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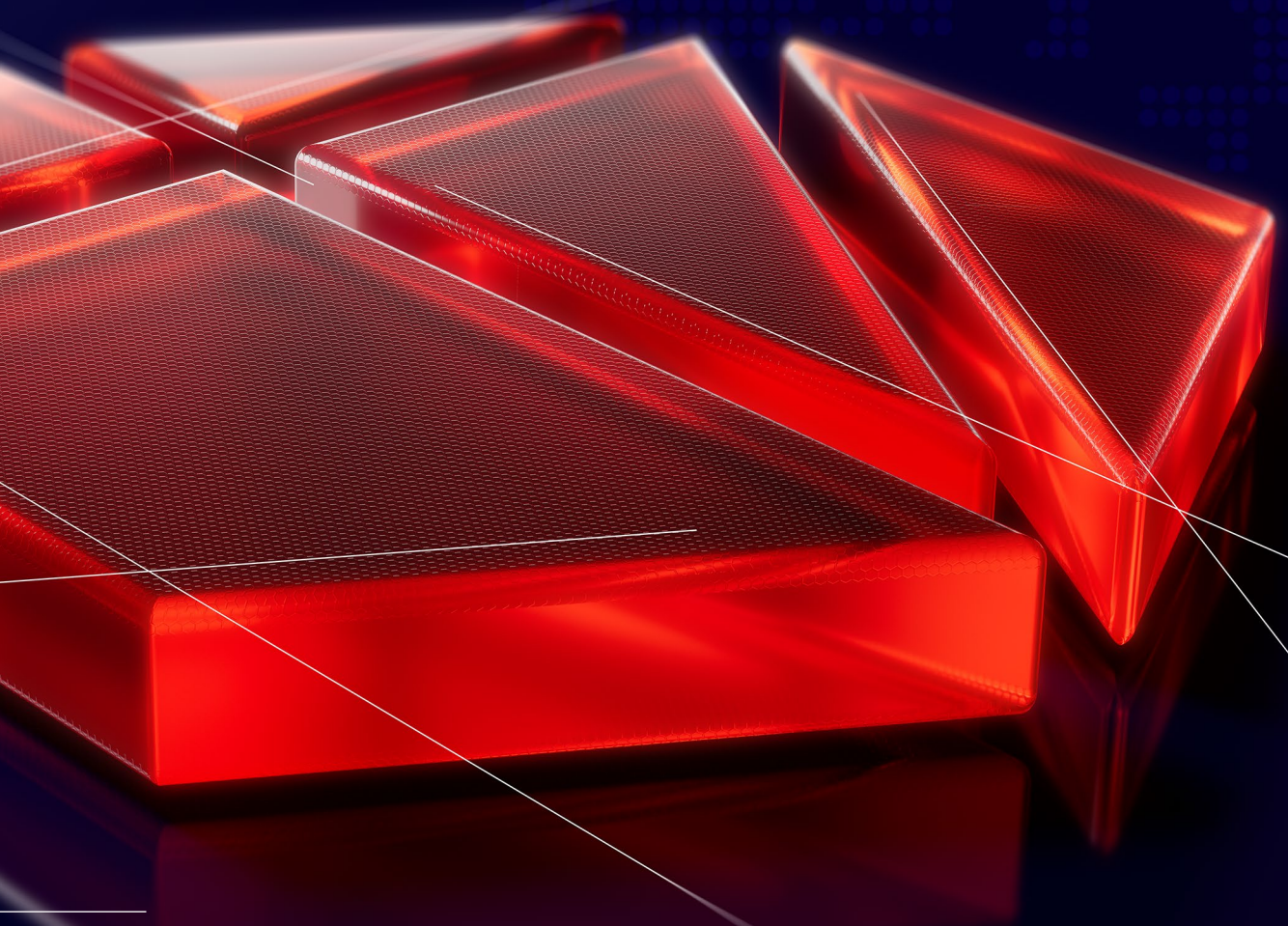
BUSINESS SERVICES INDUSTRY IN EUROPE 2025



UNLOCKING BUSINESS TRANSFORMATION AND INNOVATION

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UNLOCKING BUSINESS TRANSFORMATION AND INNOVATION THROUGH BUSINESS SERVICES

Building on the ABSL European Report 2024, this year's edition continues the analysis with a sharp focus on the **3Ts: Talent, Technology, and Transformation.** These are the cornerstones of our competitiveness and the areas of **strategic importance for further development** where business services can make the greatest impact.

Europe faces pressing challenges – demographic shifts, talent shortages, and the rapid advance of artificial intelligence. At the same time, opportunities arise for industries to reinvent themselves and for Europe to strengthen its competitiveness globally. This report is both an analysis and a call to action: for business leaders seeking strategies to stay ahead, for policymakers striving to boost resilience, and for all stakeholders committed to shaping Europe's future.

We extend our sincere appreciation to our partners: **Mercer,** for its pivotal role in shaping the Talent agenda, **Genpact,** for its expertise in technology-driven business services, and **BCG** for its deep insights into industry transformation. Their contributions were essential to making this report a valuable guide for us who will define the next chapter of Business Services in Europe.

The choices we make today will determine whether Europe becomes an innovative place and global hub for generative business services – **GenBS.** This report is an invitation to act – together, with urgency and ambition.

Dariusz Kubacki

ABSL Business Intelligence Team

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EXECUTIVE SUMMARY

> **Europe must invest in industrial capabilities that can scale across borders, not just protect what we already have.**
>
> **Mario Draghi**
> 2024

> **If you want to fix Europe's productivity, fix how we scale services in manufacturing.**
>
> **Guntram Wolff**
> Bruegel

The European business services Industry enters 2025 at a decisive moment. Global headwinds are reshaping trade, technology, and talent flows at unprecedented speed. Geopolitical fragmentation, tariff wars, and the resurgence of re-focused EU industrial policy are accelerating the divergence between the world's major economic blocs. The race for global artificial intelligence leadership is redefining productivity and competitiveness. Meanwhile, demographic pressures and talent shortages in specific areas threaten Europe's growth potential.

Global shocks from renewed tariff wars and US–China decoupling, the unstable Middle East, and the war in Ukraine amplify uncertainty for European industries. In this volatile, uncertain, complex, and ambiguous (VUCA) environment, as well as an increasingly brittle, anxious, non-linear, and incomprehensible (BANI) one, the business services industry stands out as both a shock absorber and a strategic enabler **of transformation.** It absorbs the short-term turbulence of global supply chains, regulatory shocks, and technological disruptions, while enabling long-term transformation by embedding new technologies, nurturing talent, rising overall efficiency and productivity, and reinforcing Europe's industrial competitiveness.

This report builds on ABSL's unique position as the voice of the European business services industry. Building on the ABSL European Report 2024, which redefined the business services industry and showed its scale and significance for the European economy, it further integrates foresight, sectoral deep dives, and transformation scenarios into a roadmap for Europe's policy and business leaders. **Its key findings are urgent. Without decisive action, Europe risks falling behind both North America and Asia in the race to define the next generation of business services. However, with coordinated strategies, Europe can harness its diversity, its strong institutional backbone, and its regional talent hubs to become a global leader.**

> **Europe's business services industry is a strategic growth engine, not just a support layer. In 2023, 32.5 million people worked in business services in the EU-27 (39.4 million across EU-27+UK+CH+EEA), generating an estimated EUR 3.5 trillion of EU-27's GDP which is equivalent to 20.4% of the EU'27s GDP. Within that, 11.6 million are in KIBS (14.2 million broadly defined Europe) and 5.0 million in center-based modern services (5.7 million broader Europe).**

Europe accounts for 52.6% of global KIBS exports, with 34.4% of global flows happening intra-Europe. Specialization and growth are uneven. I**reland, the UK, Sweden, and Belgium show high KIBS RCA, while CEE hubs (e.g., Poland, Romania) are scaling fast.**

As Chapter 3 clearly shows, Europe's business services landscape is marked by strong regional asymmetries, with established hubs both in Western and Central and Eastern Europe continuing to consolidate scale advantages. At the same time, Western and Northern markets lead in high-value digital and domain-intensive services as the location of the HQ of the most significant corporations. Secondary cities across the continent are emerging as specialized niches, but talent shortages, infrastructure gaps, and uneven policy support limit their ability to compete with global hubs. These **regional dynamics create both opportunities through diversification, nearshoring, and cross-border service integration, and risks of polarization, where only a handful of regions could capture the full benefits of the next phase of business services transformation.**

The industry is shifting from classic GBS, through GBS 3.0 to GenBS (AI-native), but talent bottlenecks, fragmented tech stacks, and regulatory execution frictions hinder scaling. **The report's core message is that we need to win on the 3Ts: Talent, Technology, Transformation,** by industrializing skills, platformizing data, advanced analytics and AI, and embedding service-led transformation across verticals and regions.

Europe's demographic decline. Talent shortages can constrain competitiveness. The gap between digital skills demand and supply is widening, especially in AI and data analytics. Without accelerated cross-border mobility and reskilling systems, talent will remain the single greatest bottleneck to scaling new business models – GBS 3.0 and ultimately the emerging GenBS.

Transformation Trajectory – From Classic GBS to GenBS

As Chapter 2 highlights, the evolution of business services in Europe follows three distinct phases:

Classic GBS (1.0/2.0) – focused on cost efficiency, scale, and labor arbitrage.

GBS 3.0 – emphasizing functional integration, capability depth, and process optimization.

GenBS – the emerging model that combines human and AI orchestration, deep domain expertise, and resilience-by-design.

Europe stands at the cusp of this transformation. However, risks are mounting: delayed AI integration, fragmented governance of digital infrastructure, vendor lock-in from non-European platforms, and limited scaling of data-to-decision capabilities. Unless these challenges are addressed, the continent risks missing the window for leapfrogging global competitors.

ABSL's Transformation Cube concept, developed in 2023, ABSL Industry Foresight, well illustrates this trajectory with three distinct business models easily positioned within marked differences.

Europe continues to underinvest in digital infrastructure, R&D, and venture capital compared to its US and Asian competitors. Without closing this capital gap, pilot projects in AI and GenBS risk remaining small-scale experiments rather than scalable drivers of competitiveness. Although AI pilots are widespread, scaling them into enterprise-wide and cross-sector solutions remains slow. **Europe's challenge is not adoption but scaling, which requires stronger governance, talent pipelines, and interoperable digital infrastructure.**

Nurturing Our Key Advantage – the Talent Pool

The European business services industry faces a defining challenge: shifting from a reliance on labor scale and cost arbitrage toward **dynamic, skill-based ecosystems** that can power business transformation. Talent strategies must embrace AI-augmented roles, continuous reskilling, and mobility across industries and geographies. Current demographic pressures, talent outflows, and uneven education-industry linkages risk undermining Europe's ability to supply the advanced capabilities required by global clients.

To remain competitive, Europe needs to **modernize leadership pipelines, accelerate skills-based learning systems, and build cross-sectoral talent pathways.** This requires aligning education, corporate training, and EU-level policy instruments with the needs of digital and domain-intensive business services. Chapter 4 concludes that **talent is not only a supply-side constraint but the ultimate differentiator of Europe's competitiveness, making it the most critical factor in sustaining growth and transformation.**

Competing on the Global Technology Frontier

Europe's competitiveness hinges on its ability to adopt and scale next-generation technologies and then compete on Global Technology Frontier (GTF). The transition to GBS 3.0 and ultimately GenBS models is being driven by AI, data platforms, cloud integration, and digital governance.
So far, it remains strongly uneven across regions. While leading hubs are advancing toward AI-driven orchestration and data-to-decision capabilities, many secondary markets are constrained by fragmented digital infrastructure and slow scaling of automation.

At the same time, a sharp vulnerability is Europe's dependency on non-European cloud and AI platforms. Vendor lock-in with hyperscalers threatens both digital sovereignty and innovation speed, as key infrastructures remain outside Europe's strategic control. These disparities risk creating a two-speed Europe, with global competitors in North America and Asia pulling further ahead.

Chapter 5 stresses that achieving digital sovereignty requires urgent investments in **AI integration, governance frameworks, and interoperability standards.** Without coordinated policy support and public-private collaboration, Europe risks entrenching structural weaknesses that limit productivity gains and strategic autonomy. The conclusion underscores that technology must not be viewed as an isolated enabler, but as the foundation of Europe's industrial transformation and long-term resilience.

Six Verticals, Six Transformation Paths based on the Business Services Industry

At the heart of this year's report are six verticals that define Europe's industrial backbone. They are selected and analyzed in Chapter 6. Each illustrates both the potential of business services to accelerate competitiveness and the risks of inaction.

Banking, Insurance, and Financial Services (BIFS)

Europe remains a global leader in regulatory alignment and financial process management, but fragmentation in AI adoption and the slow integration of advanced analytics limit productivity. Business services hubs are central to scaling compliance, sustainable finance, and digital finance platforms, but require cross-border talent flows and robust digital governance.

