EUROPEAN BUSINESS SERVICES SECTOR 2024

ABSL

Report prepared by the Association of Business Service Leaders (ABSL)
in cooperation with Accenture

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LIST OF ABBREVIATIONS

ABSL	Association of Business Services Leaders
AI	Artificial Intelligence
AMER	North, Central, and South America
APAC	Asia-Pacific
BANI	Brittle, Anxious, Non-linear, Incomprehensible
BI	Business Intelligence
BCP	Business Continuity Plan
BPO	Business Process Outsourcing
CAGR	Compound Annual Growth Rate
CEE	Central and Eastern Europe
CX	Customer Experience
DEI	Diversity, Equity, and Inclusion
DIB	Diversity, Inclusion, and Belonging
ECB	European Central Bank
EMEA	Europe, Middle East, and Africa
EMDEs	Emerging Market and Developing Economies
ESG	Environmental, Social, and Governance
EA	Euro area/Eurozone
EU	European Union
FTE	Full Time Equivalent
GBS	Global Business Services
GDP	Gross Domestic Product
GVA	Gross Value Added
GVC(s)	Global Value Chain(s)
IMF	International Monetary Found

IoT	Internet of Things
IPA	Intelligent Process Automation
KIBS	Knowledge-Intensive Business Services
KPO	Knowledge Processes Outsourcing
LAC	Latin America and the Caribbean
M&A	Mergers & Acquisitions
NATO	North Atlantic Treaty Organization
NLP	Natural Language Programming
QE/QT	Quantitative Easing/Quantitative Tightening
R&D	Research & Development
RPA	Robotic Process Automation
RTO	Return to Office
SSC	Shared Services Center
UN	United Nations
VDI	Virtual Desktop Infrastructure
WFA	Work from Anywhere
WFH	Work from Home
WTO	World Trade Organization
VUCA	Volatility, Uncertainty, Complexity, and Ambiguity
YoY	Year on Year

Jacek Levernes
Chairman of ABSL

INTRODUCTION

In today's dynamic global environment, Europe stands at a pivotal moment, with the opportunity to ignite unprecedented growth and resilience. As outlined by President Ursula von der Leyen in the Political Guidelines for the Next European Commission 2024–2029, the European Union is determined to shape a future of innovation, strategic industry development, a seamless green transition, and robust financial frameworks. At the core of this vision is an unwavering commitment to empowering European competitiveness through cross-border collaboration, regulatory innovation, and the advancement of transformative technologies such as, for example, artificial intelligence.

As the Association of Business Services Leaders (ABSL), which represents the business services sector, we are deeply aligned with these priorities that fuel this transformative and growth agenda, particularly in areas such as innovation, digital transformation, and balanced regulatory frameworks.

Employing around 40 million professionals, the business services sector is a major driver of the European economy, contributing over 20% of the EU-27's GDP. With a foundation built on Talent, Technology, and Transformation - the "3 Ts" - we are helping Europe advance toward a more competitive, innovative, and sustainable future.

The ABSL European Business Services Sector 2024 Report serves as a strategic guide for all stakeholders, executives, and decision-makers. This report defines the sector, provides new perspectives on its true economic significance, and offers strategic insights that can enhance efficiency and effectiveness, drive growth, and strengthen Europe's economic standing.

Now is the time to act and demonstrate the sector's vital role in building competitiveness of Europe in the years and decades to come.

We hope this report empowers you to be part of the transformative journey that lies ahead.

EXECUTIVE SUMMARY

Executive summary

The ABSL European Business Services Sector 2024 report is not just an analysis but also a strategic compass of the utmost importance for all business services sector stakeholders, including business executives and policymakers. It provides crucial insights into the business services sector in Europe, its significant role in the European economy, and its potential for growth and development. The report's focus on the sector's current status, key trends, and actionable policy recommendations, positions it as an indispensable and powerful tool for strategic decision-making.

The report's primary contribution is to redefine the business services sector in a way that reflects its actual economic importance. This sector encompasses a wide array of functions, services and processes, as well as organizational structures, which are beyond traditional definitions.

This unique entity, which we view as a vital part of the modern economy, includes a diverse range of functions, services and processes that organizations rely on daily to manage and enhance their operations as well as administration, increase efficiency and effectiveness, and drive growth. These services can be conducted internally or externally, in-house or provided by a third party, and are not bound by location or organizational setup. However, we do not include public services or functions linked to personal services or services related to physical labor (blue-collar by definition).

Using the new definition, we are able to estimate the comprehensive business services sector's size and, thus, its significant contribution to the European economy. **This sector is a vital driver, contributing 22.6% to the Gross Value Added (GVA) and employing over 31.5 million people within the EU-27 alone and 38.1 million across Europe (including the UK, Switzerland, and the EEA countries).** It not only serves as an economic cornerstone but also plays a crucial role in sustaining high-skilled labor markets across Europe.

In 2023, the business services sector generated an estimated EUR 3.47 trillion in GVA, showcasing its significant contribution to both national economies and the broader EU agenda. It is particularly instrumental in driving growth through knowledge-intensive business services (KIBS). **It is also noteworthy that Europe leads global exports, accounting for 53% of the global trade flows with intra-European flows alone comprising one-third of global trade.**

However, while Europe maintains a strong position, there are signs of the continent weakening in its competitiveness, primarily due to rising competition from Asia and the Americas.

Key trends shaping the sector include digital transformation, AI adoption, and post-pandemic restructuring. The move towards hybrid work models and decentralized operations has led to a greater reliance on cloud computing, automation, and external expertise. These factors are transforming business models from traditional Shared Service Centers (SSCs) and Business Process Outsourcing (BPO) to more integrated Global Business Services (GBS), which prioritize intelligent automation, cost-efficiency, and innovation. This transition highlights the sector's shift from labor arbitrage to multifunctional service delivery models with a focus on value creation along with the providing of higher value-added for clients.

Moreover, AI and advanced technologies such as predictive analytics are reshaping decision-making processes, enabling businesses to harness vast amounts of data for proactive strategies. The rise of multi-cloud strategies also underscores the sector's need for enhanced cybersecurity and robust data management systems to protect sensitive information.

ESG factors are gaining in prominence in the business services sector. Companies are increasingly aligning their financial objectives with sustainability goals, and there is a growing emphasis on responsible practices in response to regulatory changes and societal expectations. The sector must adapt to these demands while maintaining its competitive edge globally.

Challenges facing the sector include geopolitical tensions and geostrategic fragmentation, but the sector has shown resilience in the face of these challenges. Technological disruption and the need to address future skills gaps are also on the horizon. Europe's regulatory environment, while robust, requires adjustments to balance innovation with compliance, ensuring that businesses can capitalize on global technology shifts while mitigating risks.

The strategic recommendations outlined in the report are of the utmost importance. They focus on operationalizing Europe's Value-Added Chain (EVAC) to strengthen its global competitiveness. This includes, among other things, promoting a regulatory framework conducive to innovation, securing future talent through educational initiatives, and supporting the digital transformation of enterprises across the EU. Additionally, embracing AI and other emerging technologies will be crucial in maintaining the sector's leadership in the global market.

Sectoral objectives identified:

- To operationalize and strengthen the global competitiveness of the European Value-Added Chain (EVAC) while showing and effectively illustrating the role of the business services sector in EVAC creation

- To strive for a regulatory framework that allows the sector in Europe to remain competitive and compete efficiently as well as being able to innovate on the Global Technology Frontier

- To fully utilize the potential of the sector in Europe and its core strengths. The sector is well-positioned to address future shortfalls in talent pool availability and skills, turning potential disadvantages into opportunities for growth and innovation

- To strive for resilience in an ESG-oriented future and a potentially volatile world

The specific policy directions that attempt to achieve the above objectives include:

- The ways in which the reshuffling of the world order impacts the FDI/investments landscape and adapting business models to the new realities.
- Supporting the digital transformation of the sector and European enterprises with a special focus on seizing AI opportunities to improve strategic outcomes.
- Securing future talent while addressing competency gaps.
- Shaping a favorable and balanced regulatory framework by streamlining regulations, harmonizing tax systems, and easing talent flow.
- Supporting the ESG transition while playing the lead role in the active shaping of the ESG agenda. The sector has the potential to not only follow but also lead the ESG agenda, something which will have a significant impact on the future of business services.
- Securing the position of Europe as a top global location for business services by guaranteeing good value for money while reaping benefits from geographical and cultural synergies, the scale of the European single market, and its internal diversity.

On the operational level, key policies are highly recommended to be translated into a plan of action grouped into seven policy areas to enhance European competitiveness:

1. **Strengthening the geopolitical and economic resilience of the sector by contributing to secure European Value-Added Chain creation**
2. **Securing Europe's position as a top global location for business services**
3. **Adapting business models to new realities in the FDI/investments landscape**
4. **Fostering innovation at the global technology frontier and striving for technological leadership**
5. **Addressing skill gap challenges and winning the global war for talents**
6. **Navigating regulatory complexities**
7. **Supporting the ESG transition while playing a leading role in the ESG agenda**

The sector itself and the proposed actions align with the conclusions and recommendations of the recently published report, *The Future of European Competitiveness: A Competitiveness Strategy for Europe* by Mario Draghi.

In conclusion, the business services sector is essential for Europe's economic future. With the right policy frameworks and strategic investments, the sector is poised to continue its significant contributions to growth, employment as well as innovation, and boost Europe's competitiveness.

Key figures on the business services sector in Europe

73.1 million
Total number of white-collar professionals in EU-27

38.1 million
Total employment in business services in broadly defined Europe (EEC, UK, Switzerland)

11 million
Total employment in Knowledge-Intensive Business Services KIBS in EU-27

3.47 trillion EUR
Estimated total GVA of business services in EU-27 in 2023

20.4%
Estimated share of the sector in GDP in EU-27 in 2023

Ireland
Member state with the highest share of the sector in GVA and GDP

53%
Share of Europe in global KIBS exports in 2021

1/3
Share of intra-European trade in global KIBS flows in 2021

31.5 million
Total employment in business services in EU-27

4.8 million
Total employment in modern business services centers in EU-27 alone

13.6 million
Total employment in KIBS in broadly defined Europe (EEC, UK, Switzerland)

22.6%
Estimated share of the sector in total EU-27's GVA in 2023

4.6%
Estimated CAGR in GVA in EU-27 2014 – 23

Belgium, UK, Sweden

The Member states with the highest revealed comparative advantage Index RCA in KIBS exports: Ireland, Finland, Sweden

1.

DEFINING THE SECTOR

This chapter aims to define the business services sector, anchoring it in a more comprehensive and aligned perspective of business reality. Changes in business models, the external environment, and circumstances necessitate adjustment, as traditionally utilized definitions are no longer valid.

Modern business services encompass a wide range of specialized functions, services and processes that organizations need and leverage daily to run and enhance their operations increase efficiency and effectiveness, and drive growth. These services typically include, but are not limited to, information technology, finance, human resources, marketing, logistics, and customer support processes. From another perspective, they encompass a wide range of back-office, mid-office, and front-office processes.

The back-office refers to the part of an organization responsible for administrative and support tasks that are essential for the day-to-day operations but do not directly interact with clients. These functions ensure that the company's operations run smoothly and efficiently.

The mid-office serves as a bridge between the front-office and the back-office, ensuring that the processes initiated by the front-office are executed smoothly and that the data provided to the back-office is accurate. It involves factors including risk management, compliance, and strategic planning.

The front-office is the client-facing part of an organization, responsible for generating revenue and directly interacting with customers or clients. It includes activities that involve, for example, sales, marketing, and customer service.

Modern business services are characterized by their reliance on advanced technology, data analytics, and automation. They are designed to meet the dynamic needs of today's businesses in a highly competitive, fast-paced, volatile, and uncertain business environment.

Processes performed can be transactional (simple, repetitive, and routine tasks) or more complex, knowledge-intensive (requiring more elaborate skills that, in the ABSL definition, require at least six months of employee onboarding for the employee to reach the required efficiency level). Knowledge-intensive processes are complex workflows and activities that heavily rely on the expertise, specialized knowledge, and cognitive skills of individuals to achieve the desired outcomes.

These processes typically involve significant decision-making, problem-solving, and the application of deep domain knowledge, making them distinct from routine or automated processes. They are, at the same time, very different from typical blue-collar assignments.

Examples of knowledge intensive business processes include:

Research and Development (R&D)

Activities related to the creation of new products, services, and technologies.

Consulting Services

Professional services that provide expert advice and strategies to businesses.

Legal Case Management & Compliance

The application of legal knowledge to manage and resolve legal cases and processes involving interactions with regulators.

Financial Analysis and Planning

Detailed analysis and strategic planning based on financial expertise and market knowledge.

Supply Chain Management

Integration of qualitative insights, implementation of optimization algorithms in inventory management, and real-time adjustments due to continuous data analysis and predictive analytics.

Traditionally, processes were carried out internally in firms of differing sizes and structures. Over time, certain processes were standardized and centralized in dedicated centers within larger companies to be performed more efficiently, faster, and at lower cost (cost-optimization), or were outsourced to external business service providers. Business Process Outsourcing (BPO) involves contracting specific business tasks or processes to a third-party service provider. These tasks can range from simple administrative functions to more complex services requiring specialized skills. BPO allows companies to focus on their core competencies while benefiting from the expertise and efficiency of specialized service providers. The processes can be outsourced domestically or abroad (offshoring). Offshoring refers to relocating business processes or production to a foreign country, typically to leverage cost advantages, access new markets, and tap into specialized skills and labor.

Offshoring can involve either internal relocation (setting up a subsidiary in another country) or external outsourcing (contracting with a service provider to a location abroad). Unlike traditional outsourcing, where tasks are contracted out to third-party vendors, captive outsourcing, also known as a captive center or in-house outsourcing, is a business strategy where a company establishes its subsidiary or branch in a foreign country in order to perform specific business processes or services. Captive outsourcing keeps these functions within the company's control (thus allowing it to reap internalization advantages) but takes advantage of the benefits of offshoring. Offshoring can be performed to distant locations (global perspective) or countries in close proximity to efficiently utilize time-zone overlaps as well as cultural proximity (e.g., nearshoring).

A Shared Services Center (SSC)

is a centralized organizational unit that provides specific administrative and support services to multiple business units within a company (in-house). By consolidating and standardizing common functions and processes, the primary objective of an SSC is to streamline operations, reduce costs, and improve efficiency.

A Business Process Outsourcing (BPO)

center is a specialized facility where third-party service providers perform specific business functions on behalf of other companies (external providers). These centers handle a range of tasks, from administrative and back-office operations to customer-facing activities. BPO centers allow businesses to outsource non-core processes, enabling them to focus on their core competencies and strategic goals.

Global Business Services (GBS)

is an advanced operational model that integrates and consolidates various business support functions into a unified organizational structure. GBS aims to deliver standardized, efficient, and high-quality services across multiple business units and geographies. It leverages shared services, outsourcing, and centers of excellence to optimize processes, drive cost savings, and enhance strategic capabilities. As GBS is intended as a multi-functional business unit, it focuses on E2E transformation by definition.

In a VUCA-BANI[1] world characterized by geopolitical shakeups and possibly entering a realm of geopolitical fragmentation with large, regionalized value chains, we have recently observed more reshoring, onshoring, and backshoring of certain business services, as well as increasing production. Evidence of this shift continues to mount.

In the post-COVID-19 era, with rising geopolitical tensions and a hot war in continental Europe, we recognized the significance of security concerns along with the stability of logistics and increasingly friendshoring. Friendshoring, also known as allyshoring, is a strategic approach in international trade and supply chain management where a country or company relocates its production and sourcing to nations that are considered allies or have strong diplomatic and economic relationships. The concept is based on the idea of creating resilient and secure supply chains by partnering with countries that share similar values and political stability, as well as mutual trust, and reducing dependence on nations that may pose geopolitical or economic risks. Allyshoring is clearly on the rise.

The modern business services center sector, as previously defined by ABSL, encompasses all BPO, SSC, IT, and R&D processes performed in specialized and dedicated centers (we often refer to it in ABSL as the industry or our industry) as well as GBS centers that integrate the aforementioned processes within an integrated organization. We also utilize a numerus clausus principle—including only centers with at least 25 employees. Within the industry, about eighty different (both transactional and knowledge-intensive) processes recognized by ABSL are performed on a daily basis.

Knowledge-Intensive Business Services (KIBS)

refer to services that rely heavily on professional knowledge, expertise, and skills. These services are typically provided by specialized firms and play a critical role in supporting the knowledge economy. KIBS encompasses a broad range of activities, including consultancy, R&D, IT services, legal advice, and marketing. They are distinguished by their reliance on intellectual capabilities rather than physical inputs or pure labor-intensive processes. In ABSL reports, we use the definition of KIBS given by Schnabl and Zenker (2013). Please refer to the methodological appendix at the end of the report for more information.

Now, looking from a broader perspective, the processes and functions close to the core of the industry, as well as transformational activities, are performed not only in the dedicated and specialized centers of 25 employees plus but in all companies small, medium, and large in all sectors of an economy, from the agriculture, fisheries, and forestry sectors to manufacturing industry and mining, utilities, as well as private and public services.

[1] **VUCA**
focuses on the volatile, uncertain, complex, and ambiguous aspects of our modern world; **BANI** aims to address fragility, anxiety, non-linearity, and inconsistency. Both approaches are intertwined but emphasize different aspects and points of view.

Most of the work certainly involves white-collar professionals who have the required skills and expertise to master daily operations.

White-collar professionals are defined as those employed aged 15 years or older with tertiary education (levels 5-8). **Blue-collar workers** are typically those employed in manual labor or industrial work. These jobs often require physical exertion and can be found in industries such as manufacturing, construction, maintenance, and transportation. Blue-collar work usually involves tasks requiring the use of machinery, equipment, or manual tools.

Therefore, by **business services**, we mean a wide range of functions and processes that organizations need and leverage daily so as to manage and enhance their operations as well as increasing efficiency, and driving growth. These services can be carried out internally or externally, in-house or provided by a third party, regardless of location or organizational setup.

At the heart of our definition lie the horizontal processes and functions as well as some verticals, such as the IT services sector. Looking from this perspective, our definition of business services is an analytical challenge and a challenge to traditional statistical reporting systems.

For the sake of clarity and the way these processes are organized, we leave out functions performed within public services sectors, functions linked to personal services, and services related to physical labor (blue-collar by definition).

In this report, looking from a geographical standpoint and taking into account data availability and quality considerations, **we analyze the sector narrowly when it is limited to the current EU-27 states or more broadly when considering the EEA dimension (EU-27 + Lichtenstein, Norway, and Iceland) as well as Switzerland and the UK.** This broad perspective includes developed European states with fairly homogenous legal environments that provide similar business conditions.

Our definition of the business services sector

A wide range of functions, services and processes that organizations need and leverage daily to manage and enhance their operations and administration, increase efficiency and effectiveness, and drive growth, which is carried out internally or externally, in-house or provided by a third party, regardless of location or organizational setup. However, public services as well as functions linked to personal services and services related to physical labor (blue-collar by definition) are omitted.

2.

THE SIGNIFICANCE OF THE SECTOR FOR THE EUROPEAN ECONOMY

White-collar employment and employment in KIBS

In 2022, white-collar employment in the EU-27 exceeded 73.1 million people (defined as employed at the age of 15 or older with tertiary education, that is, levels 5-8). In the broader sense, white-collar employment in Europe—EEA + UK stood at 87.9 million workers.

