS

5.5 SERVICE LINES OFFERED AND THE PROPORTION OUTSOURCED OR OFFSHORE



5.6 SERVICE LINES PROVIDING THE GREATEST OPPORTUNITY FOR GROWTH IN THE NEXT THREE YEARS



SERVICE LINES

The main service lines, offered by at least three-quarters of mid-tier firms surveyed, represent traditional activities, including: accounting, audit, tax, business advisory, payroll, consultancy and corporate finance services.

Other service lines offered by around half of firms, include more niche areas, such as: personal financial planning, forensics and insolvency. Although it is recognised that ESG is a market that will rapidly develop, currently only 45% of firms offer this service line (although it is noted that firms may have considered ESG as forming part of their consultancy or business advisory services). Only 21% of respondents said their firm provided audits for Public Interest Entities.
(See charts 5.5 and 5.6 on page 28)

CORE SERVICE LINES

Accounting, audit and tax are offered by the vast majority of those surveyed and make up more than two-thirds of their fee income. Of those surveyed, 79% view tax services as the biggest opportunity for growth, confirming that this remains a valuable service to clients. (See charts 5.5 and 5.6 on page 28)

Anticipated growth in the provision of audit services, which 74% of respondents saw as an opportunity, could be driven by expectations of increased market share, potentially because of the M&A activity across the market, and/or increases in demand.

Demand for audit in the mid-tier will be driven by changes in audit thresholds, companies seeking audits on the basis of stakeholder requirements, and as a result of audits moving from larger firms to mid-tier and smaller firms. Technology may also play a role in creating capacity for firms enabling growth in their client base.

"45% identified business advisory as a top-three service line for growth"

The biggest existing service line, accounting, looks set to continue to be a significant revenue generator for firms. The anticipated growth is proportionately less than in tax and audit, but a sizeable 17% of firms see this as a growth opportunity. The lower predicted growth rate in this area is likely caused by the increasing availability of tech solutions that clients can use directly, and a more saturated market.

To meet demand for core services, some of the mid-tier has adopted outsourcing and offshoring models. Of those offering accounting services, 34% outsource some or all of this work. Meanwhile, 49% of those providing audit services use offshore teams to complete some or all of this work.

This operating model is set to continue, with more respondents expecting their firm to offshore and outsource accounting, audit and tax services in the next three years.

OPPORTUNITIES FOR GROWTH

While audit and tax services were identified as the largest areas for growth, there are other service lines which present opportunities for firms looking to increase their bottom line.

Business advisory
The financial analysis and strategic planning expertise offered by mid-tier firms has become increasingly important for UK businesses to adapt and remain competitive in this post-Brexit, post-Covid world, positioning this cluster of firms as trusted business advisers to SMEs up and down the country.
(See charts 5.5 and 5.6 on page 28)

Business advisory services are well established and offered by 86% of firms represented in the survey, however, these activities account for only 8% of fee income. This is significantly less than the proportion generated by accounting (29%), audit (22%) and tax services (21%), perhaps because the value add provided by business advisory is not separately billed but bundled into a core offering.

Currently, only a small fraction of firms offering business advisory services (6%) offshore this work and none outsource it. This suggests that firms need to provide this work locally to build and preserve long lasting relationships with clients and to deliver a personalised service.

Looking to the future, 45% of respondents believe that business advisory is one of the greatest opportunities for growth. This is supported by the anticipation that clients will need more value for money or 'value add' (45%) and 'more tailored client support' (31%) over the next three years. With this growth, there may be more appetite for some of the work to be outsourced or offshored in the future, as suggested by a minority of respondents who currently offer this service.

Corporate finance
The accountancy profession has a long history of supporting businesses with essential financial expertise, regulatory insight and help in accessing finance for all types of corporate finance transactions. Of those surveyed, 74% of their firms offer corporate finance as a service line and it represents 3% of firm revenue. (See charts 5.5 and 5.6 on page 28)

Increasing globalisation, technological advancements and evolving regulatory frameworks drive demand for expert financial advice on mergers, acquisitions and capital raising activities. These factors are likely to be the reason that 19% of firms see this service line as an opportunity for growth.

To date, a small number of firms offering corporate finance services (6%) offshore a component of this work. This is predicted to stay at a low level in the future, with 6% potentially moving such work offshore and 6% potentially outsourcing it.