Automotive

Europe's automotive sector faces its most disruptive decade in history, driven by electrification, digital mobility platforms, and global competition from e.g., Tesla, BYD, and Foxconn. Business services centers in Poland, Romania, and Germany already provide engineering, supply chain, and analytics support. The sector's competitiveness will hinge on scaling GenAI, digital twin technologies, and integrated supply chain orchestration, all of which are heavily dependent on business services excellence.

Pharmaceuticals and Life Sciences

Clinical trial support, regulatory services, and R&D process services are increasingly consolidated in European hubs. However, talent shortages and slow cross-EU mobility remain bottlenecks. GenBS models can transform the sector by embedding real-world evidence analytics, AI-enabled drug discovery, and harmonized compliance systems.

Energy & Utilities

The green transition makes energy one of Europe's most strategic sectors, but cloud maturity and digital infrastructure vary widely across markets. Business services can enable real-time regulatory reporting, predictive asset management, and integrated sustainability services. Without rapid progress, Europe risks losing ground in energy innovation and resilience.

Aerospace & Defense

A critical sector for strategic autonomy, aerospace and defense, suffers from severe talent pipeline constraints and underinvestment in advanced digital support. Business services can alleviate these constraints through engineering services, procurement optimization, and secure AI-enabled analytics and utilization in future warfare. Europe's defense resilience will increasingly depend on the maturity of its business services networks.

Telecom

Europe's telecom sector plays a pivotal role in enabling digital infrastructure, but faces slow progress in end-to-end automation and customer analytics compared to Asia. Business services can provide the capabilities to accelerate AI-driven network operations, sustainability compliance and reporting, and digital customer engagement.

> **For all six verticals and the economy of Europe as a whole, the business services industry should be an engine of transformation, innovation, and global competitiveness.**

Policy and Business Calls

Chapter 7 was developed directly on the evidence and insights of the preceding sections. Chapter 3 highlighted Europe's persistent regional asymmetries, with leading hubs advancing rapidly while many secondary ecosystems struggle with talent shortages and infrastructure gaps. Chapter 4 underscored the critical role of workforce transformation, stressing that talent remains the ultimate differentiator of competitiveness. Chapter 5 showed that Europe's digital future hinges on AI integration, robust governance, and data-to-decision scaling, showing clearly the need for large technology investments. Chapter 6 highlighted the fundamental role of the business services industry in transforming and boosting the competitiveness of six key verticals and ultimately the whole European economy.

At the same time, throughout all chapters, we stress the role of regulation. The overlapping layers of EU and national regulation – from CSRD and DORA to the AI Act – create a compliance burden that fragments rather than integrates Europe's business landscape. **Unless regulatory alignment improves, compliance costs risk diverting investment away from innovation and digital scaling.**

Taken together, these findings set the stage for a forward-looking policy agenda.

Policy implications are clear. **Europe must treat the business services industry as a strategic enabler of its industrial and digital transformation, not as a supporting cost-saving mechanism. This requires embedding services into industrial policy, aligning digital infrastructure with sovereignty objectives, and ensuring cross-border labor mobility. At the same time, EU institutions and member states need to coordinate investment in AI, cloud, and data governance frameworks to prevent lock-in to external platforms. The talent agenda demands urgent action. Leadership pipelines must be modernized, skills-based systems scaled, and transitions across industries supported through reskilling and certification initiatives.**

This call echoes the Draghi Report (2024), which stressed that Europe's productivity challenge cannot be solved without embedding services into its industrial backbone. Draghi highlighted that scaling cross-border industrial capabilities is central to closing Europe's competitiveness gap. Business services provide exactly this lever, but only if recognized as a strategic sector.

The findings point to clear priorities for both policymakers and business leaders.

Policy Priorities (EU & National)

Embed business services into industrial policy as a core enabler of transformation.

Invest in AI/data sovereignty hubs across Europe to prevent lock-in and fragmentation.

Strengthen talent ecosystems, cross-border mobility, and leadership pipelines for a digital, multigenerational workforce.

Enhance governance and resilience, reducing fragmentation and securing infrastructure.

Foster vertical–horizontal integration via pan-European programs that link industrial competitiveness with business services transformation.

Industry Priorities (Insiders)

Accelerate GenBS adoption within organizations, focusing on AI orchestration and data-driven transformation.

Develop **cross-sector alliances** to pool expertise and scale innovation.

Invest in **shared service excellence hubs,** ensuring Europe remains competitive with Asia and North America.

Build **internal mobility systems and reskilling programs,** transforming static workforces into dynamic skill ecosystems.

We formulate **six objectives:**

1. **Secure Europe's global leadership in business services**
2. **Close the innovation-productivity gap**
3. **Address talent shortages and reskill at scale**
4. **Orchestrate cross-border delivery resilience**
5. **Lead the sustainability and green transition agenda**
6. **Improve policy and regulatory alignment**

We also propose the following **Operational Priorities for Policymakers and Business Services Partners:**

1. **Mainstream vertical-horizontal integration into the EU's industrial strategy**
2. **Create sector-linked innovation funding and delivery models**
3. **Develop EU-wide vertical talent transformation programs**
4. **Incentivize sustainability-driven service orchestration**
5. **Establish a Europe-wide GBS 3.0 / GenBS Observatory**
6. **Support the emergence of European super-star global players in business services**

Three Plausible Futures for Europe's Business Services (to 2030)

The report develops three forward-looking scenarios for Europe, highlighting both risks and opportunities. The choice between scenarios will not depend solely on external factors, but to a large extent on internal actions of business leaders and key European stakeholders.

Scenario 1

Europe as a Global Business Services Hub

Proactive policy alignment, strategic investment in AI/data hubs, and strong business-policy collaboration. Business services are fully embedded into sectoral transformation, driving competitiveness and resilience. Europe narrows its productivity gap and becomes a global benchmark.

Scenario 2

Uneven Progress, Fragmented Gains

Europe maintains a strong industry, but scaling GenBS models proves difficult beyond large enterprises and national champions. Aggressive but poorly coordinated GCC (Global Capability Center) strategies create fragmentation. Secondary regions stagnate, and talent outflows accelerate.

Scenario 3

Dependency Spiral and Decline

Europe enters a cycle of strategic dependency on non-European providers and platforms. Talent flight intensifies, core hubs become isolated islands of competitiveness, and many regions experience job erosion.

Closing Remark

Europe stands at a crossroads. The next five years will decide whether it becomes the main global business services hub or slips into dependency. The cost of inaction will be high: declining competitiveness, talent flight, and loss of strategic autonomy. However, the opportunities are equally large. Europe can transform its diversity into an engine of resilience, productivity, and sustainable leadership.

The **Riga 2025 ABSL European Conference** brings together over 300 C-level leaders to act on this agenda. **It is a moment to align Europe's business services industry with its future and voice our demands strongly to the European stakeholders.**

If Europe embeds the business services industry at the heart of transformation, it will not only bridge its productivity gap but also redefine itself as a global leader. The choice is urgent, the stakes are clear. The capacity to act, however, is within reach.

List of Abbreviations

A&D	Aerospace & Defense
ABSL	Association of Business Services Leaders
AHT	Average Handling Time
AI	Artificial Intelligence
AMER	North, Central, and South America
AML	Anti–Money Laundering
AP	Accounts Payable
BANI	Brittle, Anxious, Non–linear, Incomprehensible
BaTIS	Balanced Trade in Services database OECD – WTO
BI	Business Intelligence
BPO	Business Process Outsourcing
BS	Business Services
CAGR	Compound Annual Growth Rate
CEE	Central and Eastern Europe
CoE	Center of Excellence
CSRD	Corporate Sustainability Reporting Directive
CX	Customer Experience
CXO	Corporate Executive (e.g., CEO, CFO, COO)
DORA	Digital Operational Resilience Act
DL	Deep Learning
DPA	Digital Process Automation
EBOPS	Extended Balance of Payments Services classification
ECB	European Central Bank
EEA	European Economic Area
EHDS	European Health Data Space
ESG	Environmental, Social, and Governance
ERP	Enterprise Resource Planning
EU	European Union
EX	Employee Experience
FTE	Full Time Equivalent
GBS	Global Business Services
GCC	Global Capability Centers
GenAI	Generative Artificial Intelligence
GenBS	Generative Business Services
GDP	Gross Domestic Product
GPO	Global Process Owners
GPT	Generative Pretrained Transformer
GTF	Global Technology Frontier
GVA	Gross Value Added
GVC(s)	Global Value Chain(s)
HII	High Involvement Innovation
HQ	Headquarters
IBS	Integrated Business Services
IBP	Integrated Business Planning
IMF	International Monetary Fund
IoT	Internet of Things
IPA	Intelligent Process Automation
KIBS	Knowledge–Intensive Business Services
KPI	Key Performance Indicator
KYC	Know Your Customer
LLMs	Large Language Models
ML	Machine Learning
NACE	Nomenclature of Economic Activities (EU classification)
NATO	North Atlantic Treaty Organization
NIS2	EU Network and Information Systems Security Directive 2
NLP	Natural Language Processing
NUTS	Nomenclature of Territorial Units for Statistics (Eurostat classification)
PQC	Post–Quantum Cryptography
R&D	Research & Development
RCA	Revealed Comparative Advantage
RPA	Robotic Process Automation
SFDR	Sustainable Finance Disclosure Regulation
SIEM	Security Information and Event Management
SLA	Service Level Agreement
SOC	Security Operations Center
SSC	Shared Services Center
UN	United Nations
UX	User Experience
VUCA	Volatility, Uncertainty, Complexity, and Ambiguity
WTO	World Trade Organization
XAI	Explainable AI

Key Figures on the Business Services Industry in Europe

3.5 trillion EUR

Estimated GDP generated in the business services industry in the EU-27 in 2023.

20.4%

Estimated share of the industry in GDP in the EU–27 in 2023.

32.5 million

Total employment in business services in the EU–27.

39.4 million

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

5.0 million

Total employment in modern business services centers in the EU–27.

11.6 million

Total employment in knowledge–intensive business services (KIBS) in the EU–27.

14.2 million

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

22.6%

Estimated share of the sector in total EU–27's Gross Value Added (GVA) in 2023.

4.6%

Estimated CAGR in the business services industry GVA in the EU-27 in the period 2014-23.

Ireland

Member state with the highest share of the sector in Gross Value Added and GDP.

Ireland, Belgium, Sweden, and the UK

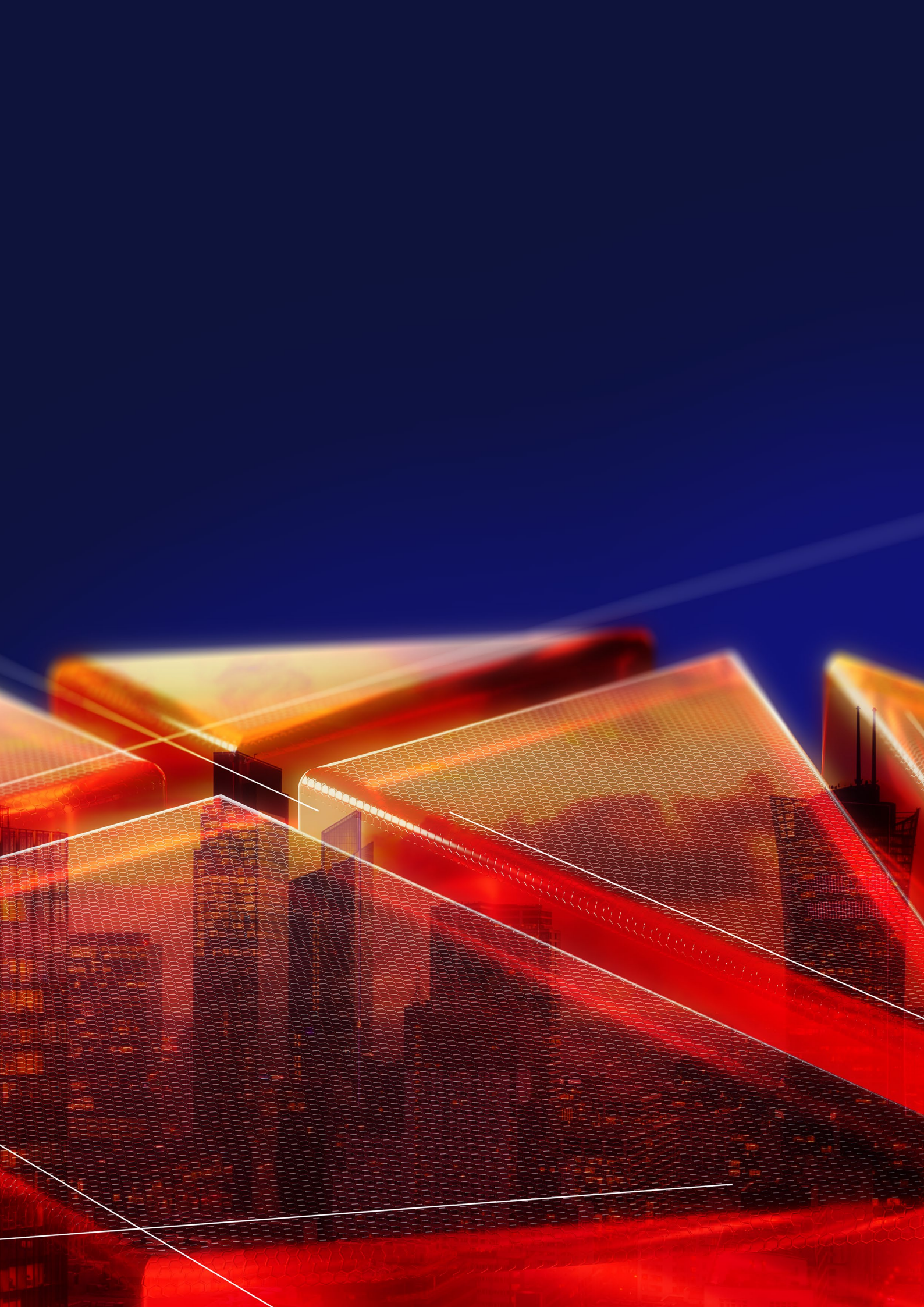
European states with the highest Revealed Comparative Advantage Index (RCA) in KIBS exports in 2023: Ireland (1.87), the UK (1.23), Sweden (1.38), and Belgium (1.35).