Based on Eurostat data and in accordance with the methodology presented in the ABSL EMEA report, we have estimated the size of the KIBS sector in the EU-27 at 11.0 million workers at the end of 2022, and 13.6 million from our broader geographical standpoint.

At the same time, global employment in KIBS in 2022 (excluding, for example, China and India, due to a lack of data) exceeded 50 million workers, according to our estimates based on the OECD's database.

Employment in the business services centers sector

We estimate the total size of the modern business services centers sector in EU-27 to be 4.825 million people and Europe in a broader sense to be 5.5 million people (approximately the equivalent of Finland's population).

This is above the EMEA ABSL 2023 report's estimates, which estimated total employment in SSC, BPO, GBS, R&D, and IT centers to be 4.2 million (although not all national markets were included).

4.8 million
professionals
EU-27

5.5 million
professionals
Europe

Estimate of employment in business services functions in Europe

Modern business services centers (SSC, BPO, GBS, R&D, and IT centers) employ only a part of the total workforce employed in functions supporting business operations across the economic sectors, as we stressed in Chapter One.

Using the data to approximate the share of business services functions within different NACE rev. 2 sectors of the economy, we arrived at the following estimates. A rough estimate of total employment in business operation functions puts the total employment at 45.7 million workers in EU-27 at the end of 2022, or approximately 40.0 million workers, excluding the public services sectors. This, for the time being, includes blue-collar workers.

Business services estimate by the CEDEFOP

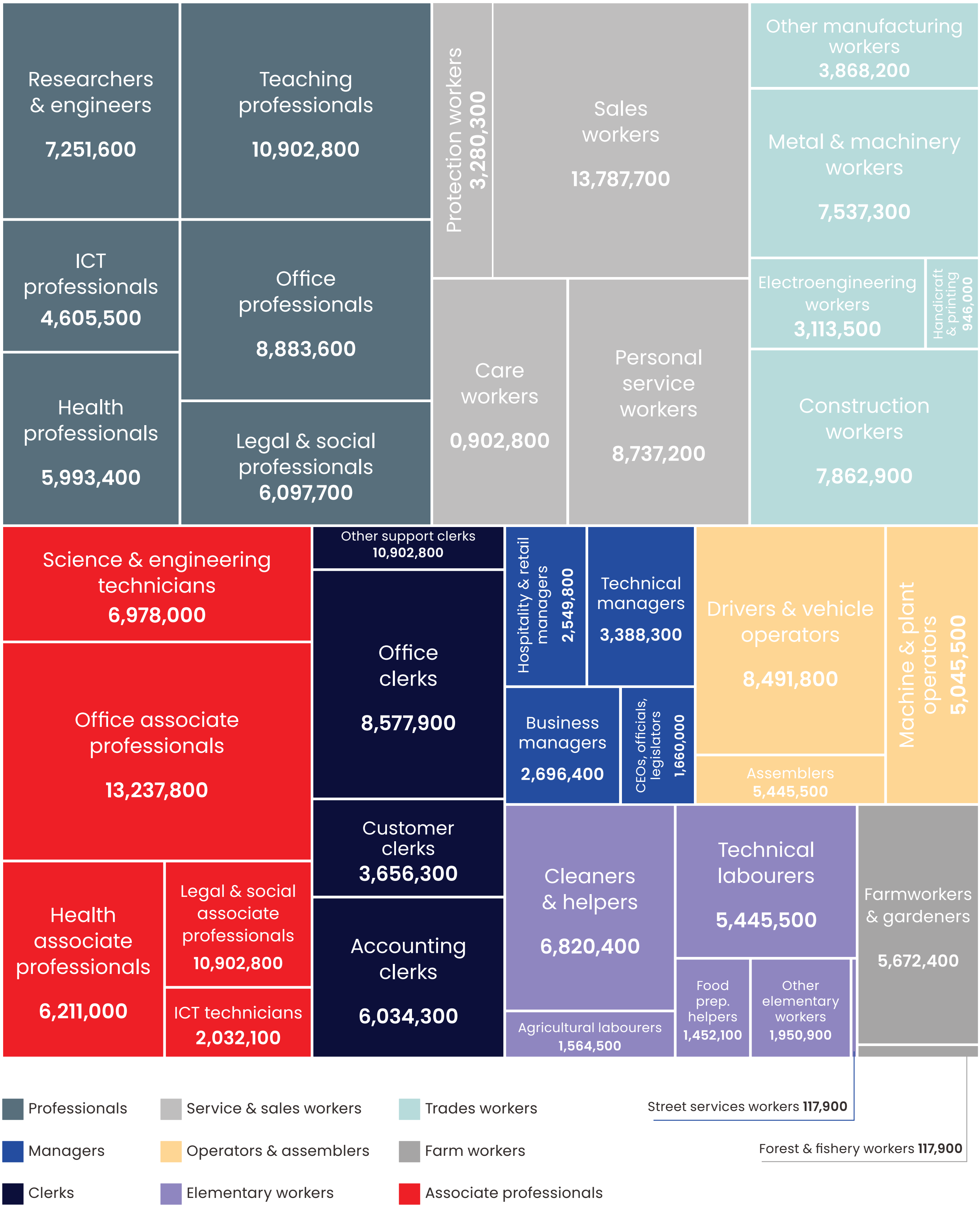
The European Centre for the Development of Vocational Training, known as CEDEFOP, is an EU agency established to support the development and implementation of vocational education and training (VET) policies in EU member states. CEDEFOP plays a crucial role in promoting high-quality vocational education and training that responds to the needs of the labor market and contributes to lifelong learning and skills development. CEDEFOP provides EU member states with data, analysis, and policy advice on VET to help them design and implement effective education and training policies. It includes tracking trends, identifying best practices, and offering policy recommendations.

Using data from European Labor Surveys, CEDEFOP estimates sizes of different sectors key to wider EU-related agenda. CEDEFOP defines business services as a sector that covers a broad range of industries involved in the provision of a range of business services, including those related to providing professional advice and consulting services, facilities management, information, and communication services, as well as arts, entertainment, and recreation services. Business services, according to CEDEFOP, include the following industry groups: banking and finance; insurance; professional services (such as those provided by lawyers, accountants, engineers, computer programmers, analysts, advertising, and marketing professionals, etc.); business services; as well as arts and recreation. As can be seen, it covers a wide variety of activities, from finance to those associated with arts and entertainment.

According to the last available data, CEDEFOP estimates the size of business services in the EU-27 at 45,964,000 employees in 2022, which is very close to our initial estimate.

Figure (1)

The structure of business services in the EU, according to the CEDEFOP



Source: CEDEFOP's website

Final estimation of the business services size in Europe

Upon reviewing the detailed occupational structure of business services provided by CEDEFOP, we have eliminated occupational categories that, in our opinion, serve functions outside of our definition of business services functions (e.g., healthcare-related, cleaners and helpers, personal service workers, etc.), or in other words, those categories which have a blue-collar character.

It leads us to estimate a 68.6% share of occupations within the scope of modern business services functions, leading to an estimate of the total employment pool in FTE terms of 31,531,000 in the EU-27.

Applying the same share to the broader European perspective, we arrive at a total of 38,100,000 employees. If we include EU candidate states from the Balkans and Turkey in our analysis, we exceed the 40,000,000 mark.

Employment size & shares

The overall employment estimate across all dimensions for EU-27 and the broader European context is provided in the table below (data in millions FTE).

Table (1)

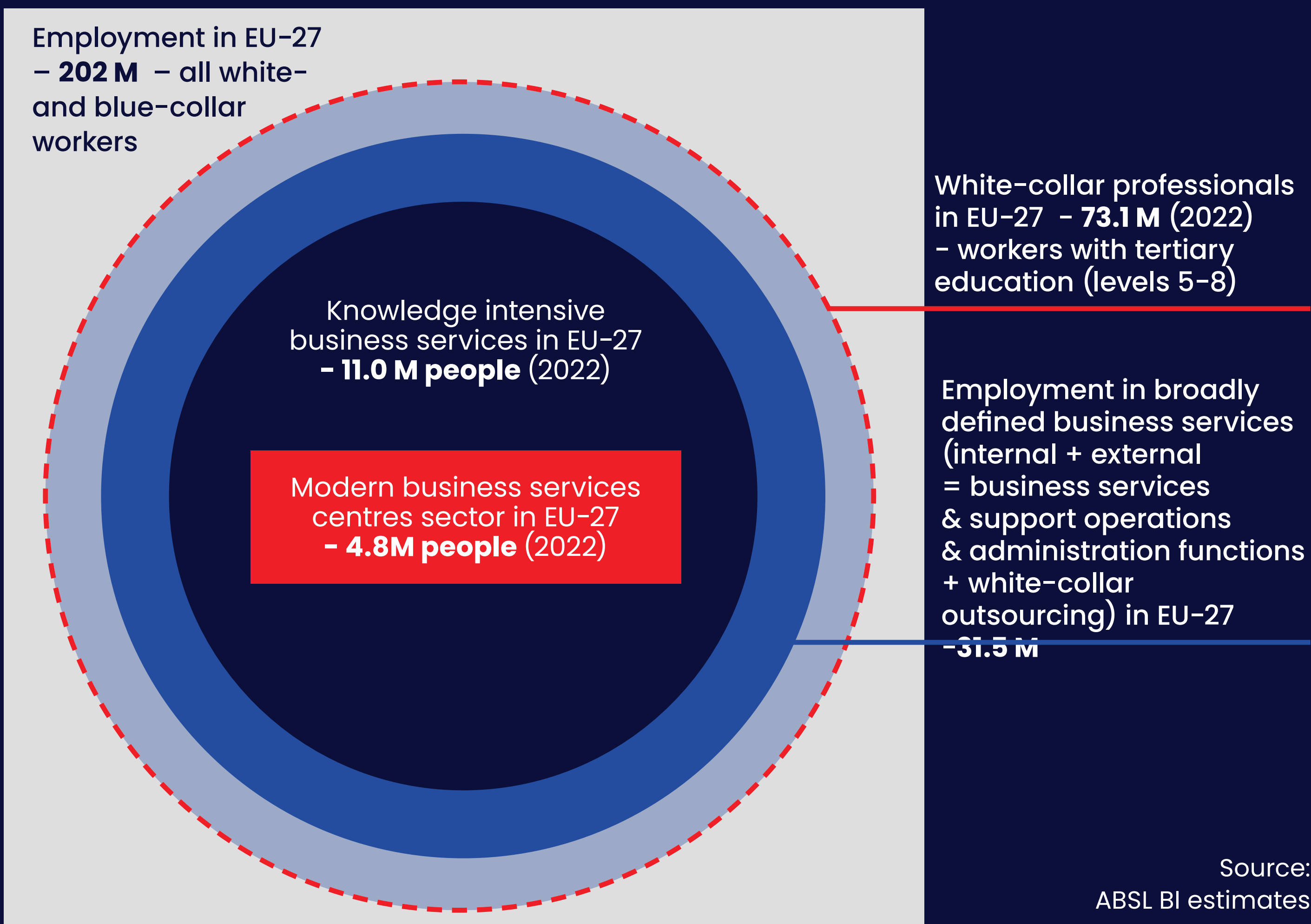
Employment in business services in Europe

	Narrow-sense **EU-27**	Broad-sense **EU-27 + EEC+ UK + CH**
Center-based modern business services	4.8	5.5
Knowledge-intensive business services	11.0	13.6
Modern business services	**31.5**	**38.1**
White-collar professionals	73.1	87.9

Source: ABSL BI estimate based on EUROSTAT databases and ABSL EMEA estimates.

Figure (2)

Key dependencies between analyzed concepts in the structure of European employment within EU-27 in 2022



Source: ABSL BI estimates

Key employment figures:

- Total employment in EU-27 equals 202 million workers.
- The total number of white-collar professionals in EU-27 is 73.1 million people.
- Business services employ 31.5 million people. 4.8 million in EU-27 work in modern business services centers.
- Business services employ 38.1 million workers (roughly the total population of Poland) in the broadly defined Europe (EEC + UK & Switzerland).
- Around one-sixth of all workers are employed in the business services sector.
- Around 45% of white-collar professionals are employed in the business services sector.
- One-third of the business services sector were KIBS workers in 2022.
- Around one-sixth of workers in business services work in modern business service centers.
- We expect the business services sector to grow to 40 million employees by 2030 (CAGR 4%).
- By 2030, we expect the KIBS subsector to grow to approximately 15.0 million workers (CAGR 6%) and 37.5% of total employment in the business services sector.

Share of the business services in the GVA

Using Eurostat's data on sectors' contributions to total gross value added, we estimated the GVA of business services and its contribution (share) to the total GVA of individual states and the EU-27.

GVA measures the value of goods and services produced in an economy, sector, or industry. It is calculated as the output (value of goods and services produced) minus the intermediate consumption (value of goods and services used in production). Essentially, GVA provides the value added by each sector of the economy.

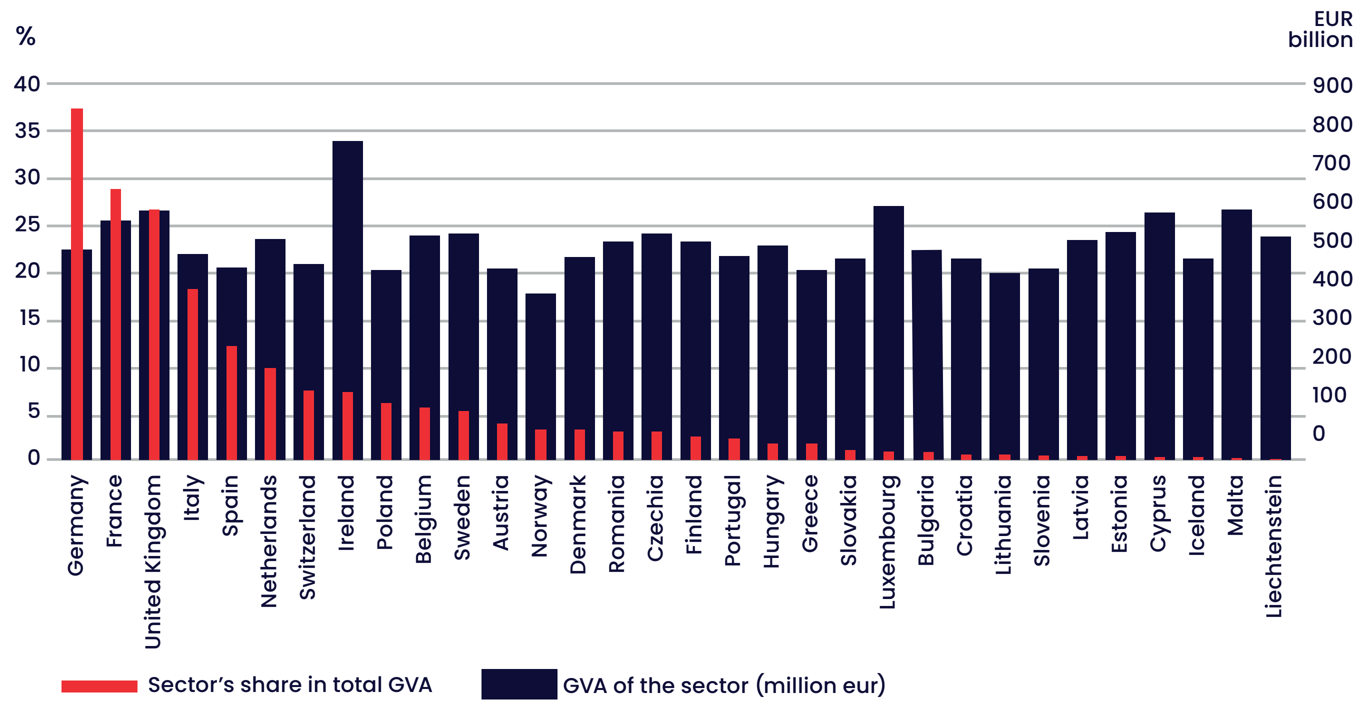
The business services GVA was calculated by applying the definition from ABSL EMEA as the GVA of KIBS (whole section J and 50% of section M), 50% of GVA in Finance and banking, 25% in real estate activities, and 10% of GVA in the remaining sectors of the economy (a conservative approach) while omitting public services.

Using the above methodology, **business services generated a total GVA of USD 3.47 trillion in the EU-27 in 2023 and were responsible for 22.6% of the total GVA of the EU-27**. The share of business services varies among the Member States, with Ireland (33.5%) and Luxembourg (26.7%), clearly exceeding the EU-27 mean, with Lithuania at the other of the scale (19.7%).

In absolute terms, total GVA generated by the sector, our estimates show three clear leaders – **Germany, France, and Italy**, followed by Spain and the Netherlands. The next two countries, which had a GVA of close to EUR 160 billion, were Switzerland and Ireland. Poland, Belgium, and Sweden completed the top ten (with GVA from 100 to 135 billion EUR).

Figure (3)

Total sector's GVA in 2023 (EUR millions) and the share of the sector in the overall GVA (share in %)



Source: ABSL BI estimates

Estimation of the size of the sector in terms of the share of the GDP

Using Eurostat's data regarding GDP, we calculated the share of the business services sector in the GDP of respective countries and the EU-27. The share has been calculated as the ratio of estimated GVA to respective GDP.

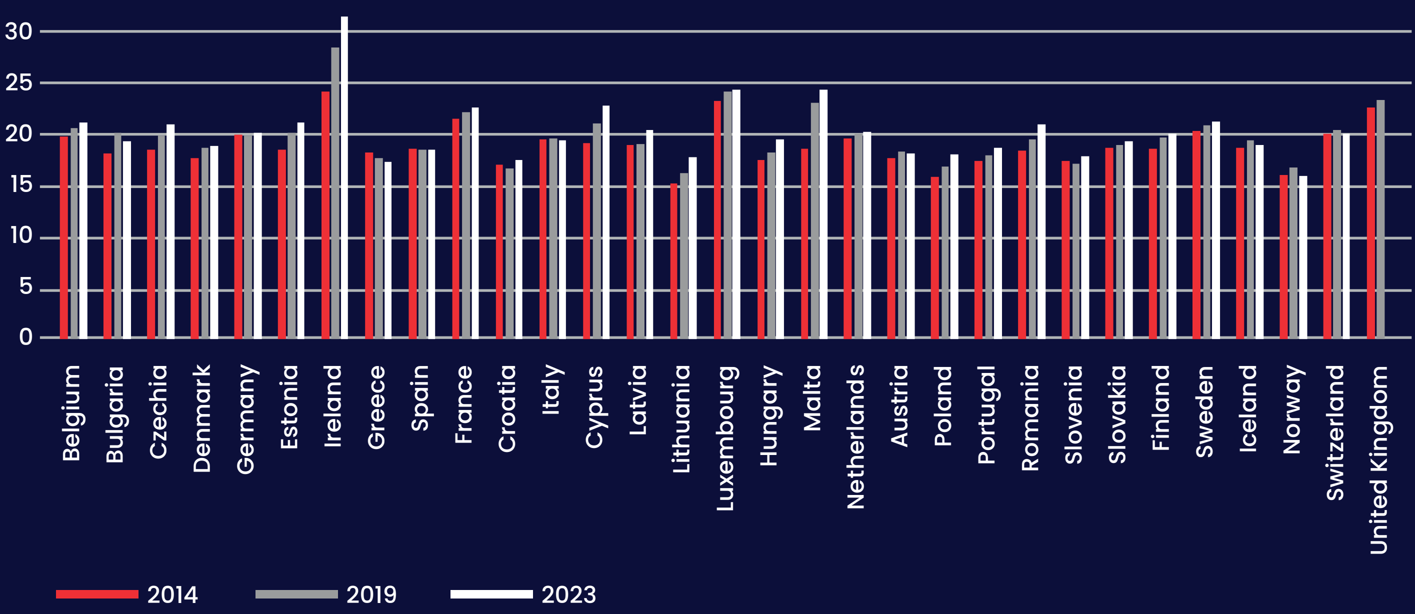
GDP is the total monetary or market value of all finished goods and services produced within a country's borders in a specific period. It includes all private and public consumption, government outlays, investments, and net exports (exports minus imports). As GDP is equal to GVA plus taxes minus subsidies, the share of the sector in GDP should be lower than its share in GVA as long as subsidies are smaller than taxes paid.