Environmental, social and governance (ESG)
ESG is an emerging service line, with a raft of global standards still in production, and yet 45% of those surveyed already offer this service to clients. Of the firms offering ESG services, 83% have more than 20 partners, potentially reflecting the skill set, capacity or client base of the larger mid-tier firms.
(See charts 5.5 and 5.6 on page 28)

ESG currently generates less than 0.1% of total revenue and it is possible that firms are still considering how best to monetise and structure their ESG offering, as well as refine their focus, whether that be reporting, assurance and/or advisory.

Those surveyed did recognise the shifting tide with ESG, with 10% citing it as a service line with opportunity for growth in the next three years. As with the current ESG offering, three-quarters of those firms predicting this growth had more than 20 partners.

No firm is currently outsourcing or offshoring any of this work, which may suggest that the providers simply do not exist or, if they do, firms do not feel it would be appropriate given the infancy of this service line.

Close to one-third of those offering this service line (32%) indicated that they will outsource some or all of this work in the future, but no firm considered having a dedicated offshore model for this work in the next three years.

ESG DEVELOPMENTS

5.7 A SNAPSHOT OF THE LATEST ESG DEVELOPMENTS

Corporate sustainability reporting directive (CSRD)	International Sustainability Standards Board (ISSB)	International Auditing and Assurance Standards Board (IAASB)	International Ethics Standards Board for Accountants (IESBA)	Financial Reporting Council (FRC)
Effective for financial years beginning on or after 1 January 2024 – all companies in scope are required to obtain limited assurance in respect of sustainability reports.	IFRS Sustainability Disclosure Standards S1 and S2 launched in June 2023 and while not mandatory, the UK Government has indicated its intention for companies to adopt the standards.	ISSA 5000 General requirements for Sustainability Assurance Engagements is anticipated to be ready in late 2024.	In 2024, IESBA has issued two exposure drafts of new standards for ethical considerations in sustainability reporting and assurance.	In 2024, the FRC launched a study to examine the UK market for sustainability assurance services.

While many respondents can see opportunities in ESG, one respondent described "forward planning [with regards] ESG" as a challenge. Close to one-quarter of those surveyed (24%) suggested that, in the next three years, more focus on sustainability and ESG reporting would be required by their clients. This is likely to reflect reporting standards becoming effective, alongside investors and customers placing greater emphasis on ESG as a measure of companies' performance and value.

Service line offerings must develop to meet this demand, and this is not reflected in the current or near future offering from mid-tier firms. Rather surprisingly, when considering the macro trends driving change in the accountancy profession itself, ESG ranked lowest with just 5% of respondents selecting it.

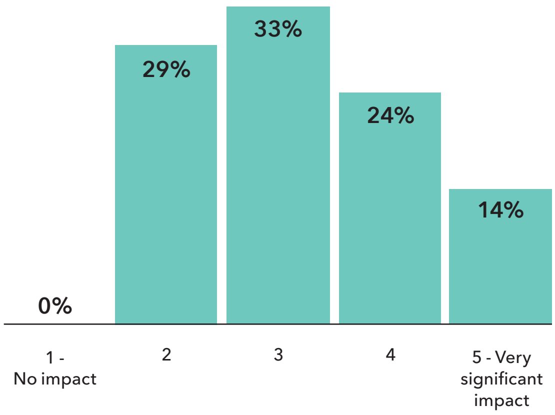
Also evident in our research findings is a mismatch between predicted future client demands and how firms are making decisions with ESG in mind themselves. Only 2% of respondents described their firms as 'environmentally conscious'. Meanwhile, just 38% said ESG considerations impact decision-making at board level, 33% were neutral (or ambivalent) and 29% actively stated that ESG considerations did not (or only minimally) have an impact. (See chart 5.8). The firms that do factor ESG into decision-making represent the larger end of the mid-tier, with 75% having more than 20 partners.

5%

see **ESG** as a macro trend driving change in the profession, this was the least selected option

FIRM APPROACH TO ESG

5.8 HOW ESG IMPACTS BOARD LEVEL DECISION MAKING



ICAEW LENS

Richard Spencer, Director, Sustainability

The crisis of biodiversity loss, climate collapse and growing inequalities is not just an environmental and social disaster, but a ticking economic timebomb with serious implications for business resilience and financial stability.

The global market for sustainability services is predicted by Mordor Intelligence to double over the next five years to $26bn. Meanwhile, research firm Verdantix has forecast that the ESG assurance market alone will be worth $5.9bn in 2028, triple the 2023 figure. Mid-tier accountancy firms are in a prime position to claim a stake in this growing market and must turn their attention to the services they can offer, be that reporting, assurance or advisory. If they don't, someone else will.