52.6%

Share of Europe in global KIBS exports in 2023.

34.4%

Share of intra–European trade in global KIBS flows in 2023.



2

EUROPEAN BUSINESS SERVICES – KEY CONCEPTS AND FIGURES

2.1 ABSL's Definition of Business Services

Business services, as articulated in the European Business Services Sector 2024 Report, are a foundational and horizontally integrated component of the European economy. They encompass a wide spectrum of functions and operations, delivered internally or externally, that enable organizations to operate, scale, transform, and compete. These include activities across, e.g., finance, IT, human resources, legal, procurement, logistics, data analytics, and customer support. Increasingly, these services are delivered through modern models, including specialized centers such as Shared Services Centers (SSC), Business Process Outsourcing (BPO), IT centers, R&D centers, and ultimately, Global Business Services (GBS) centers. Centers constitute the most professionalized, elaborate, and productive part of the industry.

We want to stress that the industry is no longer confined to transactional processing. It has gradually evolved into a critical enabler of innovation and business model reinvention, supported by advances in automation, cloud computing, data infrastructure, and now artificial intelligence. Importantly, the ABSL framework explicitly excludes personal services, manual labor, and public service provision from its definition, focusing instead on white-collar, knowledge-based activities embedded within dedicated centers but also the broader enterprise structure of the business services industry.

From another perspective, the 2024 edition of the ABSL European Report provided a reevaluation of business services not just as a support function but as a strategic lever for European resilience, innovation, and global positioning. It provides a data-driven assessment of the sector's scale, economic impact, and evolving strategic role.

ABSL

Chapter content developed by **ABSL**

ABSL's Definition of the Business Services Industry

A wide range of functions and processes that organizations need and leverage daily to manage and enhance their operations and administration, increase efficiency, 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.

2.2 Key Insights from the last ABSL Report

> **Shared services are no longer about cost savings; they are how we create global agility.**
>
> **Julie Sweet**
> CEO, Accenture

Scale and Significance

Business services account for 22.6% of the Gross Value Added (GVA) in the EU-27, employing **32.5 million people in the EU-27** and 39.4 million across the broader European Economic Area in 2023. The industry has become one of the largest employers of white-collar professionals and a critical contributor to intra-European trade, innovation, and knowledge diffusion. The industry is responsible for over EUR 3.52 trillion of EU-27's Gross Domestic Product and similar value for Gross Value Added. Europe remains a dominant force in global knowledge-intensive business services (KIBS) trade. European countries **exported USD 1.41 trillion of business services in 2023, with USD 1.07 trillion originating from the EU-27. A total of USD 567 billion was intra-EU-27 trade, which demonstrates the strength of the common market's freedom of movement of services principle.**

Structural Evolution

We observe a transition from traditional SSC and BPO models to integrated, multifunctional GBS platforms. This shift is driven by the adoption of digital tools, particularly artificial intelligence, intelligent automation, and cloud-based architectures, that enable end-to-end process ownership, scalability, and client-centric service delivery. GBS is gradually transitioning to GBS 3.0 with GenBS on the horizon.

Technology and Talent Dual Challenge

Despite its size and strategic importance, the sector faces systemic vulnerabilities. Talent shortages, particularly in STEM and AI-related disciplines, remain one of the most cited barriers to growth. Europe's education-to-employment pipeline is misaligned with the demands of digital transformation. On the technology front, Europe lags behind the US and Asia in commercializing AI and deep tech at scale. While strong in regulation and ethical standards, it remains fragmented in execution.

Geopolitical and Economic Context

The global macroeconomic landscape, characterized by heightened uncertainty levels, gradual decoupling from China, rising defense spending, climate volatility, and the emergence of new digital powerhouses, has altered the calculus for service delivery and sourcing. In this context, the report identified regionalization (friendshoring, nearshoring) as a key opportunity for Europe to leverage its existing talent pools, regulatory consistency, and time zone advantages.

Business Services as a Strategic Pillar for Europe's Future

We concluded the ABSL 2024 report with a clear imperative. **Europe cannot improve its competitiveness without unlocking the full potential of its business services industry.**

This conclusion strongly echoed the findings of the Draghi Report on European Competitiveness, which emphasized the need to reduce productivity gaps, enhance innovation capacity, and develop Europe's economic sovereignty. **Business services, owing to our scalability, digital adaptability, and knowledge intensity, are uniquely positioned to address each of these challenges.**

To harness this potential, **Europe, and specifically the EU-27, must treat business services as a strategic sector in its own right, deserving of targeted investment, integrated policymaking, and pan-European coordination**. This includes:

Embedding business services into Europe's EVAC (European Value-Added Chain) strategy,

Supporting centers of excellence and innovation clusters across regions,

Ensuring talent mobility and skilling policies are aligned with sectoral needs,

Promoting responsible AI and digital ecosystems within service platforms.

All in all, **business services offer Europe a scalable mechanism to transform internal capabilities into global strengths.** As underscored by both ABSL and Draghi, the **path to competitiveness must involve fully mobilizing this industry's economic, technological, and human capital.**

2.3 Key Figures on the Industry in Europe and its Potential

2.3.1 Employment in the Industry

New estimates for **2023** provide a refined picture of the scale and strategic importance of business services employment across Europe. Using both narrow and broad definitional scopes, the data reflects the structural entrenchment of business services as a core pillar of Europe's white-collar economy.

Within the EU-27, employment in center-based business services, concentrated in shared service centers, BS hubs, and outsourcing operations, **reached 5.0 million**. When we include the **European Economic Area (EEA), the United Kingdom, and Switzerland,** this rises to **5.7 million.**

Knowledge-intensive business services (KIBS), a broader category, now employ **11.6 million** people in the EU-27 and **14.2 million** across the extended European area. This confirms, at the same time, that KIBS is one of the fastest-growing sectors in the white-collar domain.

The total number of people working in **business services** stands at **32.5 million in the EU-27,** expanding to **39.4 million** when the broader European region is considered. We are thus speaking about nearly 40 million FTEs in the industry.

At the same time, white-collar employment as a whole, the broader employment ecosystem into which business services feed talent and innovation, now encompasses 75.5 million workers in the EU-27 and 90 million across the entire European area.

Overall, **center-based operations account for just over 15% of employment in the entire business services industry, or around 40% of KIBS employment,** indicating a significant concentration of specialized, exportable services within structured delivery models. This reflects the maturity and institutionalization of business services in Europe's tradeable services economy.

The majority of business services employment still resides outside structured delivery centers, in decentralized corporate functions, consulting, software firms, creative services, and other project-based environments.

TABLE 2.1 **Industry Employment in EU-27 and Europe in 2023**

Sector	Narrow-sense	Broad-sense
	EU-27	EEA + UK + CH
Center-based business services	**5.0**	**5.7**
Knowledge-intensive business services	**11.6**	**14.2**
Business services industry	**32.5**	**39.4**
White-collar workers	**75.5**	**90.3**

Source: ABSL BI estimates based on EUROSTAT's data.

2.3.2 Position of Europe in Global KIBS Flows

Using the latest edition of the WTO-OECD BaTIS data, we analyzed the patterns of KIBS trade during the COVID-19 pandemic and the post-COVID-19 era, specifically for the period 2022-23.

Similar to last year's report, we calculated the RCA worldwide to identify countries that show significant specialization in KIBS relative to the global mean.

Over the past seven years, knowledge-intensive business services have become a key pillar of global trade. Between 2016 and 2023, **global KIBS exports expanded from USD 1.54 trillion to USD 2.67 trillion, growing at a compound annual growth rate (CAGR) of 8.2%.**

The COVID-19 pandemic triggered a short-lived stagnation in global KIBS trade. Exports plateaued in 2020, rising marginally to USD 2.05 trillion. This stagnation was not due to a collapse in demand but rather to the inertia of supply-side disruptions, mobility restrictions, and temporary business uncertainty. Notably, unlike traditional goods trade, KIBS proved highly resilient, with many services pivoting rapidly to virtual delivery models.

From 2021 onward, the rebound was both rapid and asymmetrical. While some economies returned to their previous growth paths, others used disruption as an opportunity to leap forward, leveraging digital infrastructure, remote service capabilities, and strategic positioning in the global value chain.

KIBS proved more resilient than expected during the pandemic, benefiting from digital substitutability and cross-border virtualization. **The post-COVID rebound amplified existing asymmetries.** Economies with pre-existing digital strength and global service integration rebounded faster and stronger.

Europe remains a dominant force in global KIBS trade, but its performance varies significantly across countries. **European countries exported USD 1.41 trillion of business services in 2023, with USD 1.07 trillion from EU-27 states and USD 0.34 trillion from the remaining countries. A total of USD 567 billion was intra-EU-27 trade, which demonstrates the strength of the common market's freedom of movement of services principle.** The main partners of EU-27 within Europe were the UK – USD 127.5 billion, Switzerland – USD 34.8 billion, and Norway – USD 10.0 billion.

The United Kingdom remains a leading global exporter, with exports reaching USD 241 billion in 2023, representing a 35.8% increase since 2016. Despite Brexit, the UK's strong legal, financial, and consultancy sectors remain globally competitive. Ireland, through its concentrated high-tech and financial service hubs, recorded an exceptional 16% compound annual growth

rate (CAGR), reflecting its role as a platform economy within the European Union (EU). Germany, France, and the Netherlands maintained steady but modest growth (CAGR 5-7.5%), suggesting a mature but less dynamic position in the evolving KIBS hierarchy.

Central European economies, such as Poland and Romania, while still modest in absolute terms, registered double-digit growth rates, showing the continent's expanding geography of knowledge services. This pattern suggests a two-speed Europe in KIBS trade. Mature economies preserve scale, while newer players gain momentum via specialization, cost advantages, and digital adaptability.

Among the top global exporters of KIBS, the highest values of **Revealed Comparative Advantage (RCA)**[1] in **2023** within the broader European context are recorded for I**reland (1.87), the UK (1.23), Sweden (1.38), Belgium (1.35), the Netherlands (1.22),** and **Poland (1.08). Poland's RCA has risen steadily over the past decade,** reaching a level **above unity** for the second consecutive year, confirming the country's transition from a cost-based outsourcing location to a **globally competitive provider of knowledge services.** While **France (0.98)** and **Austria (0.98)** remain close to parity, their RCA values are now lower than Poland's, suggesting a relative loss of specialization.

Among the top 10 global exporters, the **United States** records a modest RCA of **1.01,** now clearly **outpaced by India (1.99),** which continues to dominate in IT and business process services. **Germany,** with an RCA of **1.05,** remains marginally above parity but lags behind its Northern and Western European peers in terms of specialization intensity. **China's RCA,** at **1.08,** now also exceeds unity, reflecting the country's gradual shift into higher-value-added service domains.

Outside Europe, high RCA values in 2023 are observed in **Israel (1.61), Singapore (1.09), Brazil (1.11),** and **Canada (1.14),** each reflecting distinct service niches, such as cybersecurity, analytics, and legal and financial advisory services.

[1] 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 analysing 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.