Apart from Norway, the sector's share of GDP is lower than its share of total GVA. In 2023, the share of GDP in the EU-27 was 20.4%, while the share of GVA generation was 22.6%.

Among EU-27 countries, the share of the sector is the lowest in the case of Greece. It is clearly the highest in the case of Ireland, with Malta and Luxembourg completing the top three.

Figure (4)

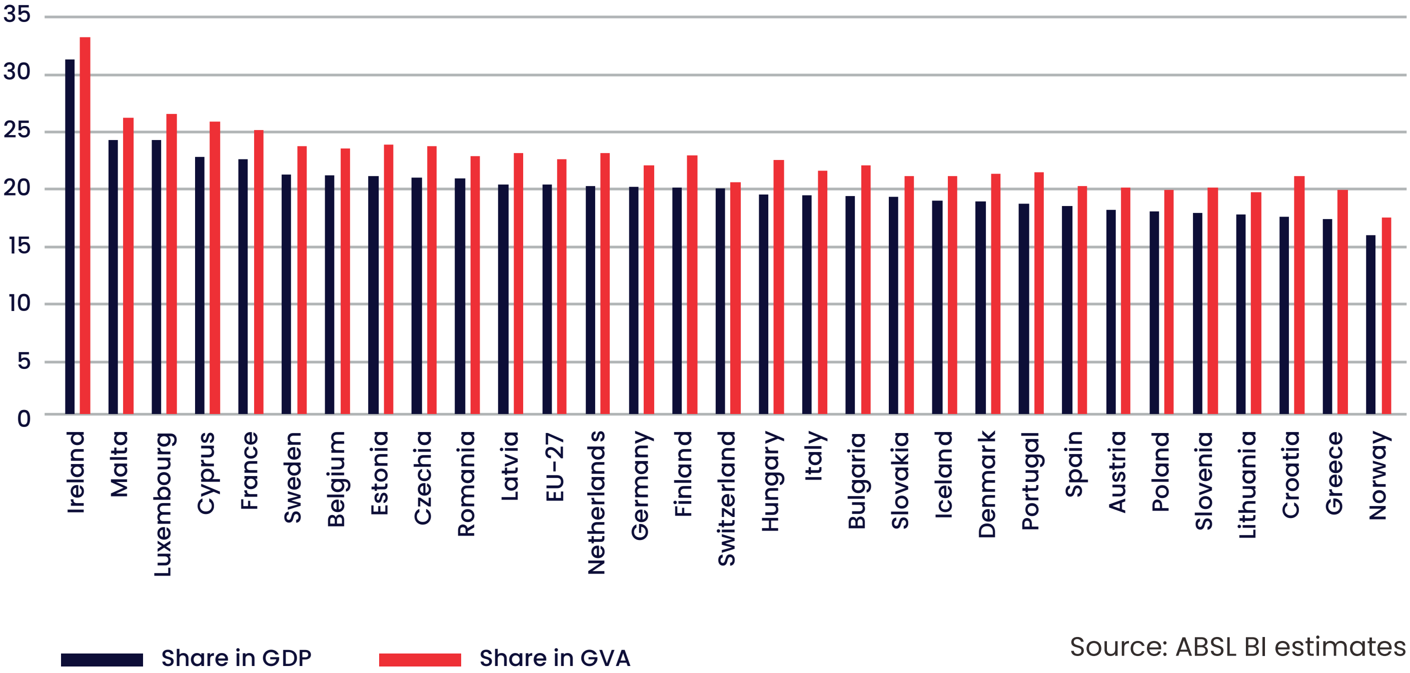
Share of the business services sector in GDP in 2014, 2019, and 2023



Source: ABSL BI estimates.

Figure (5)

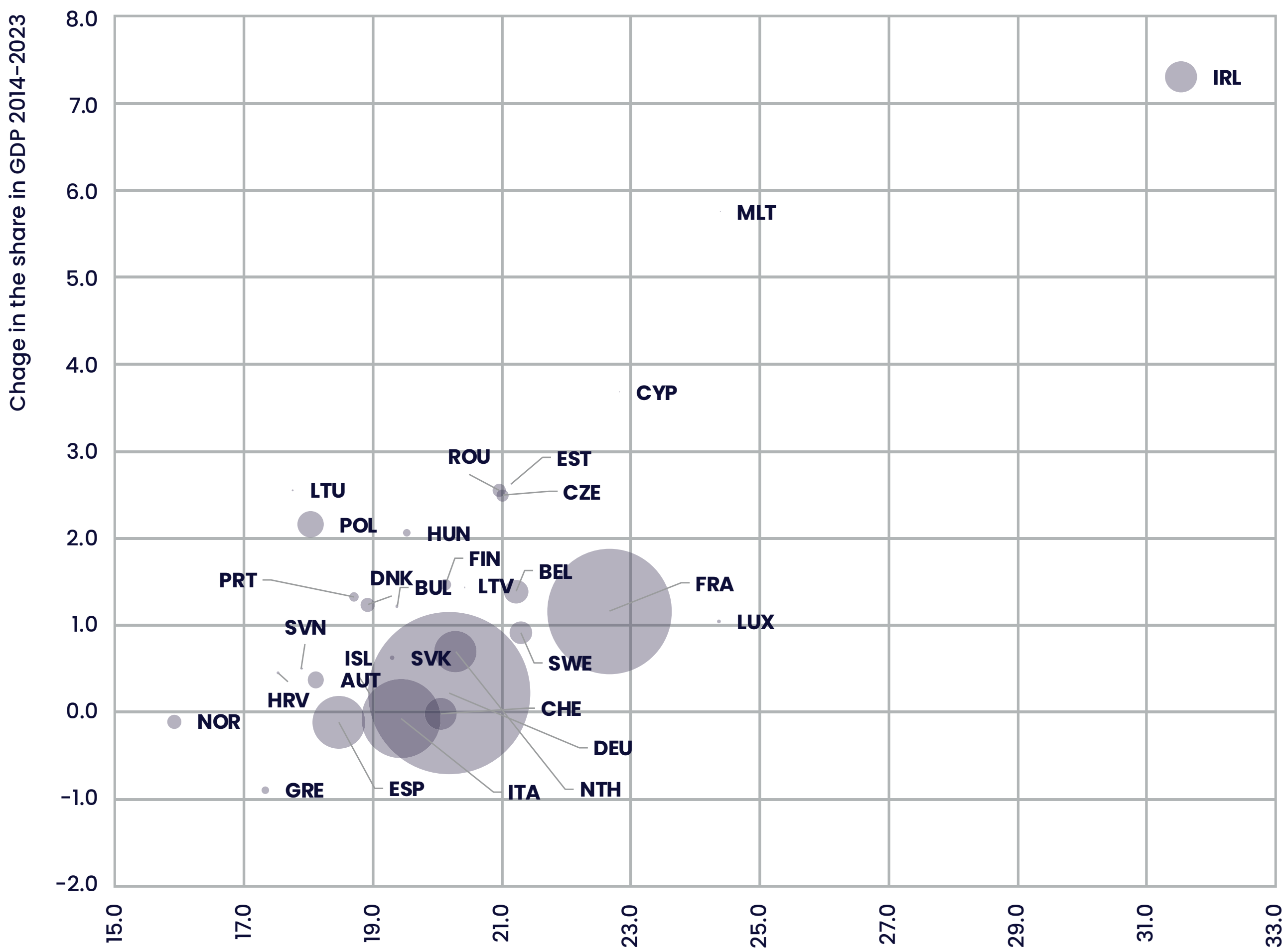
Total sector's GVA in 2023 (EUR millions) and the share of the sector in the overall GVA (share in %)



Source: ABSL BI estimates

Figure (6)

Comparative analysis of the sector's significance for national economies



Source: ABSL BI estimates. ISO-3 country codes. The size of the circle reflects the absolute size of the sector in terms of GVA

Global trade in Knowledge-Intensive Business Services (KIBS)

Unfortunately, data on global trade flows are unavailable for business services and difficult to estimate. Therefore, the present section of the report focuses on the key component of business services, namely, knowledge-intensive business services.

Revealed Comparative Advantage (RCA) is a concept used in international trade economics to identify the relative (or, in other words, comparative) advantage or disadvantage of a country in certain industries or products. It helps in understanding which goods or services a country is particularly good at producing and exporting compared to other countries. RCA is a useful tool for analyzing trade patterns and identifying strengths and weaknesses in a country's export portfolio. It aids policymakers, investors, and researchers in their decision-making processes. RCA values above 1 indicate a comparative advantage in trade (the share of KIBS in a given country's exports exceeds the mean share globally), and values below 1 indicate a lack of comparative advantage[3].

Using the WTO-OECD BaTIS data, we calculated RCA worldwide to identify countries showing significant specialization in KIBS relative to the global mean. BaTiS is an analytical dataset that contains a complete, consistent, and balanced matrix of international trade in services. Statistics cover the period 2005-2021 for over 200 reporters and partners and 12 EBOPS 2010 categories in addition to total services.

Among the top global exporters of KIBS, the highest values of RCA in 2021 can be identified in the wider European context for **Ireland (1.62), Finland (1.53), Sweden (1.39), the Switzerland (1.29), Belgium (1.28), Netherlands (1.21), Norway (1.18), the UK (1.12), Among the top 10 global exporters, it is worth noting that the US (0.88) index was below zero, while Germany (1.07) and France (1.01) had index values clearly below the value for India (1.28). The RCA for China is below one (0.84).**

The highest KIBS RCA values outside of Europe, not mentioned above, are visible in, Brazil (1.43), Canada (1.24), Australia (1.19) and Japan (1.15).

[3] Absolute advantage occurs when a firm can produce a good or service more efficiently (i.e., with fewer resources) than its competitors or at the lowest unit cost (cheaper). Comparative advantage refers to the ability of a firm or a country to produce a good or service at a lower opportunity cost than its competitors. The key idea is that even if a company isn't the best at producing something (absolute advantage), it can still benefit from specializing in what it does most efficiently relative to other tasks. (e.g. Krugman & Obstfeld, 2009). RCA has been calculated relative to total service trade flows (S).

Table (2)

Top 30 KIBS exporters in 2021 - value in USD billion and RCA values (2019-21)

	Export value 2021 (USD billion in 2021)	RCA		
		2019	2020	2021
USA	636.4	0.87	0.85	0.88
UK	378.3	1.14	1.08	1.12
Irleand	362.2	2.32	1.87	1.62
Germany	309.9	1.19	1.09	1.07
the Netherlands	207.5	1.18	1.18	1.21
France	201.5	1.10	1.04	1.01
China	190.6	0.94	0.89	0.84
Singapore	183.8	1.17	1.10	1.10
Switzerland	159.6	1.39	1.29	1.29
India	154.8	1.34	1.24	1.28
Japan	140.2	1.00	1.06	1.15
Belgium	111.5	1.44	1.25	1.28
Canada	91.4	1.10	1.19	1.24
Hong Kong	85.0	0.65	0.74	0.81
Italy	84.0	0.89	1.00	0.99
Sweden	80.6	1.46	1.36	1.39
Spain	74.2	0.70	0.89	0.82
Luxembourg	61.4	0.86	0.68	0.71
South Korea	58.9	0.85	0.85	0.80
Austria	49.9	0.94	0.94	1.03
Australia	49.2	0.81	0.96	1.19
Poland	48.1	0.89	0.85	0.84
Denmark	44.1	0.82	0.79	0.71
Russia	41.6	1.07	1.09	1.06
United Arab Emirates	40.7	0.66	0.67	0.68
Israel	39.8	1.18	1.13	1.12
Finland	35.1	1.54	1.51	1.53
Brazil	33.6	1.64	1.60	1.43
Norway	32.1	1.15	1.23	1.18
Taiwan	29.6	0.66	0.73	0.71

Source: ABSL BI estimates based on OECD-WTO BaTIS dataset

The aggregation of trade flows to continents leads to a number of interesting conclusions. Europe in 2021 was responsible for 53.3% of global KIBS exports, ahead of Asia (24.7%) and the Americas (19.8%). At the same time, 65.5% of exports of KIBS from Europe are directed to another European country (mostly intra-EU trade). Globally, intra-European trade is responsible for 35.2% of global KIBS flows. It is ahead of the intra-Asian flows (10.7%) and intra-Americas flows (4.7%). Europe is responsible at the same time for 50.3% of KIBS imports into Africa, 43.6% into the Americas, 35.6% into Asia, and 36.2% into Australia and Oceania.

Between 2008 and 2021, global KIBS flows increased at a CAGR of 6.1%, with Europe's exports growing at 5.4% below the rates for Asia, 7.9%, and 6.2%, respectively, for the Americas. Intra-European trade grew at a CAGR of 5.0%. As a result, **Europe's share in global KIBS exports went down by 5.3%, while both the Americas (+0.3%) and Asia (+5.0%) gained a share, as a shift-share analysis proves.**

It points to still strong, however weakening competitive position of Europe.

Who do we compete with?

From a European perspective, we compete with each other and with other locations globally. Within the EU-EEC context, the rules of the games are similar, as we operate in or are close to a common market based on fundamental freedoms.

Competition is the backbone of modern business. Competition does not exclude, however, strategic cooperation. The term coopetition can be applied in this context (Porter, 1986). **Coopetition is a strategic concept that combines elements of both competition and cooperation between businesses.** It refers to situations where companies that are typically competitors in the marketplace also engage in cooperative activities that are mutually beneficial – the simultaneous occurrence of competition and cooperation. Companies compete in certain areas (e.g., market share, product/service features) while collaborating in others (e.g., R&D, standard setting, supply chain logistics, educational programs). The cooperation part of the competition is aimed at achieving common goals that benefit all parties involved, such as reducing costs, accelerating innovation, or expanding market reach.

Coopetition often involves strategic alliances, joint ventures, or partnerships where companies pool resources, share risks, and leverage each other's strengths. The nature of competition can be fluid, with companies navigating between competitive and cooperative interactions based on market conditions, strategic priorities, and mutual interests. All actions taken must be obviously within the boundaries set by the competition (anti-trust) policy.

Coopetition is a feature of our sector, particularly in spatial concentrations referred to as industry clusters (Porter, 2000). Large chunks of the industry operate in this mode, utilizing their major benefits, including labor market pooling, localized knowledge spillovers, and access to specialized services, suppliers, and infrastructure. These allow collocated companies to be more productive and innovative and operate at lower costs (external economies of scale).

The ABSL EMEA 2023 (ABSL 2023) report clearly indicated that the more narrowly defined KIBS talent pool shows a clear feature of spatial concentration in Europe.

Looking from a global perspective, Europe is one of the locations considered by global corporations as a location for doing business. From this perspective, Europe competes with:

- India and the Indian subcontinent
- Southeastern Asia (e.g., the Philippines, Indonesia, Thailand, Malaysia)
- Northern Africa (Morocco, Tunisia) and South Africa (RSA)
- Middle East (e.g., Egypt, Saudi Arabia, Turkey)
- South and Central America (e.g., Brazil, Argentina, Mexico)
- The US

Within the global competition for investments, the key advantages of Europe include:

- One - two time zones ideally located to service companies within Europe but also offshore (globally), a firm located in the CET time zone is able to cooperate efficiently with the AMER (ET), EMEA, and APAC regions
- Size and quality of the talent pool
- Internal differentiation – diversity
- Diversity within the single market providing roughly uniform legal conditions - unity of the regulatory system
- High quality of life
- Value for money – the ability to provide high-value services at reasonable prices
- Cultural proximity and cultural similarity despite differentiation
- Superior corporate and public data quality and comparable, trustworthy statistics
- Security - most of the area in one defense alliance (NATO)
- Transparency of the financial status of firms
- High educational standards
- Lack of severe social disparities within societies
- Single market based on key freedoms and uniform regulations

3.

TRENDS IN THE GLOBAL SECTOR

Several trends are already shaping or will potentially shape the global business services sector in the foreseeable future. The influence of these trends is especially visible in the areas of business models and technology. The trends are diverse and continue to require increased attention from key stakeholders as they impact the sector's bottom line and competitiveness across the board.

Market dynamics on the increase

In 2023, the global services market, including key domains of consulting, application implementation and management services, infrastructure as a service, and business process services (BPS), grew by 4.9%, reaching a total end-user spending of USD 1.5 trillion (Gartner, 2024). This reflects a significant cumulative growth of 26% over two years from USD 1.19 trillion in 2021 and exceeded earlier forecasts – in 2019, Gartner expected the 2023 market to reach a value of USD 1.3 trillion. This data indicates that the services market is on a trajectory of rapid expansion, fueled by technological advancements, increasing digitalization, and the growing need for specialized external expertise.

At the same time, the pace of building or significantly modernizing internal centers of various kinds is still impressive. While a significant surge was seen in all regions in 2021 as a result of COVID-related adjustments, the trend for building center-based expertise is still visible.

In terms of in-house delivery centers market dynamics, global trends showed continuous expansion between 2021 and 2023. According to Everest Group, a leading global research firm, the number of new in-house delivery centers opened globally grew from 314 in 2021 to 550 in 2023 (an impressive 75% increase). Onshore centers increased their share in the global market from 35% in 2021 to 41% in 2023, but still, the vast majority of them were located offshore or nearshore (59%). During this period, Europe's share (CEE, UK, and Western Europe) in offshore-nearshore setups decreased by nine percentage points while India's share grew by 14 percentage points, illustrating its increased attractiveness as a destination for new centers. Europe's offshore-nearshore market share has continued to shrink over recent years and CEE seems to be the most affected, with its share steadily declining from 17% in 2021 to 10% in 2023. This fall is likely due to rising costs and geopolitical risks. Meanwhile, in 2023, the UK & Western Europe region returned to its 2021 level after a remarkable reduction in its share in 2022.

In the UK, this is also the function of BREXIT. It is probably worth mentioning the shortening of service chains and a clear policy of concentrating markets within countries, each of which tries to protect and strengthen its own market.