But first, firms are encouraged to begin their own ESG journey so they can model best practice to clients eager to implement an ESG strategy.

Tech app advisory
Introducing tech app advisory as a service line offers a valuable opportunity to diversify and provide enhanced value to clients. In today's digital age, businesses rely heavily on technology applications to streamline operations, improve efficiency and drive growth. The amount of choice can be overwhelming, providing an opportunity for firms to expertly cut through the noise.

Moving into this space presents the opportunity to meet client needs of the future, which respondents identified as:

- increased need for automation (48%);
- access to live data (52%); and
- value-added services (31%).

Of those surveyed, 36% said their firm was already active in this space, but it contributed just 0.3% of firm revenue. Respondents acknowledge the potential this offering could present, with 14% selecting it as a key area for growth. One respondent described the opportunity as becoming "the leading tech-enabled firm to the SME sector". (See charts 5.4 and 5.5 on page 28)

Outsourcing and offshoring agreements are already being used to meet demand for these services (by 13% and 7% of those offering this service respectively) and this is set to expand. Over the next three years, 33% of respondents offering tech app advisory said their firm was looking to outsource these activities and 13% to offshore them.

STATIC SERVICE LINES

PIE audit
The research findings indicate a very low appetite to enter the Public Interest Entity (PIE) market. PIE audits were identified as the least popular service line, offered by only 21% of respondent firms, two-thirds of which were firms with more than 20 partners. Only 2% of firms saw this service line as an opportunity for growth. (See charts 5.5 and 5.6 on page 28)

This cautious approach potentially reflects the significant investment and expertise required to compete effectively in the PIE audit market, making it a less attractive option for many mid-tier firms. With growth anticipated in the non-PIE audit market it would seem that this remains the area of focus for much of the mid-tier.

ICAEW LENS

Nigel Sleigh-Johnson, Director, Audit and Assurance

Recent changes in the UK audit market provide opportunities for mid-tier firms, or 'challenger firms', to take on PIE audits, but appetite remains generally low. This is likely to be due to a mix of commercial factors, risk appetite, capacity constraints and, ultimately, the firm's strategy.

Perceived regulatory and reputational risks also continue to represent a powerful disincentive to entering the PIE audit market for many firms.

Established service lines
The research identifies a group of service lines that, despite being well-established and stable, are not viewed as offering significant growth.
(See chart 5.6 on page 28)

These include:

- payroll;
- consultancy;
- personal finance and wealth management;
- forensics and fraud; and
- insolvency and business restructuring.

These services are widely offered by mid-tier firms and provide a secure source of income – 13% of fee revenue collectively. However, only personal finance and wealth management was identified by more than 5% of firms as an opportunity for growth in the next three years.

There are some established pockets where outsourcing and offshoring are used to support these services, particularly in payroll, personal finance and insolvency. In line with findings in other service lines, the amount of work anticipated to be outsourced or offshored in the next three years is set to rise moderately across the board.

These mature services often cater to essential and ongoing client needs. However, in a rapidly evolving business landscape, there is a growing emphasis on exploring new service offerings that can attract new clients and capture emerging market opportunities. Balancing the maintenance of core services with the pursuit of innovative growth areas is crucial for the sustained success of mid-tier firms.

ICAEW LENS

Julie Corkish, Head of Practice

The mid-tier firms continue to provide essential services crucial for the growth and success of businesses across the UK. While traditional services remain reliable revenue generators, the evolving needs of clients underscore the significance of business advice, reflecting the expertise sought to navigate today's complex landscape.

The increasing demand for ESG and tech-related services demonstrates a clear trend, necessitating firms to adapt their business frameworks, allocate investments and foster growth in these areas.

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Founded in 1880, ICAEW has a long history of serving the public interest and we continue to work with governments, regulators and business leaders globally. And, as a world-leading improvement regulator, we supervise and monitor around 11,500 firms, holding them, and all ICAEW members and students, to the highest standards of professional competency and conduct.

We promote inclusivity, diversity and fairness and we give talented professionals the skills and values they need to build resilient businesses, economies and societies, while ensuring our planet's resources are managed sustainably.

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We believe that chartered accountancy can be a force for positive change. By sharing our insight, expertise and understanding we can help to create sustainable economies and a better future for all.

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* includes parent companies. Source: ICAEW member data February 2024, Interbrand, Best Global Brands 2023