TABLE 2.2 | **Major Global KIBS Exporters 2016-2023 and their Revealed Comparative Advantages**

		RCA								Exports value in USD billion								Export dynamics			
Country code	Country	2016	2017	2018	2019	2020	2021	2022	2023	2016	2017	2018	2019	2020	2021	2022	2023	CAGR 2016-23	% change 2019-21	% change 2021-23	% change 2016-23
USA	USA	1.01	1.04	1.03	1.02	1.00	1.02	1.06	1.01	245.9	269.7	279.9	302.7	318.4	354.5	387.0	399.5	7.2	17.1	12.7	32.0
GBR	UK	1.24	1.26	1.28	1.24	1.15	1.20	1.22	1.23	142.1	153.4	172.9	177.3	185.4	210.3	209.2	240.7	7.8	18.6	14.5	35.8
IRL	Ireland	1.86	1.90	1.97	1.96	1.67	1.75	1.88	1.87	80.0	98.7	123.5	144.6	162.5	197.3	200.0	226.0	16.0	36.5	14.5	56.3
DEU	Germany	1.19	1.19	1.18	1.10	1.01	0.97	1.00	1.05	111.0	120.0	132.5	133.9	133.0	145.6	146.3	164.5	5.8	8.8	13.0	22.9
IND	India	2.13	2.10	2.08	2.02	1.83	1.93	2.02	1.99	73.2	81.8	90.0	96.8	99.1	117.1	137.8	153.5	11.2	21.1	31.1	58.6
CHN	China	1.08	1.01	1.05	1.05	0.97	0.94	1.00	1.08	65.0	65.2	77.0	83.9	87.7	107.9	115.2	119.9	9.1	28.6	11.2	43.0
NLD	Netherlands	1.22	1.22	1.21	1.12	1.12	1.11	1.19	1.22	71.7	81.8	93.1	94.3	90.4	97.0	105.2	119.1	7.5	2.9	22.8	26.3
FRA	France	1.18	1.13	1.16	1.09	1.02	0.98	0.97	0.98	83.1	85.3	96.4	94.8	88.0	98.8	102.1	111.6	4.3	4.3	12.9	17.7
SGP	Singapore	1.10	1.07	1.04	1.08	1.02	1.02	1.00	1.09	46.6	50.7	58.3	68.4	74.9	89.0	92.9	103.1	12.0	30.1	15.8	50.7
BEL	Belgium	1.51	1.52	1.49	1.42	1.21	1.28	1.34	1.35	42.2	46.2	48.8	49.1	47.7	55.4	56.2	61.8	5.6	12.9	11.5	25.9
CHE	Switzerland	1.14	0.99	0.98	0.94	0.88	0.83	0.85	0.93	53.8	44.6	45.6	45.5	46.8	49.6	50.9	59.8	1.5	9.0	20.6	31.4
CAN	Canada	1.10	1.10	1.12	1.09	1.18	1.25	1.20	1.14	26.9	29.4	33.8	36.8	41.4	47.1	48.2	51.2	9.6	28.1	8.7	39.2
ESP	Spain	0.74	0.72	0.73	0.70	0.93	0.86	0.74	0.72	28.8	31.1	35.0	35.7	35.1	40.0	42.2	48.2	7.6	12.2	20.5	35.2
SWE	Sweden	1.46	1.45	1.47	1.43	1.28	1.33	1.41	1.38	28.7	30.0	32.1	34.4	33.8	41.0	42.9	46.5	7.1	19.0	13.5	35.0
JPN	Japan	0.70	0.71	0.69	0.69	0.73	0.75	0.77	0.65	36.3	38.6	40.0	44.2	44.3	45.9	44.4	44.4	2.9	3.7	-3.1	0.5
ITA	Italy	0.89	0.88	0.85	0.81	0.89	0.89	0.81	0.76	29.8	32.1	34.4	34.5	32.9	38.4	38.5	41.8	5.0	11.2	8.8	21.1
HKG	Hong Kong	0.59	0.60	0.59	0.60	0.69	0.69	0.68	0.63	25.1	26.6	28.7	29.7	31.4	36.7	35.7	39.4	6.7	23.3	7.5	32.6
POL	**Poland**	**0.97**	**1.01**	**1.04**	**1.03**	**0.97**	**0.99**	**1.03**	**1.08**	**14.7**	**17.7**	**21.4**	**23.4**	**24.4**	**29.1**	**32.0**	**38.4**	**14.7**	**24.5**	**31.9**	**64.2**
LUX	Luxembourg	0.82	0.78	0.77	0.85	0.70	0.75	0.77	0.85	19.0	19.2	20.5	24.9	26.3	33.2	31.9	35.4	9.3	33.4	6.5	42.0
ISR	Israel	1.63	1.63	1.64	1.55	1.49	1.52	1.55	1.61	14.8	16.5	19.1	20.1	21.5	27.0	29.7	32.2	11.7	34.0	19.2	59.7
KOR	Korea	0.68	0.74	0.68	0.70	0.70	0.70	0.72	0.79	16.8	18.0	18.8	20.3	20.8	25.6	26.4	29.7	8.4	25.7	16.0	45.8
AUT	Austria	0.98	0.99	1.03	0.98	0.99	1.08	1.01	0.98	17.6	19.4	22.5	22.8	23.5	26.7	26.8	29.3	7.5	17.1	9.8	28.6
ARE	United Arab Emirates	0.71	0.69	0.69	0.60	0.64	0.63	0.54	0.59	13.5	14.2	15.0	15.0	16.2	19.5	20.7	25.7	9.6	29.6	32.1	71.2
DNK	Denmark	0.71	0.70	0.65	0.65	0.62	0.57	0.50	0.67	11.9	13.0	13.8	14.5	15.9	17.8	18.5	21.9	9.0	22.7	22.7	50.6
PHL	Philippines	1.48	1.40	1.37	1.32	1.49	1.63	1.52	1.42	11.6	11.8	12.5	13.5	15.1	17.0	18.0	20.3	8.3	26.6	18.9	50.6
ROU	Romania	1.13	1.12	1.20	1.18	1.17	1.18	1.24	1.27	7.1	8.1	10.4	11.1	12.0	14.2	15.3	18.1	14.2	27.4	27.2	62.1
AUS	Australia	0.61	0.60	0.60	0.61	0.66	0.80	0.79	0.63	11.2	12.4	13.2	14.3	13.9	16.3	17.2	17.6	6.7	13.4	8.5	23.1
TWN	Taiwan	0.63	0.64	0.65	0.66	0.72	0.70	0.73	0.77	8.8	9.4	10.4	11.4	12.5	15.0	16.5	17.4	10.3	31.7	16.1	52.9
BRA	Brazil	1.38	1.36	1.30	1.24	1.10	1.12	1.13	1.11	14.6	14.3	14.0	13.8	11.6	13.1	15.4	16.7	1.9	-4.9	27.1	20.8
CZE	Czechia	1.02	1.01	1.03	1.02	0.98	1.08	1.10	1.07	8.4	9.5	10.9	11.3	11.0	13.5	14.3	16.3	9.9	18.9	20.8	43.6
Total		**1.00**	**1.00**	**1.00**	**1.00**	**1.00**	**1.00**	**1.00**	**1.00**	**1,539.8**	**1,667.3**	**1,841.8**	**2,020.5**	**2,056.1**	**2,304.5**	**2,408.9**	**2,673.0**	**8.2**	**14.1**	**16.0**	**32.3**

Source: ABSL BI estimates based on the WTO-OECD BaTiS dataset.

2.4

The Evolution of Global Business Services: From Classic GBS to GenBS and their Position in ABSL's Business Transformation Cube

The **classic GBS model,** which still dominates much of the business services landscape today, emerged in the early 2000s as a response to the need for cost efficiency and scale. It is defined by a focus on labor arbitrage, process consolidation, and functional silos, with centralized offshore delivery centers often located in CEE, India, or the Philippines. Technology in Classic GBS is typically limited to ERP systems and workflow tools. At the same time, key performance indicators (KPIs) are driven by cost metrics, service-level agreements (SLA) adherence, and transactional efficiency. Classic GBS operates primarily as a back-office cost center, focused on operational redundancy and basic business continuity. Despite its limitations, classic GBS remains the dominant operating model for many organizations, particularly those focused on scale and cost optimization. It is more integrated than SSC or BPO centers.

However, the market is clearly **transitioning into GBS 3.0.** GBS 3.0, as proposed in the report by KPMG Hungary – *Global Business Services 3.0*, is a more advanced and integrated model gaining traction across the 2020s. GBS 3.0 is built on the foundation of real global end-to-end process ownership, cross-functional integration, and digital enablement through tools such as RPA, analytics, cloud, and low-code platforms. Talent profiles in GBS 3.0 reflect this shift, requiring hybrid skills that blend domain expertise, technology fluency, and data analytics. Delivery models are also evolving, with global-local hybrids and Centers of Excellence (CoEs) emerging alongside traditional offshore hubs. The focus shifts from cost alone to business impact-delivering value in the form of an improved customer experience, reduced cycle time, and digital innovation. Nevertheless, the transition is incomplete: many organizations remain stuck in legacy structures, unable to harness the potential of GBS 3.0 fully.

Looking ahead, **GenBS – Generative Business Services** represents the **future of the sector.** The HFS Research article – *GBS is dead, long live GBS* (March 2024) defined Generative Business Services as a radical departure from traditional Global Business Services, primarily shaped by Generative AI capabilities. HFS does not frame Generative Business Services as a linear evolution from GBS 3.0. Instead, they argue that GBS, as we know it, is obsolete, and Generative Business Services is a disruptive replacement driven by the inflection point in genAI – a disruptive jump to a new S-curve. HFS explicitly connects Generative Business Services to the OneOffice framework. It is thus a disruptive redefinition of classic GBS and GBS 3.0.

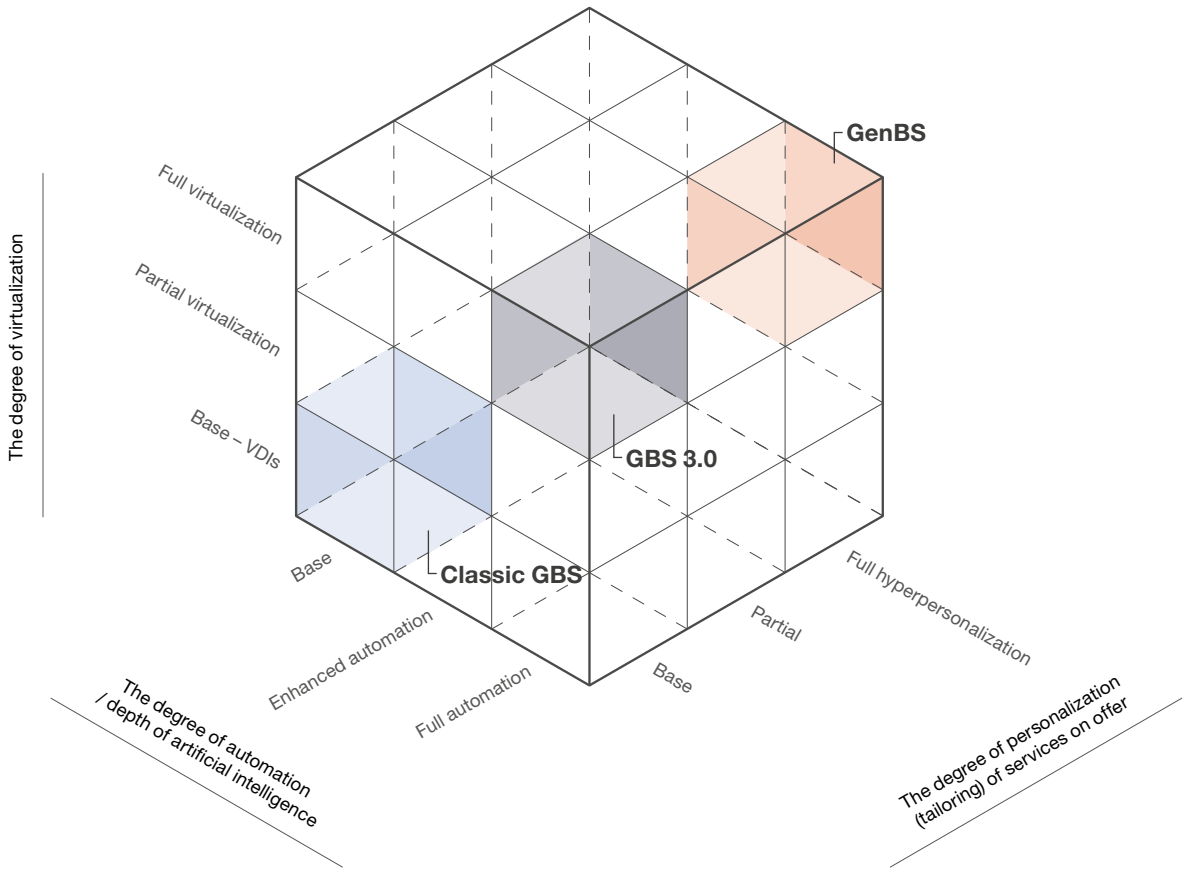
In ABSL understanding, **Generative Business Services – GenBS or next-generation GBS can be understood as a business platform – AI-native, hyper-automated, and ecosystem-driven. It is built on agile, modular, and composable architectures that integrate generative AI, digital twins, intelligent agents, and real-time API-driven services. Talent will shift to fusion teams with AI trainers, prompt engineers, and cognitive specialists, while delivery models will become fully distributed, location-agnostic, and gig-augmented. The role of business services in the enterprise will undergo a fundamental transformation, shifting from a support function to a core business engine that co-creates products and services, enables adaptive learning loops, and drives innovation at scale.** Although GenBS remains an emerging concept, its early signals are visible in leading-edge organizations, and it is poised to define the competitive landscape in our industry in the near future.