Table (3)

The number of new in-house delivery centers[3] - globally 2021-2023

	2021	2022	2023
Onshore	111	135	227
Offshore - nearshore	203	314	323
of which			
APAC (excluding India)	18%	12%	13%
CEE	17%	11%	10%
India	28%	47%	42%
Latin America	5%	6%	7%
MEA	9%	8%	6%
North America	2%	4%	3%
UK & Western Europe	**21%**	**11%**	**19%**

Source: Everest Group, Market Vista™: 2023 Year in Review and Outlook for 2024

Table (4)

The number of new in-house delivery centers in Europe 2021-2023

	2021	2022	2023
Total	127	115	184
Onshore	50	44	91
Offshore - nearshore	77	71	93
of which			
CEE	**45%**	**51%**	**35%**
UK & Western Europe	55%	49%	65%

Source: Everest Group, Market Vista™: 2023 Year in Review and Outlook for 2024

[3] Facilities set up and operated by enterprises often referred to as Global Inhouse Centers or Global Capability Centers or captives to provide support for various IT-BP functions. These centers are not outsourced to third-party providers but are fully owned and managed by the enterprise itself. The numbers refer to both new and expanded setup centers (where expanded centers are approx. 1-2% of the total number).
Regional classifications based on their perceived onshore or offshore/nearshore capabilities:
UK and Western Europe:
- Onshore: e.g., Austria, Belgium, Denmark, France, Netherlands, Sweden
- Offshore/nearshore: e.g., Ireland, Portugal, Scotland, Spain

Central and Eastern Europe:
- Onshore: Russia
- Offshore/nearshore: Croatia, Greece, Hungary, Lithuania, Poland, Slovenia etc.

Accelerated business transformation in the post-COVID-era - we are on a new technological curve

COVID-19 was a major black swan event and a short-lived but fundamental shock to the global economy. The business services industry proved, to a large extent, to be more resilient to COVID-19 than many other services and manufacturing industries. Some parts of the industry thrived during this time. Global revenue from IT outsourcing services saw a marked increase during the pandemic, growing from approximately USD 351 billion in 2020 to about USD 413 billion in 2021 (17.7% growth YoY) (Statista, 2024).

This surge was driven by the accelerated demand for digital transformation, remote work solutions, and cloud services as businesses quickly adapted to the new normal. However, this rapid expansion also led to overinvestment in certain areas, particularly in digital infrastructure and services. As the immediate need for these services began to normalize post-pandemic, some companies faced the necessity to restructure and downsize so as to adjust to reduced demand.

This is reflected in the ITO growth in 2022, which was only 3.9% YoY. An analysis of top market players indicates that some have already completed the required adjustments, but some are still ongoing. At the same time, the industry pursues a push towards end-to-end process improvements and a journey across functions rather than optimizations within siloes. Pandemic-related adjustments led not only to the evolution of service business models but also enabled new ways of working and collaboration. Centers- and office-focused thinking was replaced by a more decentralized methodology (Forbes, 2024). This in turn, resulted in the need for more sophisticated and omni-connected IT tools and improved projects, processes, and productivity management (MIT Sloan, 2020).

Evolving services models

Companies are progressively **leveraging global**, multifunctional, and hybrid working models to navigate tightening economic conditions. This shift is accompanied by an expansion in the traditional functional scope, accelerated digital capabilities like automation and analytics, and a pronounced customer-centric approach. **There is a push towards end-to-end process improvements and a journey across functions rather than optimizations within silos. Companies are transitioning from Shared Service Centers (SSC) and Business Process Outsourcing (BPO) models to Global Business Services (GBS) models to find new productivity levels and cost efficiency beyond simple centralization and labor arbitrage. GBS has the potential to emerge as a strategic function (BCG, 2024) and contribute more significantly to companies' bottom lines.**

It also facilitates the adoption of intelligent automation. It streamlines the integration of smart processes under central governance, optimizing the investment in cutting-edge technologies and supporting a digital corporate culture. Saurabh Gupta and Phil Fersht (2024) emphasize the potential transition of Global Business Services from its traditional cost-saving, back-office focus to Generative Business Services, embracing generative AI to drive innovation and business growth. This shift is driven by the limitations of the traditional GBS model in providing value beyond cost savings and creating attractive career paths. The emergence of generative AI is seen as a catalyst for GBS to evolve into a more dynamic, value-driven function that supports enterprise growth and innovation.

Saldanha and Passerini (2023) argue that episodic transformations are insufficient in today's fast-paced world, and organizations must adopt continuous transformation strategies. In this environment, business service models will constantly evolve, with most changes being gradual and sustaining, although some could be more disruptive.

Service integration & management (SIAM), tailoring and hyper-personalization

There is a move towards more integrated service models that offer end-to-end solutions rather than isolated services. This requires a focus on service management and the ability to coordinate multiple internal and external service providers to deliver a cohesive service experience

At the same time, rather than offering generic services, providers are increasingly developing industry-specific solutions tailored to the unique challenges and requirements of different sectors. This approach enables them to offer more value and relevance to their clients.
In the future, there will be an expectation from GBS to provide fully integrated business services to their clients, which will also allow GBS to be a business in itself.

For example, in many companies, the head of GBS is an integrator of all service providers. Their office (and therefore the entire office) is part of the business and headquarters, and not a GBS center.
It is an opportunity for GBS to reach the next level of maturity and get closer to the business (McKinsey & Company, 2023). Thus, GBS will have the ability to take on more global and business (budget) roles.

At the same time, different models increasingly emphasize improving customer experience (CX). Organizations are integrating CX design and management principles into their services to ensure they meet and exceed customer expectations. Hyper-personalization coupled with omnipresence and multi-channeling is just around the corner.

New ways of working – work from home and automation

The pandemic resulted in the redefinition of work to a wider spectrum encompassing remote work (WFH), work from anywhere (WFA), and now hybrid (with partial return to the office - RTO). It has also affected workers' expectations and choices, making it difficult for many to return to offices despite the obvious advantages of collaborative tasks, particularly for creative endeavors. Therefore, the sector has needed to embrace hybrid working arrangements and adjust its tools and processes in the longer term. A holistic approach, similar to the one presented by Turner (2024), is likely to bring positive business outcomes – as stated in the research of Pape et al. (2022). According to this report, "Productive anywhere" workers are significantly better off, and drive revenue growth. At the same time, the pandemic sped up the adoption of Intelligent Process Automation and Robotic Process Automation (IPA/RPA). The RPA software market increased by 40.6% between 2020 and 2023 and was forecasted to reach USD 4.9 billion by 2026 (16% CAGR). (Mehta et al, 2024).

Advancements in AI technologies further accelerated this trend. A recent report by Deloitte (2023) indicated that 50% of GBS organizations had already implemented RPA and automation, and another 33% planned to implement it. At the same time, for 59% of the GBS organizations surveyed by Deloitte, RPA was a key transformation technology, making it the most desirable digital enabler.

According to Vailshery (2024), the global market for Robotic Process Automation (RPA) software has shown remarkable growth from USD 3.7 billion in 2022. It is projected to rise significantly to an estimated USD 81.8 billion by 2032. The research indicates a steep compound annual growth rate (CAGR) of 36.6% from 2022 to 2032, underscoring the increasing adoption and integration of RPA technologies across various sectors. The global RPA market was valued at USD 5.63 billion in 2023 and is expected to reach USD 54.57 billion by 2032 at a yearly growth rate of 28.7% (Robotic Process Automation Market Size, Report 2023-2032).

From automation to AI

While RPA is still important for streamlining and automating work in centers, generative AI has taken the industry by storm and has had a huge influence on how teams operate. Initial research results indicate that generative AI's impact may be far greater than RPA's as it can also be used in knowledge-intensive tasks. In the post-pandemic world, shaped by numerous shocks, the GenAI revolution has sped up the processes even further. According to a recent NBER Working Paper by Bonney et al. (2024), the use of AI in the US economy in general increased from 3.7% to 5.4%, with an expected rate of about 6.6% by the early Fall of 2024. It is higher for larger corporations.

More complex and personalized services generate higher value-added, representing operations of more complex processes requiring accelerated upskilling and reskilling. This, in turn, requires adjustment in the education system, including an even greater emphasis on STEM. The GenAI era is heralding a significant transformation in business operations. It is moving organizations away from outdated models, focused solely on obtaining simple cost efficiency and back-office tasks, towards dynamic, AI-driven processes, which allow for greater efficiency and provide more complex processes. This shift is crucial for attracting and retaining talent in competitive industries, encouraging innovation, and maintaining relevance in rapidly evolving markets. GenAI's influence pushes businesses to adapt, by fostering environments prioritizing agility, creativity, and strategic growth.

AI-replaced, AI-transformed, AI-enhanced, AI-augmented, or AI-integrated jobs are already being discussed. Some existing jobs will be eliminated, and some new ones will be created, but this should be perceived as a process of creative destruction. The spectrum of jobs affected by GenAI will broaden significantly in the next five years.

Data centricity, predictive analytics, and decision-making

Data plays a critical role in modern businesses (e.g., Marr, 2017, McKinsey 2022, 2023). Organizations must adopt a data-centric approach to thrive in today's competitive landscape, particularly with the rise of big data, the Internet of Things (IoT), advanced analytics, and now AI. Data can be leveraged to improve decision-making, optimize business operations, and even monetize data as a valuable asset. With a rapid and accelerating digital transformation, businesses are increasingly dependent on predictive analytics to forecast trends, automate decision-making, and enhance their efficiency.

To effectively manage AI and generative AI journeys, the sector is on the way to radically improving its data management, putting the data at the forefront of its digital strategy. Access to high-quality digital data generated and maintained in modern systems and applications is critical to enabling the collection and analysis of it to provide real-time insights, reports, and dashboards. This capability enables more accurate and proactive business decisions, allowing GBS to play a greater role in making strategic business decisions and to develop digital capabilities and analytics skills more powerfully. The vast amounts of data require ever-increasing storage potential and computing power as well as investment in modern, well-designed, and efficient data architecture that supports the quality and integrity of datasets produced. These will be key to providing tailored and hyper-personalized services soon. At the same time, in the generative AI era, the quality of data upon which the LLM algorithms are trained has even greater significance. Enhanced data analytics capabilities allow businesses to gain deeper insights into their operations, customer behaviors, and market trends. They drive better decision-making, enabling companies to tailor their services more effectively to meet client needs. They call for developing smart transformation strategies and investing in modern systems, applications, and solutions, enabling real-time access to large amounts of high-quality data. **Reorientation from siloed functions to end-to-end business capabilities and decision-making through a unified data architecture and cross-functional teams enables enterprises to unlock opportunities within the value chain and open new value pools.** Building an accessible and democratized data foundation (Accenture, 2024) is one of the components of an effective digital core. It enables data mesh and data-as-products and provides high-quality, curated, and diverse inputs for AI ambitions. As Carruthers & Jackson (2019) show, data can be the source of dynamic and successful business transformation.

The predictive aspect of data reading allows businesses to anticipate future trends not only in external markets, such as customer behaviors and consumer demands but also internally by analyzing KPIs and OKRs to forecast operational performance and resource needs. In the business services sector, this capability is essential for proactive decision-making, enabling companies to optimize processes, mitigate risks, and align strategic goals with real-time insights.

The functions grouped within the business services sector, such as GBS, play a pivotal role in generating, governing, and ensuring the quality of data, as well as leveraging it for advanced analytics. By maintaining high standards of data management and analytical precision, these functions empower businesses to make more informed, agile decisions, positioning them to stay competitive in an increasingly data-centric world.

Emerging technologies and cloud computing

AI and generative AI have proven to be a cornerstone of modern process transformation in the business services sector. As we stated above, it requires a solid data foundation to work properly. For both AI and the data layer to be functional, companies need to embrace the cloud as a source of computing power required to propel huge dataset-based AI, gen AI, and other transactional and analytical workloads. The cloud offers several benefits (cuts in costs, quality control, time to market, flexibility, scalability, and universal access). According to a recent report by Deloitte, 90% of organizations declared cloud computing to be a key facilitator of outsourcing.

Focusing on the cloud allows businesses to remain agile and competitive, driving continuous innovation and operational efficiency even amidst global disruptions. In Accenture's report (2021) the group of organizations identified as "Continuum Competitors" leveraged the cloud as a dynamic operating model, enabling them to innovate, reduce costs, and achieve sustainability goals at rates significantly higher than their peers. This strategic advantage has allowed these organizations to grow operational and financial metrics by up to 50% more and allows them to be two to three times more likely to innovate and re-engineer knowledge work, leading to substantial cost reductions—up to 2.7 times greater in Europe compared to traditional migration players.

On the other hand, cloud computing requires strengthened cybersecurity and privacy measures. In addition, businesses face some new trends that will redefine how businesses use cloud technologies including:

- **Hybrid and Multi-Cloud Strategies:** An increasing number of organizations are adopting hybrid and multi-cloud approaches to enhance flexibility and optimize costs despite the added complexity of legacy integration and data governance. This trend reflects the evolution towards more sophisticated cloud infrastructures that balance security with the need for agility.
- **Edge Computing:** With the expected growth in the global edge computing market, this trend emphasizes the shift towards distributed computing to reduce latency, lower bandwidth costs, and improve overall performance.
- **AI as a Service (AIaaS):** AI continues to disrupt various industries, and through cloud platforms, AIaaS is expected to become widely accessible to organizations of all sizes. This trend underscores the cloud's role in democratizing access to AI technologies, enabling businesses to leverage advanced AI models without requiring substantial in-house resources.
- **Quantum Computing:** Quantum computing is anticipated to make significant strides, with cloud platforms playing a crucial role in making quantum computing capabilities more accessible to a broader range of organizations.
- **Serverless Computing:** Serverless computing will continue to grow, facilitating a more streamlined application development and deployment approach. This model allows developers to focus on writing code without managing the underlying infrastructure, promoting efficiency, scalability, and cost savings.

Developing technological talent is crucial for the business services sector, as it enables organizations to harness innovation, drive digital transformation, and maintain a competitive edge in an increasingly data-driven and automated world.

GenAI/Adaptive AI driven transformation

The transformative and economic value of generative AI is clearly visible for the sector's players. According to the ABSL 2024 Report, adoption speed in the industry was faster than expected, even in comparison to the optimistic forecast outlined in last year's ABSL Strategic Industry Foresight. **GenAI is transforming various roles in business operations, especially data analysis, customer service, content creation, and routine administrative tasks. By automating these functions, GenAI allows for more efficient data processing, personalized customer interactions, enhanced content generation, and streamlined administrative procedures, shifting job focus towards more strategic and creative tasks.** It will not be an easy task, but considering AI's enhanced capabilities, the likelihood of true transformation is significantly higher than that of simpler IPA/RPA tools. Thus, it eliminates or transforms some of the existing roles and creates new AI-related jobs, particularly in fields requiring AI oversight, ethical considerations, and creative roles where AI can augment human creativity rather than replace it.
Apart from GenAI, adaptive AI is utilized as well. Adaptive AI emphasizes learning from new data and situations after initial training and adjusts its actions and predictions accordingly. In other words, it dynamically adjusts its algorithms based on new data or changing environments, enhancing its decision-making and predictive abilities over time. AI, for instance, adjusts itself to the data it is trained on to speed up and improve the learning process. It is seen in areas such as personalized content recommendation and adaptive learning systems; it could be one of the key aspects of the business transformation cube, as presented in the ABSL 2023 Strategic Industry Foresight, impacting the choice of potential future business models.

Adressing the skills shortage

As businesses rapidly integrate AI and other advanced technologies into their operations, the demand for skilled professionals in data analysis, AI, and cloud management is growing.
This may lead to an increased reliance on managed services to fill the skills gap and ensure the effective use of cloud technologies. As the pandemic has shifted work patterns towards WFH/remote mode, the competition for the talent pool has become more global and is increasing nationally and internationally. This has led to the democratization of employment opportunities and the lowering of geographical boundaries.

Talent pool shortages, are for the time being, less of a problem (with the current wave of adjustments in headcount related to revised demand forecasts in major high and mid-range locations). Still, it could also mean that the industry needs more workers with an adjusted skillset.
The pandemic has proven that virtual teams can be a viable alternative to physical office spaces, allowing for a more flexible approach to team composition and talent recruitment.

Technology Vision 2024 (Accenture, 2024) emphasizes the crucial importance of talent management and development in the rapidly evolving technological landscape. The future belongs to organizations that can seamlessly integrate human creativity with advanced technologies. To achieve this, organizations must cultivate a workforce that is not only tech-savvy but also agile, innovative, and committed to continuous learning, where upskilling is the norm.

When discussing talent management, it is essential to highlight the critical role of leaders. They must transcend conventional management approaches to foster a culture where experimentation and calculated risks are encouraged. **Organizations that thrive will be those that harness the synergies between human creativity and the power of generative AI, driving unprecedented innovation.** This new paradigm demands leaders who are not only tech-savvy but also adept at fostering an inclusive and ethical environment. **The future of work involves deploying advanced technologies and reimagining organizational culture and employee experience.**

The recommendations are clear: invest in continuous learning, cultivate a culture of innovation, and ensure ethical leadership. Organizations that embrace these principles will unlock new levels of economic value, increase their market share, and secure a competitive edge in the evolving landscape.

Importance of cybersecurity

With the digitization of knowledge access, cybersecurity has become paramount. To protect sensitive data and infrastructure, businesses adopt novel solutions such as zero trust architecture, threat intelligence, identity and access management, biometrics, and quantum cryptography). **With the development of technology and the fact that GBS is a central unit for the company - the role of GBS support for security functions will increase.** This applies to data security as data leaks pose a great threat to a company's reputation, and information stored within both IT and business-oriented systems are the most coveted by hackers. In addition, geopolitical tensions, coupled with technology and IP-focused espionage, translate to an increased number of attack vectors coming from well-funded cybercriminals. Their activities are increasingly emboldened as most of them are physically located in countries sponsoring such activities, with there being no hope of extradition or law enforcement cooperation. This situation requires not only better tools and security policies but also skilled cybersecurity personnel working both internally and externally. It is also important to continuously upskill and educate regular personnel to prevent insider and social engineering-driven attacks. Cybersecurity improvement also has positive aspects. *State of Cybersecurity report* (Accenture, 2023) identified that 30% of respondent companies closely aligned cybersecurity programs to business objectives. In doing so, they were 18% more likely to increase their ability to achieve target revenue growth and market share, improve customer satisfaction and trust, as well as greater employee productivity. They were also 5.8 times more likely to experience more effective digital transformations than other companies.

With increasing data migration to the cloud, security remains a top priority. Advancements in encryption, AI-powered threat detection, and the adoption of security-by-design principles are expected to bolster cloud security measures and address the evolving landscape of cyber threats. We, therefore, require an enhanced focus on cloud security.

Innovation, continuous improvement, and partnership

There is a constant push for innovation and continuous improvement in operations. **Organizations are adopting agile solutions and fostering a culture of innovation to stay ahead in a competitive and rapidly changing business environment.**
For these reasons, many perceive returning to the office as indispensable. At the same time, open innovation models thrive.
The closer you are to the global technology frontier, the more significant the roles that innovation and strategic business sophistication play. Service firms' ability to innovate in processes and customer engagement is crucial for enhancing productivity and driving growth in a competitive market, the study by Crepon et al. (2020) clearly shows this for the US business services sector. However, this is universal.

Partnerships, fostering innovativeness, sharing specialized/tacit knowledge, and new product/service development are beneficial (Ebersberger et al. 2021). A partnership attitude also relates to cooperation between business service functions and dedicated centers along with their clients. The centers are less perceived from a purely transactional perspective and in fact take on the role of strategic, long-term partners. Cooperation of various business actors with centers/business functions generates improvements, innovations, and shared success. This is reflected in the trend towards knowledge process outsourcing, KPO.