The **ABSL Business Transformation Cube,** introduced in the **ABSL 2023 Industry Foresight Report,** is a strategic framework designed to assess and guide the evolution of business service centers. It evaluates organizations along three critical dimensions:

1. **Virtualization:** The extent to which services are delivered digitally, minimizing reliance on physical infrastructure.
2. **Personalization:** The capability to tailor services to individual client needs, moving beyond standardized offerings.
3. **AI Depth / Degree of Automation:** The level of integration and sophistication of artificial intelligence and automation within service delivery.

This cube can serve as a roadmap for our organizations to transition from traditional models to more advanced, digitally enabled service paradigms. GBS, GBS 3.0, and GenBS can be seen as three distinct business models within the cube – please refer to Figure 2.1. GenBS, however, does not require full virtualization; thus, this is just an approximate location – partial virtualization is as likely. Hybrid work is as likely as innovation could require human teams to close face-to-face cooperation.

FIGURE 2.1 **ABSL Transformation Cube and Classic GBS, GBS 3.0, and GenBS**



Current state of the art – base level – initial virtualization, initial automation & personalization

Partially automated, AI enhanced, partially virtual with increased personalization (tailored services)

Fully virtual, AI dominated (or non-human), hyper personalized

Source: ABSL BI.

Centralized, standardized processes with minimal digital integration characterize classic GBS models. Service delivery is often manual, with a primary focus on cost efficiency through labor arbitrage. In the transformation cube, classic GBS could be positioned at low levels of virtualization, personalization, and AI depth/automation.

GBS 3.0 represents a shift towards integrated, end-to-end processes with increased digital enablement. Organizations in this phase leverage technologies like RPA and analytics to enhance service delivery, offering more tailored solutions to clients. In the business transformation cube sense, we are referring to medium to high virtualization, medium personalization, and medium AI depth and automation.

GenBS, or Generative Business Services, embodies the future of business services. It is defined by AI-native operations, hyper-automation, and a platform-based approach that allows for dynamic, personalized service delivery. Organizations adopting GenBS are positioned as innovation hubs, co-creating value with clients in real time. GenBS, in the transformation cube sense, is characterized by a high degree of virtualization, personalization, and AI depth and automation.

As Global Business Services evolve from functional integration to true enterprise orchestration, the adoption of Global Process Owners (GPOs) has become central to enabling end-to-end accountability. Emerging GenBS models could increasingly assign GPOs not only for foundational processes, such as procure-to-pay or record-to-report, but also for cross-functional and customer-facing domains, including hire-to-retire, order-to-cash, and even supply chain planning. These roles ensure visibility, governance, and continuous improvement across silo boundaries-aligning process performance directly with business outcomes. The prevalence of GPO structures is now a leading indicator of GBS maturity and a differentiator between cost-centric models and transformational enablers.

By 2030, we can expect all three GBS models to coexist. However, the classic model will likely gradually become a legacy model. The transition to a new business model does not have to be smooth and linear. Non-linearities and a decent portion of ambiguity, experimentation, and trial and error can be expected prior to the new bandwagon business model being established in the industry.

Overall, the GenBS model aligns well with the recent concept promoted by Accenture of IBS (Intelligent Business Services) or AI-powered GBS as promoted by Genpact at the functional level. The correspondence of GBS 3.0 seems to be less similar in this respect.

2.5 European Innovation Paradox

The Innovation Paradox refers to the perplexing reality where countries or regions invest significantly in knowledge creation, R&D, and higher education but struggle to translate these investments into sustained, marketable innovations that drive productivity and economic growth (World Bank, 2017). In the European context, this paradox is particularly acute. Despite being home to world-class universities, leading research institutes, and a highly educated workforce, Europe consistently underperforms in commercializing research compared to the US, Japan, or China (Draghi, 2024; EIB, 2024). This

gap is evident in key metrics, including venture capital availability, scale-up success rates, and the global market share of innovative firms. For instance, the 2024 EU Industrial R&D Investment Scoreboard shows that while EU-based firms account for 18.7% of global R&D investment, it still lags behind the US at 42.3% and China at 30.6% (European Commission, 2024)

European firms often lag in innovation due to a combination of structural, financial, and cultural factors. The EU's fragmented market (the single market is not yet fully completed), characterized by diverse regulations and standards across member states, hinders the scalability of innovative ventures. This fragmentation contrasts with the more unified markets where companies can more easily scale operations nationally. Additionally, Europe's venture capital ecosystem is less mature, with limited late-stage funding opportunities, compelling many startups to seek financing abroad, particularly in the US This trend contributes to a talent and innovation drain from Europe to more supportive environments. At the same time, culturally, European societies often exhibit greater risk aversion, which can dampen entrepreneurial initiatives and the commercialization of research (Ezell & Marxgut, 2015; Ritchie, 2014; Hofstede, 2001).

The Draghi Report (Draghi, 2024), commissioned by the European Commission, underscores these challenges and recommends substantial reforms to enhance Europe's competitiveness. Key proposals include increasing annual investment in research and innovation to EUR 750-800 billion, streamlining regulations to facilitate business operations, and advancing the Capital Markets Union to improve access to financing for innovative firms. The report also emphasizes the need for a coordinated industrial policy and the development of strategic sectors, including artificial intelligence, semiconductors, and green technologies. These recommendations aim to create an environment conducive to innovation and to bridge the gap between Europe and its global competitors.

Despite recent increases in R&D spending, European firms still trail behind their US and Chinese counterparts in terms of overall investment and the commercialization of innovations. While the EU has seen a 9.8% growth in R&D investment, surpassing the US and China in growth rate, the absolute figures remain lower, with the US accounting for 42.3% of global R&D investment compared to the

EU's 18.7%. Moreover, Europe's innovation output is often concentrated in specific sectors, such as automotive and industrial manufacturing, with less presence in high-growth areas like digital services and biotechnology. To address these disparities, the EU must not only increase investment but also foster a more integrated and risk-tolerant innovation ecosystem.

Innovation, after all, is about trial and error, with a success ratio of approximately 4%. Attitude towards risk-taking is a major differentiator between Europe and its competitors, with the difference stemming from cultural differences. US and Chinese business cultures often embrace risk-taking and view failure as a learning opportunity, fostering a dynamic environment for innovation. In contrast, European cultures tend to be more risk-averse, which can hinder entrepreneurial ventures and the commercialization of innovative ideas.

The US has a well-established and larger venture capital ecosystem that supports startups and high-risk projects, enabling rapid scaling and innovation. Europe's venture capital landscape is comparatively underdeveloped, limiting funding opportunities for innovative enterprises.

At the same time, **European regulatory frameworks are more stringent and complex, which can potentially hinder innovation. In contrast, the US regulatory environment is often more conducive to experimentation, the rapid deployment of new technologies, and fast prototyping, resulting in a shorter time to market.**

While Europe has strong public research institutions and universities, private sector investment in research and development (R&D) lags that of the US and China. This imbalance affects the commercialization of research and the development of market-ready innovations. The US also utilizes the concept of dedicated Skunk Works efficiently in the military, IT, aerospace, and defense. The Skunk Works model (Rich & Janos, 1994) thrives in environments where rapid breakthrough innovation is required, necessitating minimal bureaucratic drag and high trust in elite talent. It is particularly effective for high-risk and high-reward projects.

The US and China have made substantial, strategically coordinated investments in research and development, often through tight public-private collaboration, enabling a faster translation of new ideas into market-ready products and services (Mazzucato, 2018; Zhang & Liang, 2023). This integration of academia, industry, and government funding creates a high rate of innovation

and rapid scaling potential (Furman & Hayes, 2004). By contrast, **while European institutions excel in basic research and maintain robust funding mechanisms, they face persistent challenges in commercializing innovations** (Veugelers & Cincera, 2015). **These gaps are partly attributable to regulatory complexity and fragmentation across member states** (Blind et al., 2017) **but also reflect deeper cultural factors, such as lower risk tolerance, more conservative corporate decision-making, and weaker incentives for entrepreneurial spin-offs** (Autio et al., 2014; Grimaldi et al., 2021). Together, these dynamics slow the transition from laboratory breakthroughs to globally competitive offerings.

2.6 Structural Risks to Europe's Business Services Competitiveness

While Europe's business services industry holds strong potential, several structural risks could impact its future trajectory. These include:

Wage Inflation in CEE and High Costs in Western Europe

Rapid wage growth in core business services hubs (Poland, Czechia, Hungary) is outpacing productivity gains, potentially undermining cost competitiveness. At the same time, from a global perspective, Western European states are already characterized by high costs.

Geopolitical Fragmentation

Increased intra-EU and global political uncertainty may disrupt investment flows and talent mobility.

Increased Policy Uncertainty and Unpredictability

Partially linked to the above, partially linked to increased economic nationalism tendencies, e.g., the US under a new administration.

Regulatory Divergence

Varied national interpretations of EU AI and data regulations could fragment scaling potential for pan-EU business services platforms.

Energy Costs

Persistent energy price volatility increases operational costs, particularly in energy-intensive hardware-based functions like data and compute centres with increased demand in the AI era.

Talent Pipeline Constraints

Aging demographics and skill gaps, if not addressed, will significantly constrain the growth of high-value services in the coming decade.

Proactive mitigation of these risks should become a core element of both public policy and corporate strategy agendas.

3

REGIONAL VIEWPOINT ON BUSINESS SERVICES INDUSTRY IN EUROPE

3.1 Introduction

Understanding the spatial distribution of business services activity across Europe is critical to anticipating talent availability, identifying emerging delivery hubs, and evaluating the potential for nearshoring and vertical transformation. Drawing on EUROSTAT 2023 data, this section provides a dual perspective: the **scale of employment** in full-time equivalents (FTEs) and the **degree of specialization** in Knowledge-Intensive Business Services (KIBS) and broad industry, based on location quotients (LQs) at the NUTS2 regional level.

3.2 Specialization Patterns: Location Quotient Analysis

The location quotient (LQ) provides a normalized measure of sectoral concentration by comparing the share of regional employment in a given activity to the EU-27 average. Values above 1 indicate above-average specialization and may suggest the existence of specialized talent pools. In some economic studies, only values 25% above the mean are considered significant concentrations.

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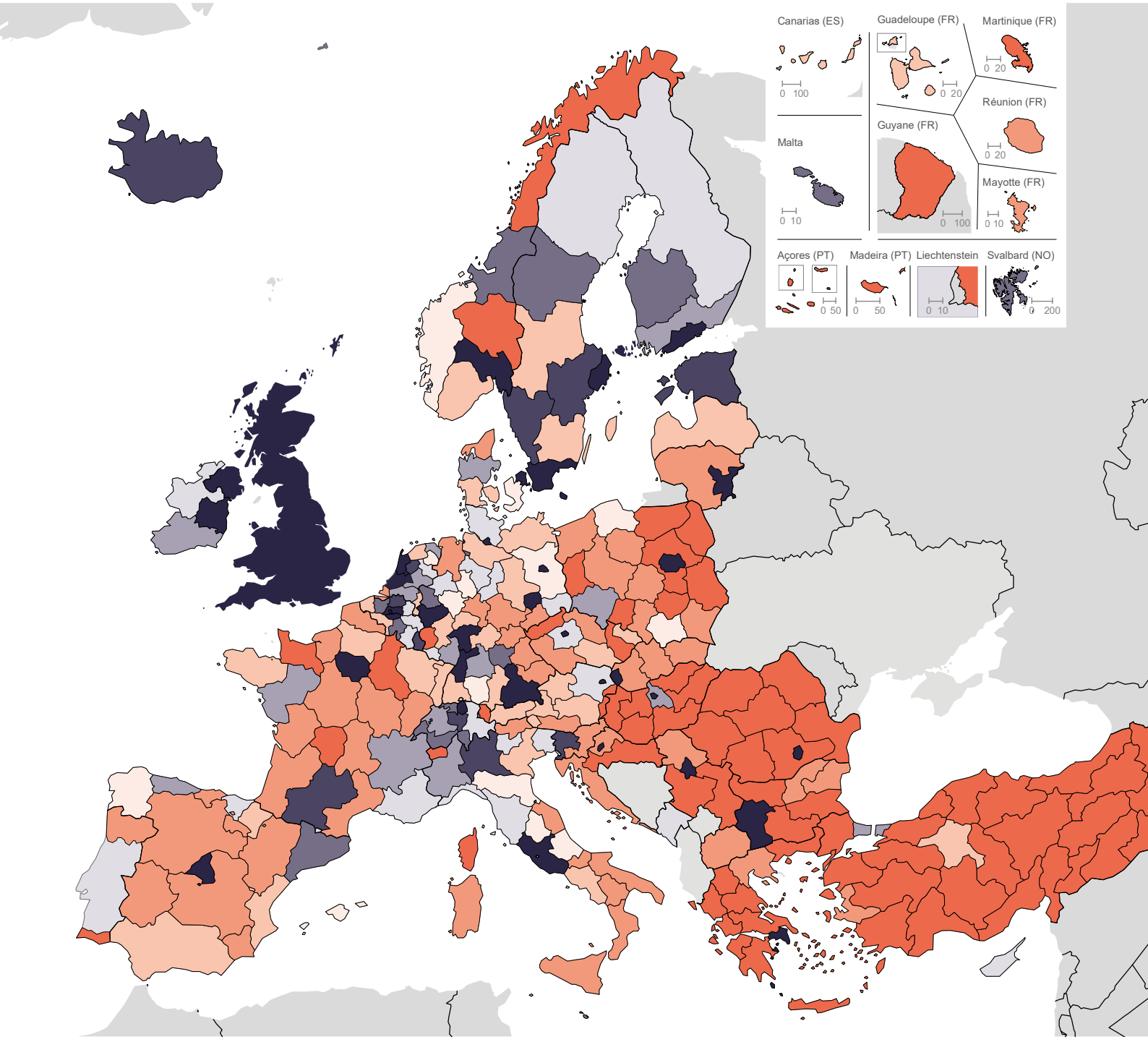
FIGURE 3.1 **KIBS Concentrations in Europe in 2023 – Location Quotients** (LQ)