According to CustomerServ, the global KPO will accelerate and reach USD 90.5 billion between 2023 and 2027 (CAGR 15.5%). The KPO sector is witnessing significant growth, driven by the demand for business intelligence, analytics tools, and specialized expertise in legal processes, financial services, and R&D. Challenges such as workforce shortages, data security concerns, and rising real estate costs are addressed by shifting to cloud-based platforms and long-term investment strategies.

As McKinsey's (2023) report shows, the future of GBS and other business services models will be defined by how well organizations can leverage innovation to drive value creation and process improvement. At the same time, companies, especially larger ones, should be ready for both sustaining and disruptive innovations. The Innovator's Solution by Christensen and Raynor (2003), building upon the concepts initially introduced in The Innovator's Dilemma (Christiansen 1997), showed how established companies can avoid being disrupted by newer entrants and instead leverage disruptive innovations themselves. The authors stress the importance of organizational structure, advocating for dedicated processes and leadership to foster and guide disruptive innovations within a company. Leadership should actively guide disruptive innovation efforts. For instance, in the GBS context, this means that leadership must champion digital transformation initiatives and the integration of new technologies such as AI, RPA, and data analytics. Without strong leadership, GBS organizations may struggle to scale these innovations effectively. Leaders must also ensure that new GBS functions are aligned with overall business strategies, integrating new growth engines that position GBS as a strategic enabler of innovation, rather than just a cost-saving measure.

Sustainability and ESG integration

Environmental, Social, and Governance (ESG) factors are becoming critical in business transformations. Companies are incorporating sustainable practices into their operations and decision-making processes, reflecting the growing importance of social responsibility and environmental sustainability in business. Having a focus on Sustainability is not by any means limited to just PR or marketing gains. Accenture and WEF 2021 report, *Shaping Sustainable Organization*, indicated that companies with stronger Sustainability DNA were more likely to deliver financial value and a lasting positive impact on society and the environment. The EBITDA[4] margin of top quartile companies on our Sustainable Organization Index is 21% higher (+3.4 percentage points) compared with the bottom quartile. Their sustainability performance is also 21% higher (+9.2 index points). Due to a relatively low adoption rate, there is a lot still to be gained in the market. The *From compliance to competitive advantage* report (Accenture, 2024) indicated that only 15% of companies had strong ESG capabilities. These businesses gather detailed ESG information and monitor these factors' quality automatically. They turn ESG data into knowledge to improve real-time strategic business decision-making. Furthermore, they use predictive analytics to identify potential ESG-related risks and opportunities as well as fostering collaboration by cultivating complementary skills within their finance and sustainability teams.

[3] Sustainable Organization Index is a metric developed in partnership with Arabesque S-Ray that evaluates the strength of over 4,000 companies' Sustainability DNA by analyzing 146 ESG management indicators, mapped to 21 practices, to score and rank organizations based on their sustainability practices and enablers.

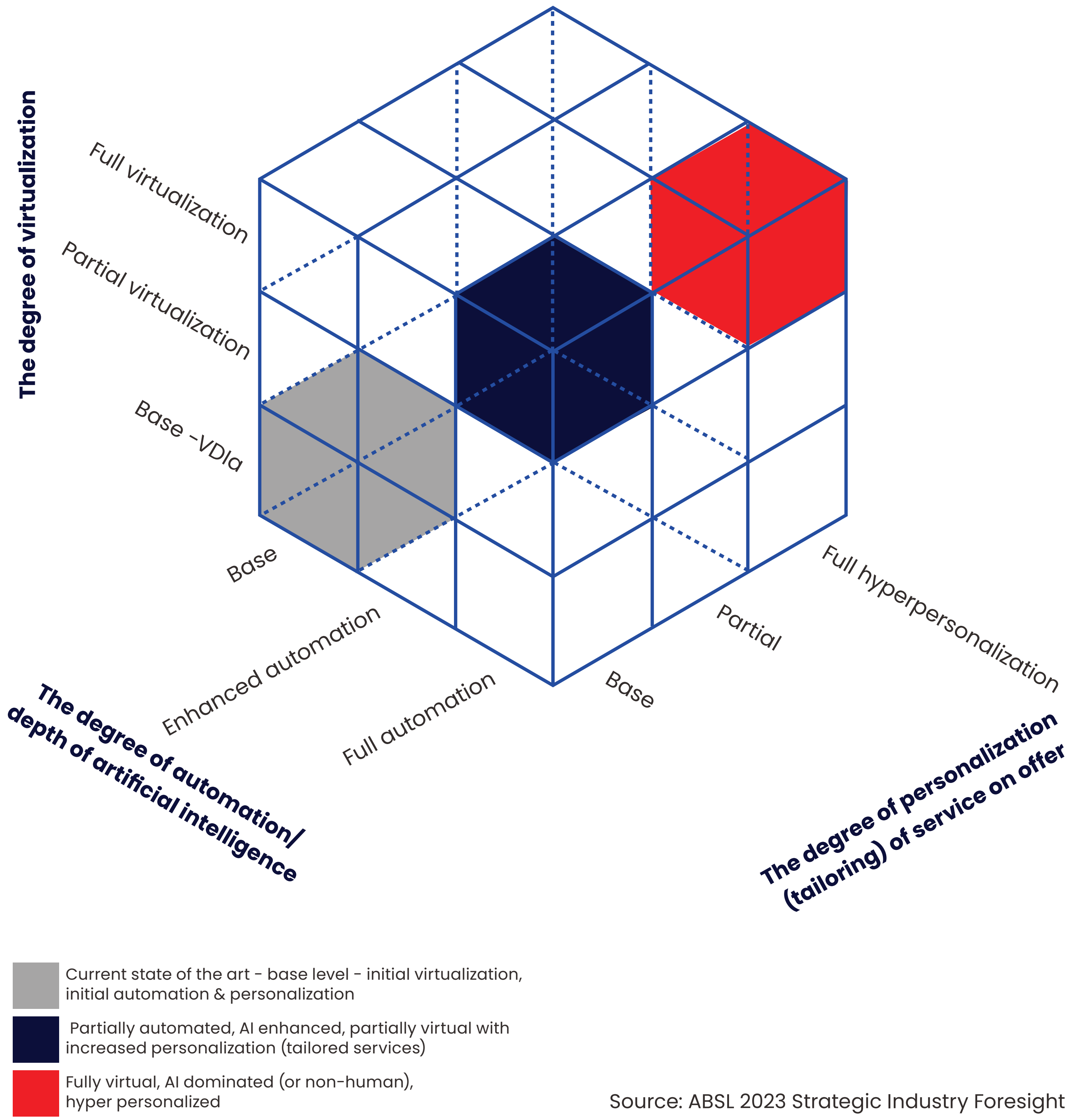
The role of ESG in GBS strategy has become increasingly important as businesses seek to align their operations with sustainable and ethical practices. ESG considerations are now integral to GBS, helping to drive long-term value creation, reduce risks, and improve overall operational efficiency (Saldanha & Passerini, 2023). GBS functions are increasingly focused on optimizing operations to reduce energy consumption, lower emissions, and implement more sustainable practices. This includes moving to cloud-based systems that reduce physical infrastructure or adopting greener procurement policies, as well as moving operations to greener offices. **GBS can help manage sustainable supply chain operations, ensuring that suppliers adhere to environmental standards and reducing waste in production and distribution processes.** At the same time, GBS strategies emphasize the building of diverse and inclusive workforces. **GBS units are essential in supporting the data collection, analysis, and reporting processes related to ESG performance.** Providing transparent and accurate ESG reports has become a dedicated function of GBS, helping businesses maintain investor confidence and to meet regulatory requirements. Governance in GBS strategy focuses on compliance with ESG regulations and standards. This includes ensuring that corporate governance structures are aligned with ethical practices and that the business adheres to international ESG standards.

Future business models

The review of trends shows that a whole spectrum of models can and will be adopted by the sector within the next decade without a clear bandwagon (dominant business model) visible now. One thing is clear: given the current speed of transformation, some of the existing models are very likely to become legacy business models within the next ten years. ABSL's transformation cube showed a potential spectrum of future business models lined up along three key dimensions: degree of virtualization, depth of automation/AI use, and degree of personalization/tailoring.

Figure (7)

ABSL's industry transformation cube



Source: ABSL 2023 Strategic Industry Foresight

A recent report by Kearney (2024), focused on Germany, highlights that many sectors in Europe are navigating significant challenges and opportunities driven by major transformative trends such as digitalization, sustainability, and societal shifts. These trends, closely interlinked, are reshaping traditional business models and value chains across industries. The business services sector must adapt to the increasing demand for innovative, green technologies and the development of digital competencies in order to remain competitive. Companies, especially larger ones, are focusing on transforming core processes and adopting new technologies, but there is still a long way to go in terms of full implementation. **As we have tried to show above, there is no one clear way ahead - a number of options are still on the table. There is, at the same time, an urgent need for public policies that align with business transformation efforts, particularly in education, infrastructure, and digitalization.**

4.

GEOPOLITICAL AND ECONOMIC TRENDS SHAPING THE SECTOR

Global trends and macroeconomic overview

Despite the significant turmoil over the last few years, the global economy is demonstrating remarkable resilience and showing promising signs of potential recovery. This recovery is from the residual impacts of the COVID-19 pandemic, geopolitical disruptions, including the ongoing war in Ukraine, and shifting monetary policies to address stubbornly high inflation rates. Macroeconomic projections from major organizations, including the IMF, World Bank, OECD, and WTO, offer a complex picture as 2025 draws closer. Even while growth is predicted to recover, it is still unstable, with inflationary pressures decreasing but still posing threats, particularly given the continued geopolitical unrest and trading headwinds.

It is crucial to comprehend the three major forces influencing the world economy: the aftermath of the COVID-19 pandemic, geopolitical instability, and the fight against inflation that have all led to sharp shifts in monetary policy. These trends have collectively undermined growth in advanced economies as well as EMEDs.

We often hear that we live in a VUCA world (e.g., Bennett & Lemoine, 2014; Johansen, 2012). VUCA first emerged in military strategy circles. It refers to the dynamic and fast-changing nature of the global economy and world in general, in which we deal with continuous and unpredictable changes and shocks (volatility), with the future being difficult to predict (uncertainty), and economic as well as strategic phenomena interconnected, thus making it difficult to be managed (complexity), and quite frequently, situations being difficult to understand (ambiguity) fully. The VUCA approach was expanded upon by the more contemporary notion of BANI (e.g., Jamrog & Bear, 2022). It stresses that systems, even if appearing strong, are frequently fragile and can break under stress (brittle). People (societies) and organizations are increasingly anxious due to constant change and uncertainty (anxious). Simple, linear relationships are rare, and non-linearities are present in many domains (non-linear), finally, some events or trends are so complex or chaotic that they cannot be fully understood (incomprehensible).

Analyzing the recent history of the global economy, we clearly see the traits of both concepts. Managers must acknowledge and adapt to the VUCA-BANI by developing their organizations' agility and flexibility, building resilience to shocks, fostering innovation, improving decision-making with incomplete information, and managing anxiety. If you have high exposure and your organization is sensitive, for instance, to macro-shocks, then increasing adaptive capacity is imperative.

Impact of the COVID-19 pandemic

The COVID-19 pandemic, a significant and unprecedented event, caused an economic shock in 2020, leading to a sharp contraction in global economic activity. The pandemic's effects, however, have been more persistent than initially anticipated, with the IMF's latest data showing that the pandemic-induced disruptions to GVCs and labor markets contributed to significant inflationary pressures that lingered beyond the initial recovery. The sharp rebound in global GDP in 2021 (with a peak in Q2 2021) following a sharp slide (V-pattern) and the following moderation in growth, was associated with supply chain disruptions due to forced production stoppages, lockdowns, etc., which were exacerbated by rapid monetary policy shifts designed to address rising inflation. The overreaction in response to the pandemic proved to be costly.

Many countries implemented large fiscal stimulus packages, quantitative easing, and generally dovish monetary policies, which, coupled with supply-side bottlenecks, led to higher inflation rather than sustained economic growth. The IMF's June 2024 World Economic Outlook underscores that the pandemic's inflationary impact has had enduring effects, particularly in advanced economies, where inflation rates reached levels not seen in decades, highlighting the severity and long-term consequences of the situation.

Geopolitical tensions and their impact on the global economy

The ongoing geopolitical tensions, most notably Russia's invasion of Ukraine, have added to global economic uncertainty. The conflict has led to a major disruption of global energy markets, particularly in Europe, where the EU's dependency on Russian energy supplies exposed it to higher energy prices and inflationary risks. According to the OECD's May 2024 Economic Outlook, the war in Ukraine has introduced significant volatility into global energy markets, especially in natural gas and oil prices, which spiked following sanctions on Russian energy exports. These geopolitical tensions, a key factor in the current economic landscape, are creating ripple effects in regions as far away as the Middle East and East Asia, with supply chains being disrupted and protectionist measures increasing globally.

Additionally, disruptions in the Black Sea region—an important corridor for global grain exports—have led to food price increases, further fueling inflation. Beyond Europe, these geopolitical tensions are creating ripple effects in regions as far away as the Middle East and East Asia, as supply chains are disrupted and protectionist measures are increasingly implemented around the world.

Cost-of-living crisis and its impact

The global cost-of-living crisis remains a significant challenge for both advanced economies and emerging markets and developing economies (EMDEs), with the IMF emphasizing its disproportionate impact on low-income households. The rapid surge in inflation following the pandemic, combined with rising energy and food prices due to geopolitical disruptions, have created acute pressures on household budgets, particularly in Europe. According to the IMF, the spike in global commodity prices, exacerbated by the war in Ukraine and supply chain disruptions, has driven up the costs of essential goods and, in turn, contributed to widespread social unrest in several countries.

In Europe, inflationary pressures are particularly visible in energy prices, which surged due to the continent's reliance on Russian gas. Although governments have implemented various fiscal measures, such as energy price caps and direct financial transfers to vulnerable households, these are proving insufficient to fully mitigate the adverse effects of higher living costs. Inflation is eroding real incomes and savings, especially in low- and middle-income households. Many EMDEs face even more severe conditions, with rising food prices pushing millions back below the poverty line. As inflation moderates in 2024 and 2025, the IMF expects a gradual easing of the cost-of-living crisis. However, the long-term recovery of real incomes will depend on sustained wage growth and effective social policies to address economic inequality.

Fight against global inflation

The fight against global inflation has been a dominant theme for policymakers since the onset of the pandemic-driven disruptions as well as the subsequent supply chain bottlenecks. According to the IMF's June 2024 World Economic Outlook, inflation peaked in many advanced economies in 2022 and has been steadily declining, though not as rapidly as anticipated. Global inflation is projected to decrease from 6.8% in 2023 to 5.9% in 2024, with further easing expected in 2025. Central banks, especially in advanced economies, have responded with aggressive rate hikes to combat inflationary pressures. For example, the US Federal Reserve raised interest rates to multi-decade highs, while the European Central Bank (ECB) also hiked rates to curb rising prices.

Disinflation is expected to continue as the effects of tighter monetary policy are fully realized, particularly in advanced economies. However, the IMF notes that core inflation, excluding volatile items like food and energy, remains stubborn in many regions. Policymakers are now walking a fine line between sustaining economic growth and ensuring that inflation expectations are anchored. As the ECB cut its facility rates by 25 basis points in June 2024, and then the deposit facility rate by another 25 basis points in September 2024, along with the US Federal Reserve cutting the rates by 50 basis points on September 18, the institution stated at the same time that in considering additional adjustments to the target range for the federal funds rate, the FOMC will carefully assess incoming data, the evolving outlook, and the balance of risks. Therefore, a shift toward a more dovish monetary policy stance is emerging. However, central banks remain cautious, given the risk of inflation resurging if monetary policy is eased too quickly. Emerging markets, facing higher debt burdens and less flexibility, are likely to maintain higher rates for a longer period, particularly as inflation remains elevated due to external shocks. For instance, the MPC of the National Bank of Poland suggests that cuts in interest rates will be delayed well into 2025.

Growth & profitability of European enterprises vis-à-vis major competitors

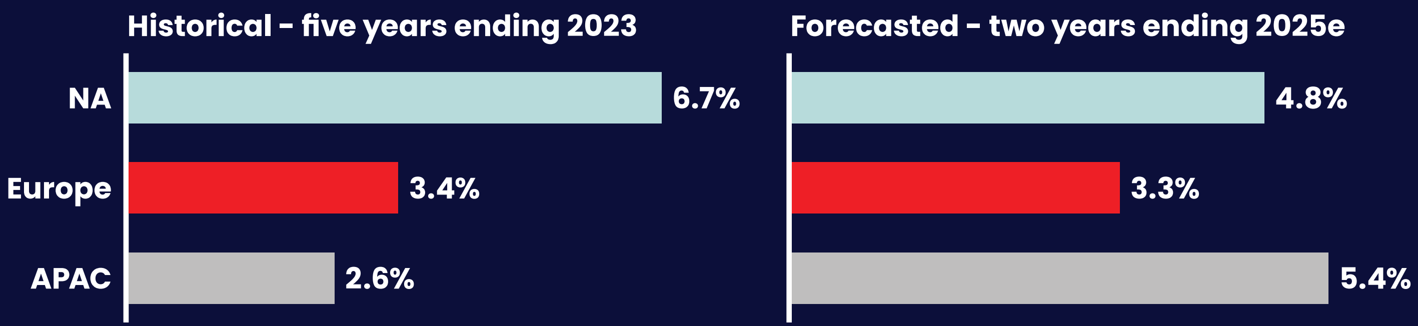
According to Accenture Research analysis on the growth and profitability of enterprises, conducted in September 2024, and based on **global sample of publicly traded companies'** financial results, Europe has seen a consistent performance with moderate revenue growth and improving profitability in comparison to other global regions.

Historical (2019-2023)-Europe's revenue CAGR of 3.4% reflects steady but modest growth, lagging behind North America, which led the field with a 6.7% CAGR. APAC had the lowest growth at 2.6%, positioning Europe in the middle. Europe's forecasted CAGR (2024-25) of 3.3% indicates continued stability but remains lower than North America's 4.8%, which shows a slowdown from its prior performance. However, APAC is expected to accelerate significantly to 5.4%, suggesting emerging growth potential and, at the same time, outpacing Europe's modest forecast.
Europe's average EBIT margin(2019-2023) of 9.5% was less than North America's 11.9%. APAC significantly lagged behind with a lower margin of 7.3%, highlighting challenges in operational efficiency. Europe's forecasted margin over the next two years of 12.5% is lower than North America's, which is expected to be 14.1%, though these numbers still reflect Europe's improving profitability. APAC remains behind, with a forecasted increase to 8.4%, and still finds itself struggling to match the profitability levels of Europe and North America.