LQ values

0 0.5 0.75 0.85 0.90 1.00 1.10 1.20 1.30

Data not available

Location quotient relative to EU-27 mean

Source: ABSL BI analysis based on EUROSTAT data.
Please not that due to limited data availability for UK post Brexit we utilized 2019 data.

Granice administracyjne: ©EuroGeographics, współautorzy ©OpenStreetMap
Kartografia: Eurostat – IMAGE, 08/2025

Key Findings – KIBS Specialization

Several urban and metropolitan regions exhibit **high levels of KIBS specialization (LQ ≥ 1.3)**. These include **Inner London, Île-de-France (Paris), Stockholm, Tallinn,** and **the Helsinki-Uusimaa region.** While their absolute employment may vary, these regions act as **advanced knowledge hubs** characterized by strong demand for consulting, R&D, digital services, and financial intermediation.

A broader cluster of regions falls within the **moderately above-average range (LQ 1.1-1.3),** encompassing areas such as **Dublin, Southern Netherlands, Hamburg, Berlin,** and **Copenhagen.** These regions combine a sizable talent pool with sectoral depth and infrastructure maturity.

In contrast, **the Southern and Eastern European regions, including parts of Greece, southern Italy, eastern Romania, and Western Turkey, consistently exhibit low KIBS LQ values (< 0.75).** While many of these regions are expanding their service economies, their specialization in KIBS remains limited relative to EU benchmarks.

Key Findings – Industry Specialization

In 2023, the European business services landscape presents a striking picture of **geographic asymmetry,** where centers of excellence are concentrated in a select group of regions while much of the continent continues to lag behind the EU-27 average.

At the forefront are the **Nordic countries,** particularly Sweden and Finland, where advanced digitalization, strong human capital, and proactive innovation policies have fostered thriving ecosystems for knowledge-intensive business services. These hubs exemplify the integration of technology with professional services, where IT, data analytics, and consulting sectors flourish. Similarly, **Estonia's digital-first economy** underscores how a small country can become a hub of business services concentration when supported by forward-thinking policy frameworks and a highly skilled workforce.

In **Western Europe,** the **UK's resilience** is evident despite post-Brexit challenges, with London and parts of Scotland maintaining high levels of business services intensity. The **Benelux region** and **Germany** remain strongholds. However, the distribution is less homogeneous, with urban centers such as Amsterdam, Frankfurt, and Munich serving as magnets for business services firms. At the same time, rural areas remain less integrated into the services economy.

Turning to **Central and Eastern Europe,** a clear **emergence of regional hubs** is visible. **Poland, Czechia, Hungary,** and **Slovakia** show significant strides, driven by urban centers such as **Warsaw, Kraków, Prague,** and **Budapest.** These cities are rapidly developing into competitive locations for business services, benefiting from a combination of **cost competitiveness, talent availability,** and **strategic nearshoring advantages** for Western European markets. Yet, outside these metropolitan areas, much of the CEE region continues to display lower location quotients, underscoring the need for broader regional development strategies to prevent the deepening of **core-periphery divides** within countries.

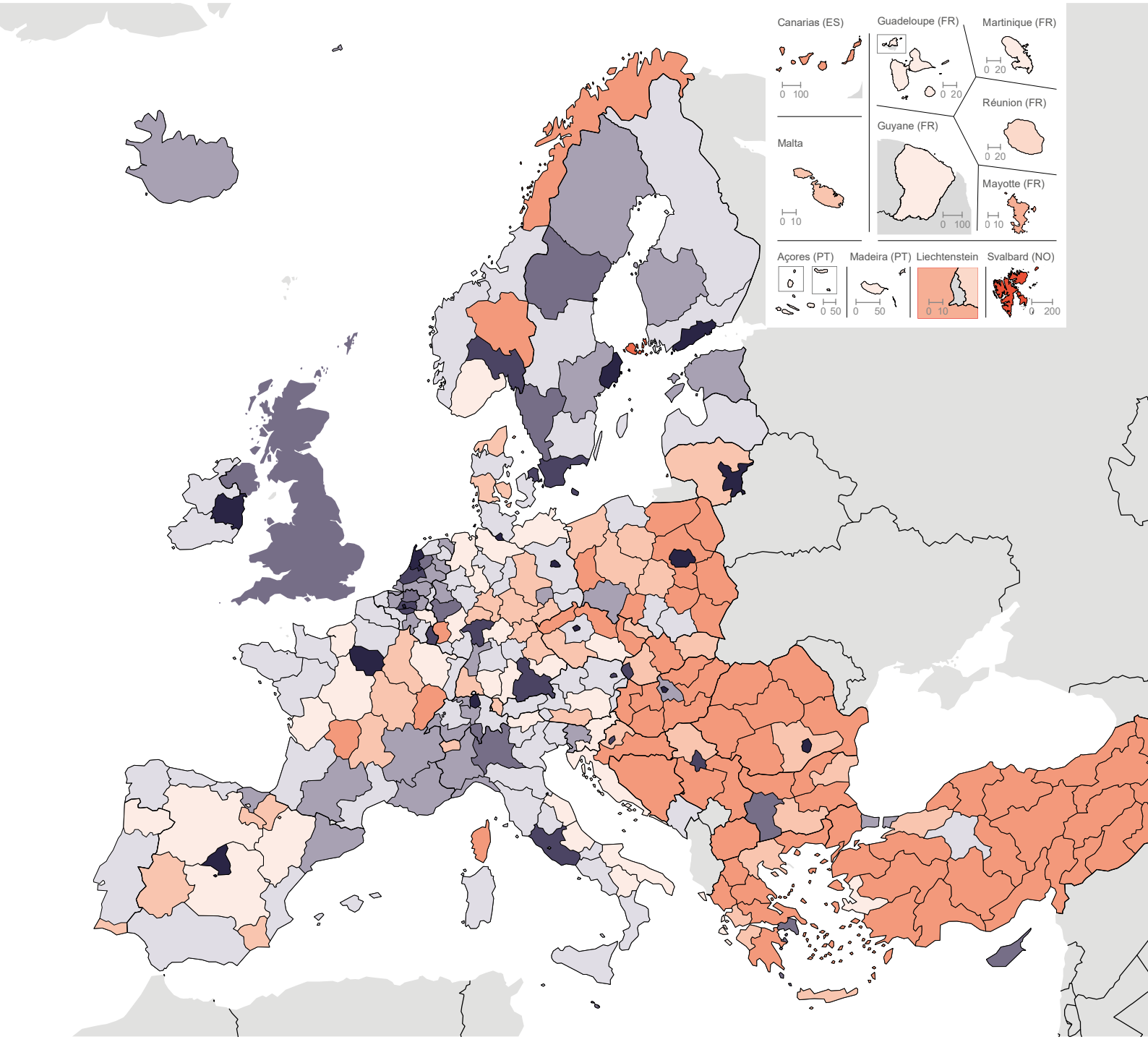
In contrast, **Southern Europe** – including Spain, Italy, Portugal, and Greece – still lags behind, with many regions below the EU average in business services concentration. While **Madrid, Barcelona,** and **Milan** demonstrate pockets of growth, much of the periphery in these countries remains underdeveloped. This signals persistent structural challenges in mobilizing talent, digital infrastructure, and policy support necessary for business services expansion.

The **Balkan countries, Turkey,** and parts of **Eastern Europe** present a picture of untapped potential. Low LQ scores across most of these areas reflect a combination of **historical underinvestment, limited integration into global services networks, and weaker institutional frameworks.** Without targeted efforts to build capacity, develop talent pipelines, and attract foreign investment, these regions risk falling further behind in Europe's transition to a knowledge-driven economy.

Finally, the data reveals an unmistakable trend. **Business services growth in Europe is predominantly an urban phenomenon.** Rural and peripheral regions continue to be underrepresented in the sector.

Looking ahead, the **uneven distribution of business services across Europe underscores both a challenge and an opportunity.** As digital transformation and AI adoption accelerate, **regions with strong foundations** in business services will likely solidify their competitive advantage. However, for Europe to fully leverage its potential, it must invest in **inclusive policy frameworks, talent development, and infrastructure** that enable all regions to participate in the sector's growth.

FIGURE 3.2 **Industry Concentrations in Europe in 2023 – Location Quotients** (LQ)



LQ values

0 0.5 0.75 0.85 0.90 1.00 1.10 1.20 1.30

Data not available

Location quotient relative to EU-27 mean

Source: ABSL BI analysis based on EUROSTAT data.
Please not that due to limited data availability for UK post Brexit we utilized 2019 data.

Granice administracyjne: ©EuroGeographics, współautorzy ©OpenStreetMap
Kartografia: Eurostat – IMAGE, 08/2025

Europe's business services landscape in 2023 is a story of **success concentrated in a few and untapped potential in many other regions.** It is a reminder that the future of European competitiveness depends not only on **deepening the capabilities of existing hubs** but also on **empowering new regions** to emerge as credible players in the global business services market.

Comparison of LQs distribution in KIBS and the industry

It is clear that if we adopt a broader definition of the industry, one that focuses on centers beyond core KIBS sectors, LQs show a more even distribution within Europe. Adopting a broader definition of business services makes the European landscape appear more balanced than KIBS-only data would suggest. However, structural and capability-based asymmetries persist, particularly in specialization and value-added segments. We have to remember that scale and specialization are two distinct metrics. Europe's business services landscape in 2023 is a story of **success concentrated in a few and untapped potential in many.**

A broader view helps uncover emerging and/or underutilized, at least for the time being, talent hubs, particularly in Central and Eastern Europe (CEE) and Southern Europe. The future of European competitiveness depends not only on **deepening the capabilities of existing hubs** but also on **empowering new regions** to emerge as credible players in the global business services market.

Dual Specialization Remains Rare – A Missed Opportunity for Ecosystem Integration

Across Europe, very few regions demonstrate simultaneously high location quotients (LQs) in both the broad business services industry and the Knowledge-Intensive Business Services (KIBS) sector. This fragmentation suggests that functional integration within business services itself remains underdeveloped: digital services, IT, analytics, BPO, and transformation services often exist in silos rather than as interconnected ecosystems.

For ABSL stakeholders, this gap presents an opportunity. We could bridge these divides by bringing technology, process expertise, and data analytics into core business services delivery models, creating truly integrated, high-value solutions for global clients.