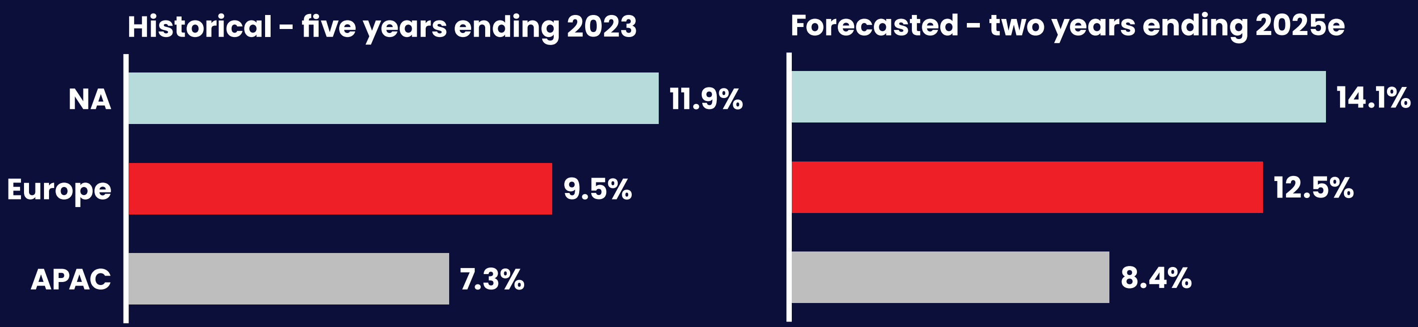
Figure (8)

Growth & Profitability. Revenue Growth CAGR % (NonFS & FS) and Average EBIT Margin % (NonFS) (historical & forecasted)

Revenue Growth CAGR (NonFS & FS)



Average EBIT Margin (NonFS)



Source: Accenture Research. Total Sample Size for Revenue Growth (Non-FS + FS Public companies): 1871 (North America-736, Europe-473, APAC-662). Total Sample Size for Average EBIT Margin (Non-FS Public companies): 1614 (North America-650, Europe-402, APAC-562).

Macroeconomic projections for 2024 & 2025

Despite these challenges, the global economy is expected to stabilize and even show signs of recovery in the next few years. According to the IMF's June 2024 WEO, global growth is projected to reach 3.2% in 2024, up slightly from the 3.1% registered in 2023. The OECD similarly forecasts global growth at 3.1% in 2024, driven by easing inflation, recovering trade, and policy support in key economies such as China and the United States. This projected growth, though modest compared to pre-pandemic levels, reflects the potential for a brighter economic future.

Advanced economies

Growth in advanced economies is expected to rise modestly from 1.6% in 2023 to 1.7% in 2024, largely due to the anticipated easing of inflation, particularly in Europe as well as continued fiscal support. The IMF notes that this growth is fragile and may be undermined by geopolitical risks, energy market volatility, and financial vulnerabilities. In the Eurozone, growth is projected to be especially slow, with the OECD estimating GDP expansion at just 0.7% in 2024, highlighting the drag due to higher energy costs and weaker industrial output in key states (such as Germany).

Emerging markets and developing economies

In contrast, growth in EMDEs is expected to slow slightly, from 4.3% in 2023 to 4.2% in 2024. The slowdown is attributed to the lagged effects of tighter global financial conditions, as well as ongoing geopolitical risks that particularly affect commodity-dependent economies. According to the World Bank's June 2024 Global Economic Prospects report, the prospects for EMDEs remained clouded by high levels of debt, which rising interest rates have exacerbated.

The inflation outlook for EMDEs is less favorable compared to advanced economies. Global inflation is projected to fall from 6.8% in 2023 to 5.9% in 2024, with more pronounced declines in advanced economies as tighter monetary policies begin to bite. However, EMDEs are expected to face continued inflationary pressures due to structural vulnerabilities, supply chain disruptions, and the delayed effects of monetary tightening.

Global economic prospects for 2025

Looking ahead to 2025, the IMF projects that global growth will stabilize at around 3.2% as the effects of tighter monetary policies dissipate and inflation continues to moderate. Global inflation is expected to decline further to 4.5%, reflecting lower commodity prices and more stable supply chains. However, global growth will remain below pre-pandemic levels, highlighting the persistent economic scars left by the COVID-19 crisis, geopolitical instability, and the long-term effects of monetary tightening.

Key drivers of growth in 2025 will include a recovery in global trade, especially in digitally delivered services, and a resurgence in investment, particularly in green energy and infrastructure.

The shift toward regionalized GVCs is expected to gain momentum as businesses prioritize supply chain resilience over cost efficiency. However, significant risks remain, including the potential for further geopolitical disruptions and the lingering effects of high public and private debt burdens in both advanced and emerging economies.

European economic prospects for 2025

The outlook for Europe in 2025 represents a mixed picture. According to the IMF and OECD projections, the Eurozone (EA) is expected to grow at a moderate pace, with GDP growth projected at 1.8% in 2025, up from 1.7% in 2024. This improvement will be driven by the gradual recovery of real incomes, easing inflation, and a more soft monetary stance by the ECB. The ECB's focus will be on maintaining stability as inflation is expected to fall toward its 2% target by mid-2025, providing room for further rate cuts if necessary.

In the Eurozone's largest economies, Germany is expected to emerge from its period of stagnation, with growth accelerating to 1.5% in 2025. The country's recovery will be supported by stronger exports, particularly in manufacturing and green technologies, as well as by improving domestic demand. France, which has better weathered recent economic challenges than its neighbors, is projected to grow by 1.9% in 2025, benefiting from robust consumer spending and government investment in infrastructure and energy transition. Italy and Spain are also expected to see moderate growth, at 1.6% and 2.2%, respectively, as the tourism and services sectors continue their recovery.

In the broader European context, the United Kingdom's economy is likely to face continued headwinds, with growth projected at 1.2% in 2025. While inflation is expected to ease, the UK's high debt levels, labor market challenges, and Brexit-related disruptions to trade and investment will continue to weigh heavily on its prospects.

In summary, while the European economy is expected to experience a moderate recovery in 2025, significant challenges remain. The continent's ability to manage inflation, stabilize energy markets, and enhance supply chain resilience will be crucial for its long-term economic stability.

Global Trade and Global Value Chains (GVC) disruptions

WTO trade outlook for 2024

The WTO's Global Trade Outlook report projects a recovery in global trade volumes in 2024 after a steep contraction in 2023. World merchandise trade volume declined by - 1.2% in 2023, primarily due to weak demand in key markets such as Europe, North America, and Asia. However, trade is expected to grow by 2.6% in 2024 as global demand stabilizes and supply chain disruptions ease.

Trade in services, particularly business services, has seen a more robust recovery. In 2023, global trade in commercial services surged by 9%, driven largely by the rebound in international travel and the rapid expansion of digitally delivered services. This trend is expected to continue in 2024, with businesses increasingly reliant on outsourced services, especially in IT, finance, and BPO, to manage costs and enhance efficiency.

Transformation of Global Value Chains

GVCs, which were severely disrupted by the pandemic and the Ukraine war, are expected to undergo significant transformation over the coming years. According to UNCTAD's 2023 World Investment Report, GVCs are becoming more regionalized as businesses seek to insulate themselves from geopolitical risks and ongoing geostrategic trade fragmentation. The trend towards "friend-shoring"—the relocation of business operations to countries with stable political relations—is likely to reshape the global trade landscape. Companies are increasingly diversifying their supply chains, reducing dependency on single-source suppliers, as well as transferring operations closer to key markets.

UNCTAD's assessment of global FDI flows

According to the UNCTAD World Investment Report 2024 (UNCTAD, WIR 2024), global FDI flows declined by 2% in 2023, standing at USD 1.33 trillion. This slight contraction was driven primarily by significant fluctuations in a small number of European conduit economies, while global inflows, excluding these conduit economies, fell by more than 10%. FDI flows into EMDEs, which had remained robust over the past few years, decreased by 7% in 2023 due to weaker growth prospects and tightening financial conditions. UNCTAD notes that the decline in FDI flows was particularly pronounced in advanced economies, where flows fell by 15%. This was driven by corporate financial restructuring and the implementation of the global minimum tax on large multinational enterprises, which has had a negative impact on cross-border M&As, particularly in Europe.

WIR 2024 suggests a modest growth in global FDI in 2025, but Europe may face continued headwinds due to tightening financial conditions, regulatory changes, and ongoing geopolitical issues, especially with MNEs being cautious in their overseas expansions. Given the economic uncertainties and geostrategic tensions, the FDI recovery may be slow, particularly for countries that are not conduit economies. Investments in global value chain-intensive industries may grow faster. On a positive note, Europe is clearly becoming one of the strategic locations for manufacturing MNEs looking to diversify and secure their supply chains amidst global economic fracturing. This, in turn, could also benefit our sector.

GVC transformation and geostrategic fragmentation

UNCTAD (Zahn et al., 2022) highlights the ongoing transformation of GVCs and the rise of geostrategic fragmentation, which can be clearly seen in the World Investment Report 2024. This fragmentation, characterized by increasing regionalization of production networks and trade routes, is a response to rising geopolitical tensions, especially between major economies such as the United States and China. The shift toward more regionalized GVCs is expected to continue, driven by concerns over supply chain resilience and the desire to mitigate risks associated with geopolitical instability.

Risks & opportunities

Potential downside risk factors

- Prolonged war in Ukraine or potential escalation beyond Ukraine. The war in Ukraine remains a critical risk, with no clear resolution in sight. There is potential for further escalation, either within Ukraine or into neighboring countries. Recent months have also brought an increased number of attacks within the Russian Federation itself. The conflict has already had severe economic consequences, particularly in Europe, and its continuation or expansion could lead to further instability. The war is related at the same time to the increasing number of hybrid-war attacks on critical infrastructure within Europe, including cyberattacks.
- Systemic financial sector tensions and Commercial Real Estate (CRE) crisis. The looming crisis in CRE continues to pose a risk to the global financial system. This is related to the high interest rates environment, new ways of working with partial RTO only, and valuation declines. Many regional and global banks have significant exposure to the CRE market in their balance sheets, holding large portfolios of loans backed by commercial properties. A widespread default in the CRE sector could lead to significant losses for these banks, potentially destabilizing the financial system through a contagion effect (Morris, 2023; Deloitte, 2024; PWC, 2024; Shiller, 2023).
- Further commodity price shocks. Ongoing global instability, particularly in the Middle East, poses significant risks to commodity prices. Conflicts in oil-producing regions, such as the Israel–Gaza conflict, could disrupt energy supplies, leading to another surge in oil and gas prices. Additionally, agricultural commodity prices may be affected by climate-related disruptions.
- The outcomes of forthcoming elections in key states remain uncertain. The US presidential election in November 2024 remains a critical point of uncertainty, as the political outcome could influence US economic policy, international relations, and global trade alliances. Several European countries will also face elections in the near term, and the results could impact the stability of the EU and its approach to economic and security challenges.

Potential upside risk factors

- Better-than-expected growth in the US and EA. Despite the current economic challenges, stronger-than-expected economic growth in the US and EA could significantly boost global demand. A robust recovery in key industries, such as technology and manufacturing, could drive investment and consumption, supporting global growth.
- Rapid disinflation and earlier-than-expected monetary easing. If inflation moderates more quickly than expected, central banks could ease monetary policy earlier than planned. This could boost economic activity by reducing borrowing costs, increasing investment, and lifting consumer spending.

for global growth

- Further escalation of the current conflict in the Middle East to a wider regional hot war. The ongoing conflict has the potential to spread beyond the region, drawing in other countries and further disrupting global transport routes, particularly in the Suez Canal, which is critical for global trade. At this stage, two thirds of maritime traffic bound for Europe from Asia goes around Africa. The escalation could further impact GVCs and increase transport and overall costs for businesses worldwide, particularly affecting Europe.
- Rising U.S.–China tensions and potential Taiwan conflict. The geopolitical rivalry between the US and China continues to escalate, particularly around Taiwan. A military conflict in the Taiwan Strait would have catastrophic consequences for global trade, especially in the semiconductor industry, which is heavily reliant on Taiwan. Increased tensions could also drive further fragmentation of global trade networks. Tensions have also appeared on the borders with the Philippines and Japan, showing diminishing stability in the broader region.
- Slowdown in China. As China accounts for a significant portion of global economic growth, any slowdown in its economy poses substantial risks to global trade and investment. Ongoing property sector issues, demographic challenges, and trade restrictions could contribute to a prolonged economic downturn in China, with ripple effects worldwide.
- Climate-related disruptions. Adverse weather events continue to pose risks to agricultural output and commodity prices. Climate change is expected to increase the frequency and severity of these events, which will likely result in further disruptions to food production and supply chains.
- Debt overhang in EMDEs. High levels of debt in emerging markets and developing economies are a growing concern, particularly as interest rates remain elevated. Many EMDEs are at risk of debt distress, which could limit public spending, stifle growth, and lead to financial crises in these economies, with potential global spillover.

- Resolution or de-escalation of the Ukraine war. A diplomatic resolution or significant de-escalation of the conflict in Ukraine would be a major positive development for the global economy.
- Technological advancements and digitalization. Advances in digital technologies continue to create new opportunities for businesses to improve productivity and expand into new markets. The acceleration of digitalization across industries could support growth, especially in service sectors such as finance, healthcare, and logistics.

Business services sector in Europe. Opportunities and challenges

The business services sector, particularly in Europe, stands to benefit from the increased demand for outsourcing and offshoring. As companies seek to manage costs in an environment of slower growth and persistent inflation, they are likely to turn to outsourced services to optimize operations. Additionally, the growing reliance on advanced technologies such as AI, robotics, and data analytics will help businesses improve efficiency and remain competitive.

Increased demand for outsourcing and offshoring

The macroeconomic environment in 2024 presents both challenges and opportunities for the business services sector in Europe. **As European economies contend with slower growth, rising energy costs, and geopolitical instability, companies are increasingly seeking to outsource and offshore business processes to manage costs.** Central and Eastern Europe (CEE) has emerged as a prime location for these services, offering a skilled workforce, competitive labor costs, and proximity to major European markets.

The role of technology in transforming business services

The integration of advanced technologies, such as AI and robotics, into business services is reshaping the industry. These technologies enable companies to optimize their operations, improve service delivery, and gain deeper insights into client behavior. European businesses, particularly those in the finance, IT, and BPO sectors, are investing heavily in these technologies to remain competitive in a rapidly evolving global economy.

Friend-shoring and supply chain resilience

The growing trend of “friend-shoring” or “ally-shoring” is also creating new opportunities for the business services sector. As businesses seek to reduce their exposure to geopolitical risks, they are increasingly relocating operations to countries with stable political relations and similar economic policies. This shift is expected to benefit European service providers, particularly in sectors such as finance, healthcare, and IT, where stable and reliable supply chains are critical.

Conclusions

In conclusion, the global economic outlook for 2024-25 remains fragile but shows signs of stabilization and some cause for optimism. Growth is expected to moderate across both advanced economies and EMDEs, with inflation gradually declining as the effects of monetary tightening take hold. The evolving global landscape presents both challenges and opportunities for the European business services sector, in particular. Companies will need to navigate a complex environment of reduced economic growth, rising costs, and geopolitical instability.

However, by leveraging technology, outsourcing business processes, and adopting "friend-shoring" strategies, European businesses can position themselves for sustainable growth in the years ahead. **As firms continue to invest in advanced technologies and optimize their operations, the business services sector is likely to play a pivotal role in driving Europe's economic recovery and participate fully in the creation of the European Value-Added Chain.**

5.

SECTOR DEVELOPMENT DRIVERS

We have set a strategic horizon of five years (2029). To identify the major drivers of change in the sector in Europe in the strategic horizon, the PESTLE analysis concept has been used. PESTLE refers to Political, Economic, Social, Technological, Legal, and Environmental trends/factors that could impact the development of the sector. We identify only those factors and trends that are external to the sector (belonging to the environment in which a firm operates and develops), and that will influence the sector's performance in the region from the strategic perspective of 2029.

PESTLE refers to **Political, Economic, Social, Technological, Legal**, and **Environmental trends/ factors** that could impact the development of the sector.

For each of the PESTLE components, the group of experts:

- **identified the relevant factors**
- **assigned a significance rating to each factor**
- **assigned the probability of each identified factor to occur within the strategic horizon**

At the end of the analysis, a risk matrix is created by multiplying a given factor's significance by its probability. The table below includes the significance and probability levels that could be assigned to a particular factor. The five-points Likert scale was used, taking into account its proven advantages in qualitative analyses (please refer to the Appendix for the grading scale). The analysis was conducted in three stages in a group composed of ABSL and Accenture experts and analysts. In the first stage (1st round), the participants were asked individually to identify the factors and black swan events of each PESTLE element. In the second stage (2nd round), we reviewed the proposed factors and re-arranged them into a coherent list of factors under each of the PESTLE groups.

In the third stage (3rd round), each participant assigned the significance for the sector in Europe and probability to the factors identified with a probability of occurrence separately assessed for the strategic horizon. The results below represent the average scores of significance and probability ratings assigned (unweighted averages are presented). The tables below show the PESTLE analysis results for each PESTLE dimension separately. The factors included are mostly external to the sector—existing or potential trends or events that could occur within the strategic horizon, creating both upside and downside risks. In each case, the identified factors were ranked by the final impact score (probability * significance). The factors in each dimension are presented in a decreasing order of the final score.

Table (5)

PESTLE analysis - Political factors

FACTOR	RESULT
Results of US elections	11.67
Geostrategic fragmentation	11.67
Crawling hybrid war with RF	11.67
Middle East Crisis	10.00
War in Ukraine	9.44
The global role of India (opportunism)	8.97
Increase in tensions in China-US relations	8.50
Deep fake impact on politics	8.03
Growing polarization (conservative vs progressive)	7.92
Policies towards migration	7.56
Taiwan conflict	6.86
Mutli-speed Europe/de-fragmentation/separatism	6.67
Chinese supremacy quest (e.g., the increasing role of China in Africa)	6.14
Trojan horses in Europe (HUN, TUR)	6.14
Russian invasion of other states in the region	6.00
Trap of populism	5.83
Global pandemic	5.56
Terrorist attacks	5.44
Business impact on political results	4.69
Nuclear incidents	4.20
RF - NATO war	4.00
Tensions in the Balkans	3.50

Source: ABSL BI analysis

Table (6)

PESTLE analysis - Economic factors

FACTOR	RESULT
The trend towards nearshoring/friend-shoring/allyshoring	12.25
AI-related jobs reductions	11.67
AI-related productivity boost	11.00
Growth stagnation	9.60
Big-tech bubble	9.33
Backshoring	8.75
Escalation in trade wars	8.50
Increase in global talent wars	8.50
Global recession	8.31
Global stagflation	7.78
Cost-of-living crisis	7.56
Price convergence within the EU	7.56
Brain drain	7.50
Increased concentration of markets	7.08
Global financial crisis	7.00
Eurozone (EA) crisis	6.72
Increased currency volatility	6.67
GVC disruptions	6.67
Global CRE crisis	6.50
Rise in inequality	6.00
Fiscal austerity	5.83
EUR appreciation	5.56
Partial decline of the German economy	5.42
Persistence of Inflation	4.72
Costs of the health care system	3.97
Global debt crisis	3.75
Collapse of the pension system	2.89
Collapse of health care system	2.50
Change in the global currency role - fall of USD	0.80

Source: ABSL BI analysis

Table (7)

PESTLE analysis - Political factors

FACTOR	RESULT
Skills shortage	11.11
A mismatch between the education system and the required skills	11.08
Impact of disinformation on social stability	9.92
Stalled educational system	9.00
Aging society	8.94
Further demographic crisis	8.56
Insufficient STEM skills	8.44
Work-life balance	8.44
Gen Z (attitudes)	7.50
New ways of working expectations	6.67
Social unrest	5.83
Increase in cultural differences within European CM	5.78
Work ethics crisis	5.19
Changes in social attitudes towards technology	5.06
Trust crisis	4.58
Mental health problems increasing	4.44
Digital readiness	4.28
Fall of European welfare state	4.00
Urban sprawl	3.89

Source: ABSL BI analysis

Table (8)

PESTLE analysis - Technological factors

FACTOR	RESULT
Escalation in cyber-security threats	11.67
Critical telecommunication infrastructure outages	8.31
New emerging technologies/disruptive technologies	7.92
Chipset industry crisis - disruption	7.92
Skills-biased technological change	7.56
Legacy systems	7.50
Increasing costs of innovation	7.11
Global blackouts	7.00
Inadequate energy supply	7.00
Technological extremism	6.50
Quant computing	6.22
Reversal from the cloud technologies - on-premises/edge	5.44
Virtual office	5.33
AI Singularity	5.25
Monopolization of the market by cloud technology providers	4.58
Nuclear incidents (powerplants)	4.22
Exponential growth in photovoltaics/green energy	2.75
Fission - thermonuclear reactors	2.72

Source: ABSL BI analysis

Table (9)

PESTLE analysis - Legal/regulatory factors

FACTOR	RESULT
GDPR act - adverse impact on data availability	11.00
Inefficiency in decision-making processes	8.50
Overregulation	8.44
Shortening of work week	8.33
Instability of the legal framework	7.50
AI act - overregulation	7.39
Work from anywhere (WFA) regulations	6.61
Legal opportunism	6.25
Inadequate regulation of key economic freedoms	6.00
New ESG regulations	5.78
Judicial system's decline in authority - inability to execute laws	5.00
AI under regulation	5.00
Corporate governance - decline	4.17

Source: ABSL BI analysis

Table (10)

PESTLE analysis – Environmental factors

FACTOR	RESULT
Global warming up	11.33
Extreme weather anomalies	9.07
Access to fresh water supply	8.40
Rising sea level	7.80
Overexploitation of natural resources	6.93
Global food production	6.00
Mass pollution	5.67
Urban heat islands	5.50
Volcanic eruption(s)	5.00
Deforestation	4.77
Major earthquake	3.97
Waste crisis	3.60
Meteor strike	3.33
Massive coronal (sun) ejection	3.33
Space generated threats	2.50

Source: ABSL BI analysis

Looking at the mean value of evaluating risk factors in each PESTLE dimension, the highest value was observed in the political dimension (7.29), followed by social (6.99) and technological (6.39). The environmental dimension scored the lowest (5.81).
Geopolitical concerns seem to be dominant at this stage.

PESTLE results

The PESTLE analysis indicates that geopolitical risks, especially those involving major powers like the US, Russia, and China, dominate the political landscape. Regional conflicts and emerging global influences, particularly India's growing role, are also crucial factors. Meanwhile, technological disruptions such as deep fakes and societal shifts such as growing polarization present new challenges to political stability and decision-making. Understanding and addressing these issues will be vital for navigating the complex political environment in the coming year.

The economic domain underscores the importance of addressing both short-term and long-term economic challenges. The highest priorities include adapting to shifts in global supply chains (nearshoring/friend-shoring), managing the dual impact of AI on jobs and productivity, and preparing for potential economic slowdowns or crises. Additionally, the sector must navigate socio-economic challenges such as cost-of-living pressures and brain drain while also being mindful of potential market and financial instabilities. **The strategic focus should be on leveraging opportunities presented by AI and nearshoring trends while mitigating risks associated with trade wars, economic stagnation, and global recessions.**

The PESTLE analysis in the social domain highlights critical challenges related to skills shortages, the mismatch between education and industry needs, an aging population and low birth rates, all of which have significant implications for the labor market and economic competitiveness. Additionally, issues such as the impact of disinformation, shifts in generational attitudes, and the demand for better work-life balance are reshaping societal expectations and could lead to broader social changes. While lower-priority issues such as mental health and digital readiness are less immediately pressing, they still warrant attention as they can affect long-term social stability and economic productivity. Addressing these social factors will be essential for creating a resilient and adaptable workforce, maintaining social cohesion, and ensuring sustainable economic growth in Europe.

The PESTLE analysis in the technological domain underscores the critical importance of cybersecurity as the top concern for businesses and governments alike. As cyber threats escalate, there is an urgent need for enhanced security measures and robust infrastructure to protect against potential breaches. Additionally, the analysis highlights the challenges posed by legacy systems, the high costs of innovation, and the global risks associated with energy supply and telecommunication infrastructure. Emerging technologies such as quantum computing and the shift towards on-premises/edge computing are also key areas to watch, as they could significantly alter the technological landscape. Addressing these challenges while capitalizing on the opportunities presented by disruptive technologies, including AI, will be essential for maintaining technological leadership and ensuring long-term growth and stability.

The PESTLE analysis in the legal domain highlights the challenges posed by complex and sometimes contradictory regulatory environments. The GDPR’s impact on data availability is the most significant concern, underscoring the delicate balance between privacy protection and the need for accessible data in a digital economy. Overregulation and inefficiencies in legal decision-making processes further exacerbate these challenges, potentially stifling innovation and complicating business operations. Additionally, the rise of AI and remote work presents new regulatory challenges that must be carefully balanced to ensure competitiveness without compromising legal and ethical standards. Addressing these legal issues will be critical for fostering a predictable and business-friendly legal environment in Europe.

The PESTLE analysis in the environmental domain underscores the urgency of addressing global warming as the top priority, given its extensive impact on other environmental issues such as extreme weather, rising sea levels, and resource scarcity. The analysis also highlights the importance of managing natural resources sustainably, ensuring food and water security, and preparing for the increasing frequency of environmental hazards such as extreme weather and pollution. While lower-priority issues like space-generated threats are less immediate, they still warrant consideration in long-term risk management and disaster preparedness strategies. Addressing these environmental challenges will be essential in the mid to long run.

The business sector in Europe is operating in a highly dynamic environment where geopolitical uncertainties, economic shifts, social transformations, technological advancements, legal complexities, and environmental challenges intersect. To thrive in this environment, businesses must adopt a holistic and proactive approach, integrating insights from each of these domains into strategic planning and decision-making processes. By staying agile, innovative, and resilient, the business sector can not only navigate these challenges but also capitalize on emerging opportunities to ensure sustainable growth and long-term success in the European and global markets.

As shocks continue to happen, the sector should monitor its exposure and overall sensitivity but build resilience by strengthening its adaptive capacity and agility.

SWOT analysis for the business services sector in Europe

In the next step, the same group of experts performed a linked SWOT analysis for the broadly defined sector in Europe.
In the analytical process, the following strengths and weaknesses of the current business services sector in Europe were identified:

Table (11)

Strengths of the business services sector in Europe

FACTOR	RESULT
Highly skilled and diversified talent pool	4.00
European Common Market (five freedoms)	3.60
Time-zone advantage	3.40
Cultural proximity	3.40
English as a common language	3.20
Diversity	2.60
Common business ethics - common	2.40
High-quality uniform regulation	2.20
Eurozone	2.20
Inclusive environment	1.80

Source: ABSL BI analysis

Table (12)

Weaknesses of the business services sector in Europe

FACTOR	RESULT
High average costs	4.00
Difficulty in competing on the global technology frontier	3.60
Slow adaptation	3.60
European innovation paradox	3.60
Decreased scalability/lower labor flexibility	3.40
Insufficient cooperation with the education system	3.20
Hierarchical approach to services delivery (HQ/Nearshore centers)	3.00
Local protectionism	2.80
Older workforce	2.60
Lower employee mobility	2.40

Source: ABSL BI analysis

The identified sector's top five opportunities and threats over the five-year strategic horizon were selected.

The most significant opportunities include:

- **The trend towards nearshoring/friend-shoring/allyshoring**
- **AI-related productivity boost**
- **Backshoring**
- **Work-life balance**
- **New emerging technologies/disruptive technologies**

The most significant threats include:

- **Results of US elections - Trump wins**
- **Geostrategic fragmentation**
- **Crawling hybrid war with the Russian Federation**
- **Escalation in cyber-security threats**
- **Global warming**

In the next step, a parametric SWOT analysis was performed. A SWOT analysis is a strategic planning tool used to identify and assess a sector's Strengths, Weaknesses, Opportunities, and Threats. A parametric SWOT is an enhanced version of the traditional SWOT analysis framework. It incorporates quantitative measures to assess the sector's Strengths, Weaknesses, Opportunities, and Threats in a more structured and data-driven manner. This approach allows for a more nuanced and objective evaluation of factors, often translating qualitative judgments into quantifiable metrics.

The advantages of the parametric approach include the following: quantification of factors reduces subjective biases and allows for a more objective assessment; the numerical approach facilitates the prioritization of strategies based on the weighted importance and impact of different factors by translating qualitative insights into numbers, parametric SWOT analysis provides clear guidance on where to focus efforts and resources, and last but not least, allows for the comparison of different strategic options and scenarios, making it easier to evaluate potential outcomes.

We have assessed the linkages between each strength, weakness, opportunity, and threat by asking the following questions:

- **Will a given strength allow us to take advantage of a given opportunity?**
- **Will a given strength allow us to eliminate a given threat?**
- **Does a given weakness limit the ability to take advantage of a given opportunity?**
- **Does a particular weakness magnify the risk associated with a given threat?**

The strength of each linkage was assessed on a three-grade scale:
0 – no relationship, 1 – weak relationship, and 2 – strong relationship between the factors.

SWOT results

The Appendix provides detailed SWOT Results. Here, we focus on the commentary on the obtained results.
Looking at the overall results, it seems that the sector's weaknesses slightly outweigh its strengths. Nonetheless, the difference is not substantial, indicating a relatively strong internal position. On the other hand, the opportunities exceed the threats, suggesting favorable although challenging, and to some extent uncertain, external conditions.

In line with the obtained results, the sector in Europe should either follow an aggressive strategy focusing on expansion or a more competitive strategy minimizing internal weaknesses to fully utilize the opportunities.

The business services sector in Europe is characterized by significant strengths, including a skilled workforce, strong technological infrastructure, and a supportive regulatory environment based on the funding principles of the internal market. However, it faces weaknesses such as market fragmentation and high labor costs. Opportunities for growth are abundant, driven by digital transformation and progress in AI, sustainability, remote work trends, as well as the rising role of security (more nearshoring, friendshoring, and backshoring). Still, the sector must navigate threats like economic geostrategic and economic uncertainty, intense global competition, and rising cybersecurity risks. To remain competitive, businesses in this sector need to leverage their strengths, capitalize on opportunities, and continuously adapt to the evolving landscape.

It is worth stressing that the weaknesses result from the potential ease of disruption in the sector and the ease of transferring centers between locations and changing their strategies, as they are based mainly on people and their skills, not hard assets that are difficult to transfer. On the other hand, the sector has enormous development opportunities that we need to focus on by making conscious choices and focusing on the priorities resulting from the competitive advantage.

If wisely managed, our sector can play a further fundamental role in the development of a prosperous and secure European Value-Added Chain (EVAC).

Potential strategic steps could include:

Leveraging strengths to exploit opportunities

Enhance innovation through AI and technology:

Utilize a highly skilled workforce (S1) and access to the European Common Market (S2) to become leaders in AI (O2) and other emerging technologies (O5). It involves investing in R&D and innovation hubs that leverage AI to increase productivity and service offerings.

Capitalize on nearshoring trends:

Position European business services as the preferred choice for companies looking to nearshore operations (O1) or to backshore (O3). The cultural proximity (S4), shared language (English – S5), and diverse talent pool (S1) can be marketed as key advantages to attract global firms looking to move operations closer to home.
The role of the sector in the creation of sustainable and globally competitive EVAC should be promoted.

Addressing weaknesses by leveraging opportunities

Focus on cost-effective innovation:

Invest in AI and automation (O3) to counteract high labor costs (W1) and slow adaptation (W3). It can help reduce operational costs and increase competitiveness on the global technology frontier (W2). Additionally, utilizing EU funding and partnerships can mitigate the high costs associated with innovation.

Overcome scalability issues:

Leverage the trend towards nearshoring (O1) to enhance scalability. By promoting flexibility and adaptability in business services, European firms can offer more scalable solutions tailored to nearshored operations.

Mitigating threats through strategic preparedness

Develop resilience through diversification:

To mitigate risks from geopolitical fragmentation (T2) and economic uncertainty from events such as the US elections (T1), businesses should diversify their provider's base geographically and across functions. This reduces dependence on any single market or political situation.

Enhance cybersecurity:

Given the rising threat of cyber-attacks (T4), significant investment should be made in cybersecurity capabilities. Developing and offering robust cybersecurity services can also be a competitive advantage in the digital services market.

Sustainability and green initiatives:

Given the rising threat of cyber-attacks (T4), significant investment should be made in cybersecurity capabilities. Developing and offering robust cybersecurity services can also be a competitive advantage in the digital services market.

Combining strategies to drive sector growth

Promote innovation ecosystems:

Create innovation hubs across Europe that bring together tech companies, research institutions, and service providers. These hubs can focus on AI, green technology, and cybersecurity, driving the sector's growth and making Europe a leader in these areas.

Public-private partnerships:

Collaborate with governments to tap into EU funds aimed at supporting innovation, sustainability, and economic growth. Public-private partnerships can also help scale new technologies and expand the reach of European business services.

Marketing and positioning:

Rebrand Europe's business services as not just cost-effective and tech-savvy but also resilient, sustainable, and culturally aligned with global business needs. This positioning should be reinforced through international marketing campaigns.

Addressing regulatory constraints:

deregulation can play a pivotal role in unlocking the sector's potential by reducing administrative burdens and allowing companies more flexibility in accessing and utilizing key data, which is essential for developing data-driven solutions and enhancing service delivery. This is particularly relevant for emerging technologies such as artificial intelligence (AI), where excessive regulation could stifle innovation and limit the ability of businesses to experiment and deploy AI-based solutions effectively. However, there is also a significant threat from overregulation, which can create barriers to entry, limit access to crucial data, and impose restrictive compliance requirements that can hinder growth and competitiveness. For example, stringent regulations on AI use may constrain the development of new technologies and services that could drive the sector forward. Therefore, **a balanced regulatory approach** that encourages innovation while protecting the public interest is essential to ensuring that the modern business services sector can thrive in a rapidly evolving digital economy.

Overall, the holistic strategy for the modern business services sector in Europe should capitalize on its existing strengths, especially the skilled workforce and strong market framework, to innovate and lead in emerging technologies. At the same time, it should address its weaknesses through focused investments in AI, addressing talent shortages and scalable solutions while protecting against external threats through diversification, enhanced cybersecurity, and a commitment to sustainability. This multi-faceted approach will ensure the sector remains competitive and continues to grow in the global market.

From a regulatory perspective, control over processes will be easier for the EU-27 Member States. Nonetheless, all available mechanisms should be utilized to obtain a high degree of legal coherence within the EEA and with the UK (despite Brexit).

6.

STRATEGIC THEMES FOR SECTOR DEVELOPMENT – A CALL FOR ACTION

The report emphasizes the need to reconceptualize business services beyond traditional definitions to include a broader range of functions and processes that are critical for organizational efficiency, innovation, growth, and diverse organizational structures present in business reality. This new definition acknowledges the increasingly central role of technology, data analytics, and automation in driving value. It supports a shift from merely transactional tasks to more complex, knowledge-intensive processes that require specialized expertise and cognitive skills. By expanding the scope of what constitutes business services, the report provides a more accurate depiction of the sector's significance and its transformative impact on the European economy.

This forward-thinking approach not only aligns with current trends but also lays a foundation for future strategic development, making it a vital contribution to the field. We should strengthen the sector itself and strengthen the business transformation capabilities (adaptive capacities). The alignment of the observed global trends, both existing and emerging, with the analytical insights suggests that the sector must adopt a proactive and multifaceted approach to strategy development. This includes investing in technology and innovation, enhancing regulatory compliance and striving for a regulatory framework promoting its global competitiveness, promoting talent development and retention, and reinforcing supply chain resilience through strategic geographic positioning, coupled with wise location strategies, and addressing the changing global FDI landscape. By addressing these areas, the sector will be able to not only navigate current challenges but also position itself for long-term growth and competitiveness in the global economy and contribute to the growth and competitiveness of the European economy.

In the context of the above, the sector and its key stakeholders should strive for the following objectives:

- **To operationalize and strengthen the global competitiveness of the European Value-Added Chain (EVAC) while showing and effectively evidencing the role of the business services sector in EVAC creation**
- **To strive for a regulatory framework that allows the sector in Europe to remain competitive and compete efficiently as well as be able to innovate on the Global Technology Frontier**
- **To fully utilize the potential of the sector in Europe and its core strengths while minimizing its disadvantages by addressing talent pool availability and skills of the future gaps**
- **To strive for resilience in an ESG-oriented future and volatile world**

On the operational level, these policy objectives have been translated into a plan of action grouped into seven policy areas:

1. **Strengthen the geopolitical and economic resilience of the sector by contributing to the secure European Value-Added Chain creation**
2. **Secure Europe's position as a top global location for business services**
3. **Adapt business models to new realities in the FDI/investments landscape**
4. **Foster innovation on the global technology frontier and strive for technological leadership**
5. **Address skills gap challenges and winning the global war for talents**
6. **Navigate regulatory complexities**
7. **Support the ESG transition while playing a leading role in the ESG agenda**

The business services sector stands at a critical juncture.

Our PESTLE analysis across political, economic, social, technological, legal, and environmental domains reveals a landscape filled with both significant challenges and opportunities. To navigate these complexities and ensure sustained growth and the competitiveness of the sector in Europe, we have outlined the actions that will enable the sector to thrive amidst geopolitical risks, economic uncertainties, social shifts, technological disruptions, regulatory challenges, and environmental imperatives.

Potential areas of activity could include:

1 Strengthen the geopolitical and economic resilience of the sector by contributing to the creation of a secure European Value-Added Chain

Given the dominance of geopolitical risks and a poli-crisis environment, with a clear rise in the extent of geostrategic fragmentation and a clear drive towards more regionalized value chains (Zahn et al., 2022), decision-makers need to support the development of resilient strategies, which include:

Geostrategic awareness:

Capability of the businesses to closely monitor geopolitical developments and integrate this awareness into their strategic planning. Emphasize the importance of scenario planning (baseline versus adverse scenarios) and the development of contingency strategies to manage risks associated with geopolitical fragmentation and potential regional conflicts. Accelerating Europe's path to reinvention (Accenture, 2023) revealed that 76% of European executives anticipated an increase in regional divergences and fragmentation of the world economy in the next 12 months. While they were right, there is a lot to be done to mitigate businesses' reluctance to invest for geopolitical reasons.

Nearshoring and friendshoring for EVAC creation:

Capitalize on the trend towards nearshoring and friendshoring to enhance supply chain security within Europe, build the EVAC, and reduce dependencies on geopolitically unstable regions or clearly unfriendly states. The industry should also collaborate to explore and establish nearshoring opportunities within Europe and in proximity to Europe and to evidence the possibilities and benefits of backshoring.