3.3 Business Services Industry Location in Regions and the European Regional Innovation Scoreboard Results

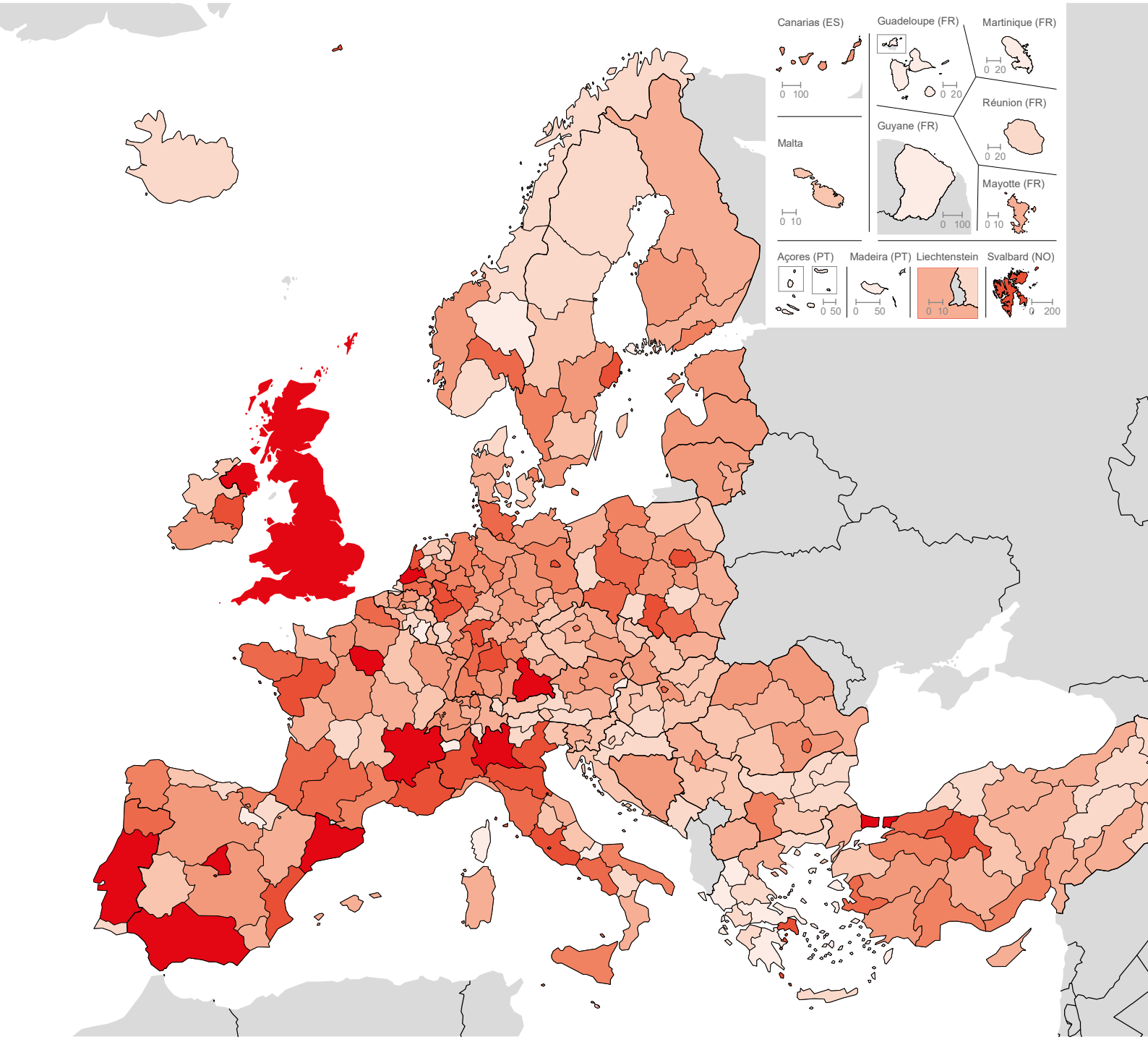
We have analyzed the sectoral maps vis-à-vis the European Regional Innovation Scoreboard. The **Regional Innovation Scoreboard (RIS) 2023** provides a comprehensive assessment of innovation performance across 239 regions in 22 EU Member States, as well as Norway, Serbia, Switzerland, and the United Kingdom. Regions are categorized into four performance groups based on their innovation capabilities: innovation leaders, strong innovators, moderate innovators, and emerging innovators.

Several elements stand out. First of all, **KIBS and innovation go hand in hand.** High concentrations of KIBS often **co-locate with strong innovation ecosystems.** This relationship is **strongest in Northern and Western Europe. Emerging hubs** or fast-developing hubs (e.g., CEE capitals) show potential for **KIBS-driven innovation,** but they are still in a **catch-up phase.** At the same time, **KIBS alone is not enough.** Southern Europe shows that **without complementary innovation** policies; business services may not fully translate into broad-based regional innovation. To unlock Europe's full potential, lagging regions need **targeted investment in digital skills, infrastructure, and institutional capacity** to attract KIBS firms and stimulate local innovation ecosystems.

The Nordic countries (Sweden, Finland, and Denmark) and parts of Germany (Bavaria and Baden-Württemberg) exhibit high KIBS LQ and top innovation scores. These regions demonstrate the classic virtuous cycle: strong innovation ecosystems drive demand for advanced services, while KIBS firms fuel innovation through R&D, design, IT, and consulting.

Regions such as Poland's Mazowieckie (Warsaw), Czech Republic (Prague), and Hungary (Budapest) exhibit **moderate KIBS LQs** and **mid-tier innovation**

FIGURE 3.3 **Industry Talent Pool in Europe in 2023 – FTEs**



Employment classes

0 | 25,000 | 50,000 | 75,000 | 100,000 | 150,000 | 200,000 | 250,000 | 500,000

Data not available

Location quotient relative to EU-27 mean

Source: ABSL BI analysis based on EUROSTAT data.
Please not that due to limited data availability for UK post Brexit we utilized 2019 data.

Granice administracyjne: ©EuroGeographics, współautorzy ©OpenStreetMap
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performance. This suggests that emerging business services hubs are also contributing to regional innovation, although the depth and impact are not yet on par with those of Western Europe's leaders. **Italy, Spain, Portugal,** and **Greece** largely present a **mismatch**: some regions have **pockets of KIBS concentration** (e.g., Milan, Madrid, Barcelona), but **innovation scores lag,** especially outside major cities. This suggests that the presence of KIBS alone does not guarantee broad innovation outcomes-local absorptive capacity, R&D intensity, and institutional frameworks also matter. **Balkans, Eastern Europe (outside capital hubs),** and **Turkey** consistently show **low KIBS LQs** and **weak innovation performance.** These areas risk being trapped in a low-development cycle unless proactive policies address digital skills gaps, infrastructure deficits, and innovation system fragmentation.

3.4 Business Services Industry Employment Distribution and Scale

While specialization signals functional depth, the employment scale indicates delivery capacity. The map of **absolute full-time equivalents (FTEs) in business services** provides further nuance.

Employment Concentration Patterns

The largest business services talent pools (≥ 500,000 FTEs) are located in **Île-de-France (Paris), Madrid** and **Catalonia (Spain), Lombardy (Italy), Greater London, Southern Netherlands,** and **Bavaria (Germany).** These hubs combine scale, international connectivity, and sectoral diversity, serving both domestic and global clients.

Secondary hubs (250,000-500,000 FTEs) are visible in **Warsaw** and **Kraków (Poland), Brno** and **Prague (Czech Republic), Budapest (Hungary), Bucharest, Sofia, Lisbon,** and **Athens.** These cities often serve as regional platforms, supporting nearshoring, multilingual service delivery, and sectoral specialization in areas such as IT, finance, and back-office functions.

Some regions, such as Warsaw, feature a large-scale talent pool with an LQ near the EU average, pointing to a broad-based business services sector that is growing in complexity. Others, including Tallinn and Helsinki, record high LQ values but smaller absolute employment, which may indicate a more focused, innovation-driven profile.

3.5 Changes over Time 2012–2023

Across 510 NUTS2 regions, the **average increase in KIBS-related employment** over the 2012-2023 period was **~28,400 full-time equivalent (FTE) positions per region, indicating a general expansion in demand for business services.** However, this growth is not uniform. While major urban and industrial-adjacent areas have experienced rapid employment growth, many lower-LQ regions have not kept pace in terms of relative specialization, suggesting that scale does not always guarantee strategic positioning.

Despite employment growth, the **average LQ for KIBS declined by ~0.03** across the EU regions. This implies that KIBS' employment **grew more slowly than total employment** in many areas. This trend may reflect the diffusion of generic service roles (e.g., administration, call centers) into broader labor markets rather than growth in high-value, specialized KIBS functions.

Industry-related employment rose by an average of **~51,100 FTEs per region,** but the **average industry LQ also declined slightly (-0.015).** This suggests a **decentralization of activity** within the industry, at least to some extent, or a **shift in national employment structures** toward services overall, reinforcing the need to view business services and industrial ecosystems as interconnected rather than competing trajectories.

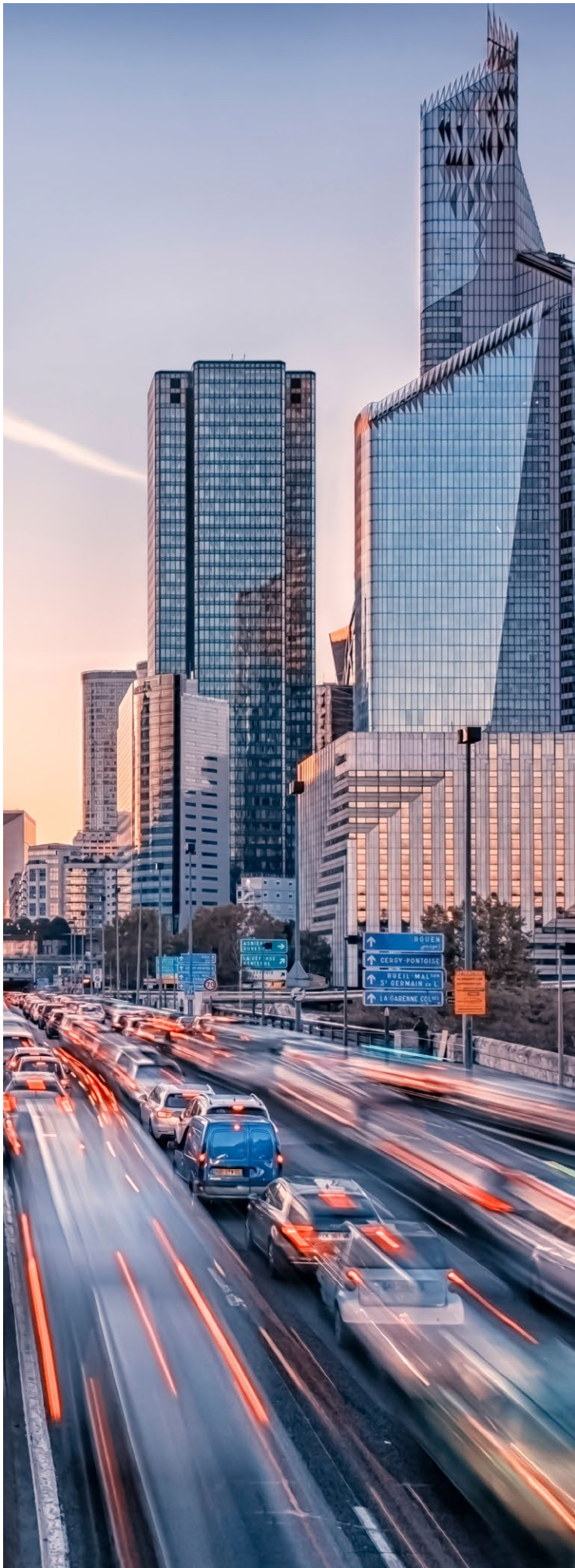
The simultaneous decline in both KIBS and industry LQs signals a **broad sectoral rebalancing.** Traditional specializations (e.g., manufacturing hubs or consultancy clusters) are being replaced by **mixed-function platforms** that blend service, tech, and industrial support roles.

This underscores the importance of **developing hybrid talent** and **organizational agility,** not merely locating in high-LQ regions.

Several regions with **growing employment but stagnant or declining labor quality (LQs) are not failing. They may be absorbing new business functions faster than they can** specialize in them.

For the broader industry, these are **transitional zones,** offering large untapped labor pools, improving infrastructure, and evolving delivery ecosystems. With the right investment in **skills, automation, and knowledge services,** these regions can become next-generation delivery hubs.