2 Secure Europe's Position as a Top Global Location for Business Services

To remain competitive, Europe must improve its ability to attract new in-house delivery centers from enterprises outside the region (such as the US). In 2023, the number of new in-house delivery centers set up in Europe increased by 45% compared to 2021. The number of new onshore in-house delivery centers nearly matched that of offshore-nearshore locations in 2023. This illustrates the increased attractiveness of Europe's onshore locations, most likely driven by proximity to key markets and a skilled labor force for complex processes - despite higher operating costs. This is good news. However, for Europe to remain a key player in the global market, it must also strengthen its position as a nearshore/offshore hub for companies outside the continent. The dynamics shift favoring India on the global market is a call to action for European stakeholders.

To ensure Europe remains a leading global location for business services, certain actions are required to enhance competitiveness while leveraging Europe's unique advantages. This includes:

Value for money and cost efficiency:

Advocate for policies and initiatives that enhance cost efficiency within the sector, such as streamlined regulations, tax incentives, and support for innovation. Promote the European value for money, thus taking into account the ability to provide more complex services efficiently and productively.

Europe's geographical and cultural synergies:

Attract investment, highlight, and capitalize on the geographical and cultural synergies, the scale of the European single market, and its internal diversity.

3 Adapt business models to new realities in the FDI/investment landscape

Given the reshuffling of the world order and its impact on the FDI landscape, the sector needs to adapt its business models to these new realities. This includes:

FDI trends and implications:

Conduct regular analyses of global FDI and investment trends and their implications for the business services sector in Europe. This will help companies understand shifting investment flows, emerging markets, and new geopolitical dynamics that could influence business opportunities and risks.

Adaptive business models:

Develop flexible and adaptive business models that can respond to changes in the FDI landscape. This includes diversification of strategies, identifying new market opportunities, and leveraging digital tools to enhance agility and resilience in the face of shifting global dynamics.

Increasing rate of change:

According to the *Pulse of Change Index report* (Accenture, 2023), the rate of change affecting businesses has risen steadily since 2019, by 183% over the past four years and by 33% in the past year alone. Most C-suite executives anticipate an even faster rate of change in 2024, but more than half said they were not fully prepared to respond.

4 Foster innovation at the global technology frontier and strive for technological leadership

The technological domain presents both a challenge and an opportunity for the sector. Cybersecurity emerges as a critical concern, while the adoption of AI and other emerging technologies offers pathways to innovation and efficiency.

Technology deficit in Europe vs global leaders:

Addressing the technological deficit, defined as the disparity in adoption, implementation, and effective use of technology (both established and leading edge) to create business value, should be one of the primary steps European stakeholders should take. The report titled *Innovate or Fade* (Accenture, 2023) defines deficit as more than just the size of technology investments. It encompasses leadership, skills, the prevalence of digital business models, and the absorptive capacity of organizations to create value from technology to the mix. According to the Accenture model based on a sample of 2,114 global public companies with above USD one billion in annual revenue (incl. 966 in Europe), potential benefits for European companies of closing the tech deficit were estimated to reach a staggering USD 3.2 trillion in additional revenue by the end of 2024. At the same time, according to the European Innovation Scoreboard (EC, 2024), the EU-27 shows a mixed performance in innovation compared to global leaders such as the United States and Japan. While the EU performs well in indicators such as R&D expenditure in the public sector and international scientific co-publications, it lags in areas like business R&D spending, public-private collaborations, and patent applications. The US and South Korea outperform the EU in private sector innovation investments and the number of top R&D spending enterprises, reflecting stronger capabilities in translating research into marketable technologies. Japan, despite experiencing a decline in performance since 2017, still leads the EU in patent and trademark applications, indicating a higher focus on intellectual property and commercial innovation outputs.

Cybersecurity measures:

Increasing investment in cybersecurity infrastructure across the sector, including cooperation with government bodies and cybersecurity firms to develop industry-wide standards and best practices in order to ensure that business is well-protected against escalating cyber threats. Cybersecurity has been one of the top topics of C-suite interest for many years. According to the *WEF Global Cybersecurity Outlook* (WEF, 2024), 29% of organizations reported that they had been materially affected by a cyber incident in the past 12 months, many of those being a result of interactions with partner companies. In the context of the Business Services sector, cybersecurity is important in a couple of aspects:

- Ensuring company and client data security (secure storing, handling, exchanging, etc.).
- Providing managed security-related services to internal and external clients (securing infrastructure, database and application layers, training, and education, etc.).
- Preventing and managing security incidents within highly specialized expert teams.

Expanding the threat landscape and excessive reputational, regulatory, and financial

losses translate into even more value that the European sector can bring to the table. It may not only be able to utilize great talent potential but also make it a springboard for AI and other innovation-driven research and development platforms.
The WEF report (WEF, 2024) indicates that there is growing cyber inequity between cyber-resilient organizations and those that are not. This is one of the challenges that European stakeholders should address, as the share of SMEs in EU economies is relatively high. The number of organizations that maintain minimum viable cyber resilience is down 30%, with large organizations improving and SME's significantly declining. Action on the sector side and support from authorities is also urgently needed in the cybersecurity talent space.

Digital transformation:

With technological advancements accelerating even more over the last couple of years, it has become obvious that the sector must be ready to propose, support, and execute initiatives that will transform the core of European enterprises. Internal and external projects should enable companies to both transform their digital core and open for technology innovations that boost their market position and make them future-ready. Accenture *Digital Core* research indicates that companies that build a digital core tailored specifically to industry and company requirements boost investments in innovation, including re-engineering systems for (AI) operations and balancing technical debt liabilities with investments for the future.

AI adoption and integration:

The sector must embrace AI-driven innovations to enhance productivity and competitiveness through the integration of AI into operations, particularly in knowledge-intensive processes. When discussing AI development, the recent emergence of generative AI is a factor that cannot be overlooked and requires a swift and coordinated response from the sector. The advent of generative AI presents an opportunity to catch up by boosting the creativity and efficiency of Europe's large cohort of knowledge workers (European Business Review, 2023). As has been pointed in the article "*Europe Must Invest in Technology, Talent, and Trust to Realise the Potential of Generative AI*" by Azagury et al. (2024) generative AI could raise the forecast rate of economic expansion across the region by 0.6 percentage points per annum over the next 15 years. A comparative analysis of global generative AI adoption and innovation scenarios shows that more than USD 10.3 trillion in additional economic value can be unlocked by 2038 if organizations adopt generative AI responsibly and at scale—industry by industry, value chain by value chain. The pivotal question is, are European companies primed to seize this opportunity?

Innovation capabilities and cooperation on the global technological frontier:

To stay at the forefront of technological advancements and facilitate partnerships and collaborations between European businesses and global technology leaders. The industry should champion initiatives that encourage cross-border cooperation in research and development, ensuring that European businesses are not only adopters but also innovators in emerging technologies. This could include forming alliances with leading tech hubs, participating in global innovation networks, and securing funding for collaborative R&D projects that push the boundaries of what is possible.

5 Address skills gap challenges and win the global war for talents

Social factors such as skills shortages, the mismatch between education and industry needs, and demographic shifts are reshaping the labor market. Addressing these issues is critical for sustaining the sector's growth.

Bridging the skills gap and supporting workforce adaptation:

Partnering with educational institutions (e.g., TUMO and others) and vocational training centers to align curricula with industry needs and promote STEM education and lifelong learning, ensuring that the workforce is equipped with the skills required for the future (skills of the future).

As AI and automation reshape job roles, the sector should advocate for policies and programs that support workforce transition. This includes reskilling and upskilling initiatives to help workers adapt to new technological demands. Future of Work research (Accenture, 2022) confirms that upskilling and reskilling are absolutely crucial in the new era of technology. The right strategy puts digital tools at the center of how people connect, work, and grow. People need ongoing training to build their digital fluency and understand how the work they do contributes to innovation and better customer experiences. European companies' leading capabilities in people enablement couldbe a source of competitive advantage.

New ways of working:

Supporting remote and hybrid work is not just about employee well-being but also tangible financial and organizational gains. *Future of Work* research (Accenture, 2022) indicated that "Productive anywhere" workers were 21% Net Better Off, which according to previous research drives up to 5% revenue growth (and when enabled through omni-connected work cultures, generates up to 7.4% revenue growth). This approach also drives improved retention - enabled to be productive anywhere and are 2.3 times more likely to stay with their company, even in high-turnover industries. Cooperation on the European level can enable this.

6 Navigate regulatory complexities

The EU policy landscape, for instance, deals with the regulation of AI, data economy, and labor-related issues, which presents significant challenges and opportunities for the sector.

Need for balanced regulation:

The EU has carried out a prolific regulatory activity in past years. The focus of the next term will mostly be on implementing and enforcing the adopted rules. In doing so, the EU institutions will have to focus on reducing the regulatory burden on companies. Especially with regard to AI and data-related policies, the sector should engage with EU decision-makers and push for the implementation of a legal framework that does not stifle innovation.

Advocacy:

The sector advocacy actions could address particular policy initiatives already on the agenda, for instance:

- AI Act implementation: Engage with EU decision-makers on the implementation of the AI Act, particularly regarding high-risk AI applications in recruitment and management. The AI Pact initiative is an opportunity to start complying with the framework and demonstrate leadership in responsible AI use. AI use in the workplace directive is also on the European Commission's radar and will represent an opportunity for advocacy activities.
- FDI screening regulation: Engaging with EU decision-makers to highlight the negative impact that the revised regulation would have and to shape the FDI screening framework in a way that does not undermine economic openness.
EU Talent Pool: Influence the decision-making process to shape the Talent Pool in order to improve the regulatory procedure of recruiting skilled non-EU workers, addressing skills shortages, and streamlining hiring processes. This will also help position the association in the broader EU debate
- Other opportunities: Other initiatives do not require advocacy/outreach but represent an opportunity for the industry to engage with EU institutions and to support their work to become a recognized stakeholder in Brussels.
- Common EU Data Spaces: Participate in data-sharing initiatives across sectors to foster innovation, enhance service delivery, increase trust, and benefit from collaborative European projects on data management and access.
- EU Action Plan to Tackle Labour and Skills Shortages: Cooperate with EU institutions and Member States to address labor and skills shortages, benefiting from funding and initiatives aimed at upskilling the workforce, promoting fair mobility, and improving working conditions.
- Pact for Skills: Join this initiative to drive upskilling and reskilling in the business services sector. By collaborating with stakeholders across industries, businesses will benefit from a broader pool of skilled workers.
- Cybersecurity Skills Academy: Engage with this academy to promote cybersecurity literacy, benefit from EU funding for training initiatives, and help close the skills gap in the growing cybersecurity sector.

7 Support the ESG transition while playing a leading role in the ESG agenda

Environmental concerns, especially global warming, are of paramount importance. The sector must integrate sustainability into its core strategies to ensure its long-term viability in Europe. The role of the services sector and business services sector, in particular, in successful green transition could be of paramount importance (Ström, 2020).

Environmental sustainability of the sector:

Integrating ESG principles into business strategies with the development of frameworks and tools so as to help companies assess and improve their ESG performance, which aligns with global sustainability goals. As Accenture described in its research, *From Compliance to Competitive Advantage* (Accenture, 2024), in the context of ESG disclosures, organizations need to search huge volumes of often unstructured data. A strong digital core that uses cloud and AI through an interoperable set of secure and flexible platforms is critical. Such an infrastructure can facilitate the task of complying with regulations and extracting the full potential and value of data to drive new growth. A related survey shows that there is a direct correlation between a company's ESG measurement, management, as well as talent capabilities and its ability to see sustainability as an opportunity. This means companies with strong ESG capabilities can leapfrog their peers by identifying and acting on sustainability-related opportunities more quickly. It is a clear opportunity for the sector to grow in this direction.

Building strong ESG capabilities:

Promotion and adoption of strong ESG capabilities, including initiatives to reduce its carbon footprint, promote energy efficiency among its peers and clients, and support the transition to renewable energy sources, can help European enterprises thrive – turning ESG from a problem into an advantage. About 20% of respondents from companies with strong ESG capabilities already consider sustainability as a significant value driver for their organizations. Only 20% of CFOs from these companies believe that focusing on sustainability negatively affects the interests of their shareholders. With the growing importance of ESG for global clients from regulatory and pure, this direction can only gain in importance in the future.

The recently published *The Future of European Competitiveness: A Competitiveness Strategy for Europe* generally known as the Draghi report outlines various challenges and strategies for the EU to boost its global competitiveness, with a focus on productivity, innovation, and geopolitical resilience. The report, in particular, focused on slowing growth and productivity - the EU faces a significant gap in productivity growth compared to the US and other global economies. This stagnation is largely due to a lack of innovation and digital transformation, particularly in advanced technologies. Furthermore, the report emphasizes the need for Europe to catch up in emerging fields such as AI, quantum computing, and digital services. From the business services sector's point of view, this is critical, as these industries depend heavily on the adoption of advanced technologies to streamline operations and offer innovative solutions. Yet another domain is regulatory and market fragmentation. The business services sector is particularly affected by regulatory inconsistencies across member states. Many businesses struggle with restrictive regulations, limiting innovation and competitiveness. Simplifying regulations, harmonizing standards, and fostering a truly unified digital market are necessary to unlock potential across services, including those in the legal, financial, and IT consulting areas. At the same time, the EU's high energy prices pose a significant barrier to competitiveness. Decarbonization strategies are seen as both a challenge and an opportunity. For the business services sector, the focus will be on consulting and financial services related to energy transitions, carbon credits, and environmental consulting. The report also highlights Europe's reliance on imports for critical resources and digital technologies. The business services sector could play a pivotal role in helping firms manage and mitigate these geopolitical risks. Services such as supply chain consulting, risk management, and digital security will become even more critical.

Significant investments are needed to boost European competitiveness, including in the decarbonization, digitalization, and defense sectors. Business services firms, especially those in the consulting, finance, and legal sectors, will have the opportunity to advise on mobilizing these investments, including structuring public-private partnerships and advising on cross-border M&As.

The call for reducing regulatory burdens and simplifying the market is crucial for the sector. Reducing fragmentation will enable business services firms to scale more effectively across Europe, enhancing operational efficiency. Business services providers will have significant opportunities to assist firms in their sustainability journeys, providing advisory services on ESG standards, decarbonization strategies, and compliance with EU policies. The increasing focus on security and reducing dependencies in global supply chains will also spur on demand for consulting in risk management, legal, and supply chain services. Europe's vulnerabilities to geopolitical shifts mean that companies need expertise in navigating these risks.

The table below shows the alignment between the proposed action plan and the EU's goals and objectives, as shown in *The Future of European Competitiveness: A Competitiveness Strategy for Europe (European Business Review, 2024)*.

Table (13)

Alignment of the sector's goals with the objectives of the Draghi report

Sector goals	Sector's action plan	EU goals & objectives (Draghi report)	Linkage
Strengthen the geopolitical and economic resilience of the sector by contributing to the creation of a secure European Value-Added Chain.	Invest in technology, innovation, and strategic geographic positioning.	Secure a strong European Value-Added Chain by increasing competitiveness in key sectors.	Both plans emphasize building EVAC through investment in tech and supply chain improvements to bolster competitiveness globally.
Navigate regulatory complexities Strive for a regulatory framework allowing competitiveness at the GTF.	Promote regulatory compliance and advocate for policies enhancing innovation.	Create a regulatory framework to drive global leadership in technology and sustainable growth.	The goals align in focusing on regulatory adjustments to foster innovation and global competitiveness for EU industries.
Secure Europe's position as a top global location for business services.	Leverage cost efficiency and geographical as well as cultural synergies and advocate for streamlined regulations.	Improve Europe's attractiveness as a business hub by reducing regulatory burdens and enhancing regional cooperation.	Both focus on maintaining Europe's global status by making the region more business-friendly through regulatory and economic initiatives.
Adapt business models to new realities in the FDI/ investment landscape.	Monitor FDI trends and adjust strategies to changing global dynamics.	Strengthen investment policies and improve Europe's attractiveness for foreign investments.	Both ABSL and EU strategies emphasize the importance of adapting to shifting FDI patterns to maintain economic growth and attract global investments.
Foster innovation at the global technology frontier and strive for technological leadership.	Invest in AI, cybersecurity, and tech leadership through global cooperation.	Accelerate innovation across all sectors, particularly in advanced technologies.	Both promote strong innovation ecosystems, with a focus on technology leadership through collaboration and R&D investment.
Address skills gap challenges and win the global war for talents.	Reskill and upskill the workforce to align with new technology demands. Focus on talent development and retention and promote STEM education.	Tackle labor and skills shortages and improve workforce adaptability. Close the skills gap by promoting upskilling initiatives across Europe.	Both address the skills gap, with a focus on upskilling to support digital transformation and innovation at a competitive scale.
Support the ESG transition while playing a leading role in the ESG agenda.	Adopt ESG principles and sustainability measures in business strategies. Develop ESG frameworks to enhance competitiveness and sustainability.	Drive forward the ESG agenda for sustainable business practices. Promote sustainable development through decarbonization and green energy transitions.	Both focus on integrating sustainability into business models to ensure long-term competitiveness and regulatory compliance.

Source: ABSL BI

APPENDIX

Knowledge Intensive Business Services

In ABSL reporting, we utilize the definition of KIBS as provided by Schnabl E. and Zenker A. (2013).

Table (14)

Classification of KIBS activities in NACE 2: Our proposition

KIBS classification NACE Rev.2	Description of section	Description of division	Comment
Section, J, division 62	Information and Communication	Computer programming, consultancy and related activities	
Section, J, division 63	Information and Communication	Information service activities	
Section, M, division 69	Information and Communication	Legal and accounting activities	
Section, M, division 70	Professional, scientific and technical activities	Activities of head offices; management consultancy activities	If data availability allows, restrict data to class 70.2: Management consultancy activities
Section, M, division 71	Professional, scientific and technical activities	Architectural and engineering activities; technical testing and analysis	
Section, M, division 72	Professional, scientific and technical activities	Scientific research and development	
Section, M, division 73	Professional, scientific and technical activities	Advertising and market research	

Table (15)

PESTLE Analysis – Factor's significance and probability levels

Significance for the industry		Probability of occurrence	
0	no impact at all	**0**	unlikely to occur
1	small significance	**1**	less probable
2	mediocre significance	**2**	probable
3	large significance	**3**	highly probable
4	very large significance/key impact	**4**	certain/will occur

Source: ABSL BI

Table (16)

SWOT Analysis results

	FACTOR	S1 A highly skilled and diverse talent pool	S2 European Common Market (five freedoms)-zone advantage	S3 Time-zone advantage	S4 Cultural proximity	S5 English as a common language	W1 High average cost	W2 Difficulty in competing on the global technology frontier	W3 Slow adaptation	W4 European innovation paradox	W5 Decreased scalability/lower labor flexibility
O1	The trend towards nearshoring/friend-shoring/allyshoring	2	2	2	2	2	2	2	2	1	2
O2	AI-related productivity boost	2	1	0	1	2	1	2	2	2	1
O3	Backshoring	2	2	2	2	2	2	2	2	1	2
O4	Work-life balance	1	1	2	2	1	1	1	1	0	1
O5	New emerging technologies/ disruptive technologies	2	1	0	1	1	1	2	2	2	1
T1	Results of US elections - Trump wins	1	2	1	2	1	1	2	2	2	2
T2	Geostrategic fragmentation	1	2	2	2	2	2	1	2	2	2
T3	Crawling hybrid war with RF	1	1	1	1	1	0	1	1	1	1
T4	Escalation in cyber-security threats	2	1	0	1	1	1	2	2	2	1
T5	Global warming	1	0	0	1	0	0	1	1	2	1

Source: ABSL BI

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