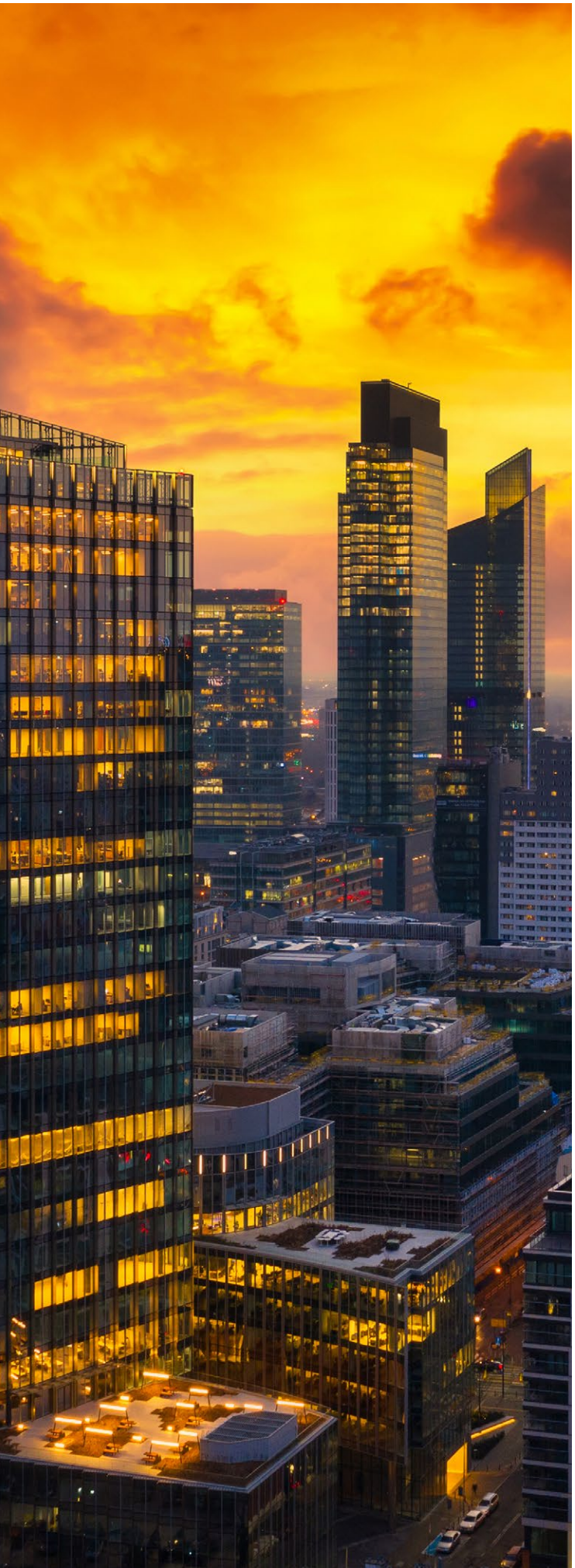
LQs are thus flattening even as employment continues to grow. Some diffusion of industry within EU-27 can be thus ongoing already.
The strategic advantage no longer lies only in historically specialized regions but increasingly in those that combine rising capacity with deliberate efforts to scale up high-value business services capabilities.



3.6
Top Business Services Industry Regions in Europe

As we can understand from the analyses conducted so far in this chapter, the business services industry, while increasingly digital and distributed, still exhibits clear spatial patterns shaped by industrial density, talent concentration, and institutional maturity. Let us focus on our industry champions now. The 2023 analysis of the top 50 NUTS 2 regions in Europe reveals a nuanced picture of where business services employment is concentrated, how it scales relative to industry, and where transformation potential may be unlocked.

In absolute terms, the leading European business services employment hubs include **Île-de-France (FR10), Istanbul (TR10), Comunidad de Madrid (ES30), Lombardia (ITC4),** and **Cataluña (ES51),** all of which exceed 200,000 KIBS jobs and anchor broad-based industrial economies. These metro



regions play a central role not only in traditional finance, retail, and administration but increasingly in vertical-specific business services, such as automotive R&D (Lombardia), smart mobility platforms (Madrid), and ESG compliance (Île-de-France).

To better assess the **knowledge intensity of industrial ecosystems,** we consider the **KIBS-to-industry employment ratio** as a key metric for evaluating this aspect. This ratio captures the share of business services jobs relative to total industry employment. The **EU-27 average stands at 35.6%.** Regions significantly above this benchmark signal **more advanced knowledge-intensive specializations,** where business services are deeply integrated into industrial processes. For instance, **Warszawski stołeczny (PL91), Budapest (HU11), Karlsruhe (DE12), Surrey, East** and **West Sussex (UKJ2),** and **Berkshire, Buckinghamshire,** and **Oxfordshire (UKJ1)** all exceed 50%, placing them among Europe's most advanced hybrid ecosystems.

A third group of **"balanced-growth regions",** such as **Darmstadt, Zuid-Holland,** and **București-Ilfov,** combine large or growing industry bases with high knowledge intensity (KIBS-to-industry ratios near or just above the EU average). These environments offer fertile ground for GBS 3.0 development and multi-vertical transformation.

By contrast, some industrially large regions, including **Andalucía, Śląskie,** and **Greater Manchester,** register KIBS-to-industry ratios well below the EU average, suggesting **underutilized knowledge infrastructure.** These gaps highlight the need for targeted public-private initiatives, including upskilling programs, investment incentives for high-value SSC/BPO/GBS centers, and digital capability platforms.

Overall, the regional employment and intensity data reinforce the core argument of this report: **Europe's business services competitiveness is increasingly shaped by the interplay between scale and knowledge specialization.** Understanding and leveraging regional strengths, especially where high industrial employment intersects with growing knowledge intensity, will be essential to embedding business services into the industrial fabric of Europe.

TABLE 3.1 **Top 50 Regional Industry Champions**

	NUTS CODE	Region	Industry employment 2023	KIBS Employment 2023	KIBS TO INDUSTRY RATIO	Industry LQ 2023	KIBS LQ 2023
1	FR10	Ile de France	1,247,225	595,450	47.7	1.41	1.84
2	TR10	İstanbul	1,069,244	333,749	31.2	1.05	0.89
3	ES30	Comunidad de Madrid	693,832	316,268	45.6	1.34	1.67
4	ITC4	Lombardia	777,023	300,018	38.6	1.12	1.18
5	ES51	Cataluña	641,890	238,918	37.2	1.10	1.12
6	DE21	Oberbayern	502,616	233,372	46.4	1.23	1.56
7	ITI4	Lazio	447,508	209,545	46.8	1.23	1.57
8	DE30	Berlin	400,854	200,711	50.1	1.36	1.86
9	PL91	Warszawski stołeczny	371,123	187,529	50.5	1.39	1.92
10	FRK2	Rhône-Alpes	504,969	185,860	36.8	1.08	1.08
11	DEA2	Köln	393,194	177,406	45.1	1.14	1.41
12	SE11	Stockholm	321,600	176,934	55.0	1.59	2.40
13	UKI4	Inner London – East*	333,601	167,983	50.4	1.58	2.17
14	ES61	Andalucía	507,876	165,269	32.5	0.96	0.85
15	DE71	Darmstadt	403,145	163,389	40.5	1.25	1.38
16	NL33	Zuid-Holland	376,434	157,422	41.8	1.19	1.36
17	DEA1	Düsseldorf	431,607	155,862	36.1	1.07	1.06
18	NL32	Noord-Holland	331,052	153,536	46.4	1.31	1.66
19	UKJ1	Berkshire, Buckinghamshire, and Oxfordshire*	270,574	145,116	53.6	1.37	2.01
20	DE11	Stuttgart	347,410	139,713	40.2	0.99	1.09
21	IE06	Eastern and Midland	271,035	137,960	50.9	1.30	1.82
22	PT17	Área Metropolitana de Lisboa	271,593	130,518	48.1	1.25	1.64
23	RO32	București-Ilfov	236,118	124,626	52.8	1.32	1.91
24	UKJ2	Surrey, East and West Sussex*	278,914	118,726	42.6	1.28	1.49
25	FRL0	Provence-Alpes-Côte d'Azur	331,900	115,346	34.8	1.06	1.00
26	UKI7	Outer London – West and North West*	225,834	112,455	49.8	1.45	1.98
27	ES52	Comunitat Valenciana	333,910	108,696	32.6	0.93	0.83
28	EL30	Attiki	272,615	108,502	39.8	1.12	1.22
29	HU11	Budapest	202,626	107,870	53.2	1.47	2.15
30	ITH3	Veneto	329,961	104,658	31.7	0.96	0.84
31	FI1B	Helsinki-Uusimaa	191,612	101,666	53.1	1.40	2.03
32	DE12	Karlsruhe	225,597	100,242	44.4	1.02	1.24
33	ITC1	Piemonte	281,781	100,065	35.5	1.02	0.99
34	NO08	Oslo og Viken	203,813	99,298	48.7	1.24	1.65
35	PL21	Małopolskie	228,876	98,969	43.2	0.97	1.15
36	BG41	Yugozapaden	183,298	97,519	53.2	1.19	1.74
37	PL22	Śląskie	275,984	95,960	34.8	0.91	0.87
38	DE60	Hamburg	207,126	95,935	46.3	1.35	1.71
39	TR51	Ankara	322,092	93,035	28.9	0.93	0.73
40	ITH5	Emilia-Romagna	289,541	92,724	32.0	0.93	0.82
41	PL51	Dolnośląskie	213,805	91,501	42.8	1.02	1.19
42	DK01	Hovedstaden	191,288	88,897	46.5	1.23	1.56
43	NL41	Noord-Brabant	237,137	87,017	36.7	1.07	1.07
44	FRG0	Pays de la Loire	260,184	86,663	33.3	0.98	0.90
45	CH04	Zürich	190,341	86,453	45.4	1.35	1.68
46	DEA5	Arnsberg	248,653	86,191	34.7	0.93	0.89
47	CZ01	Praha	159,930	86,124	53.9	1.58	2.32
48	UKD3	Greater Manchester*	233,700	85,559	36.6	1.11	1.11
49	UKI5	Outer London – East and North East*	199,223	85,534	42.9	1.34	1.57
50	AT13	Wien	185,445	85,416	46.1	1.28	1.62
Total	**EU-27**	**European Union – 27 countries**	**31,662,041**	**11,570,615**	**36.5**	**1.00**	**1.00**

* UK data refers to 2019.

Source: ABSL BI analysis based on EUROSTAT's databases.

FIGURE 3.4 **Top 25 Business Industry Regions in Europe in 2023**

* UK data refers to 2019.

Source: ABSL BI analysis based on EUROSTAT's databases.

3.7 Mapping Knowledge Intensity and Transformation Readiness

The regional data confirms that the true potential for Europe's transformation lies not just in large labor markets but in **regions that combine scale with high KIBS-to-industry ratios.** These regions are not only employment hubs but also hotspots of knowledge-based services embedded in industrial value chains. They offer the optimal environment for GBS 3.0 maturity, vertical-focused transformation, and innovation spillovers. Regions above the EU-27 average for KIBS intensity should be treated as **strategic integration zones** for future business services expansion and policy prioritization. Conversely, industrially dense regions with low KIBS intensity represent **latent reserves of competitiveness.** They should be prioritized for capability-building, reskilling, and targeted support to embed more advanced business services functions. A regional competitiveness strategy grounded in knowledge intensity metrics, such as the KIBS/industry ratio, offers a concrete tool to align smart specialization, cohesion policy, and industrial transformation funding.

3.8 Implications for Regional Policy and Business Services Investment

From an industry perspective, several actionable insights emerge.

Capacity and Talent Pipeline Development

The Central and Eastern European (CEE) regions, including Poland, the Czech Republic, Hungary, and Romania, offer substantial delivery capacity; however, sustaining growth will require continuous investment in education, vocational training, and digital infrastructure. As business services delivery models evolve toward higher value-added and knowledge-intensive functions, targeted reskilling and upskilling initiatives are essential to maintain regional competitiveness.

Location Optimization and Nearshoring Potential

Countries with balanced industrial and service ecosystems, such as Poland, the Czech Republic, and Slovakia, are increasingly attractive for location strategies that align manufacturing, engineering, and business services capabilities. Nearshoring to Eastern and Southeastern Europe remains compelling, particularly in regions with expanding labor markets, proximity to the EU market, and improving infrastructure. However, to fully unlock the potential of KIBS, deliberate investment is needed to address specialization and capability gaps.

Supporting Vertical Transformation

The regional analysis supports more targeted vertical transformation strategies. Regions with industrial scale but limited KIBS intensity could benefit from initiatives that promote digital adoption, hybrid service manufacturing integration, and process innovation. Conversely, regions with high KIBS LQ but lower employment volumes, such as university hubs or specialized metro areas, may serve as innovation incubators or host Centers of Excellence aligned to sector-specific transformation.

From a policy perspective, EU and national governments should use these insights to anchor sectoral and EVAC, innovation, and talent strategies in realities of service-embedded transformation. Competitiveness will be shaped not only by economic volume but increasingly by **knowledge intensity, functional integration,** and the ability to orchestrate BS/GBS 3.0 platforms across verticals.

We recommend:

Establishing a **European Business Services Intensity Index** as a regional benchmarking tool.

Launching **targeted funding and incentive programs** to attract SSCs, BPOs and GBS units to industrially strong but underdeveloped regions.

Supporting **vertical-focused capability hubs** in high-intensity regions to act as transformation accelerators.

It is clear that the future of European competitiveness will not be uniform. It could be **built region by region** through the **smart integration of business services into local economic ecosystems and sectoral/vertical value chains.** Porterian industry clusters could be referred Porter (2000).

The spatial distribution of employment and specialization across Europe reflects both historical industrial legacies and emerging service-led transformations. By aligning delivery models with regional capabilities and investing in the evolution of underrepresented geographies, **business services can act as a transformative engine to boost Europe's competitiveness and address the cohesion agenda.**

4

TALENT – OUR STRATEGIC ASSET

> **The real digital divide is between those who can organize talent, data, and decisions at scale, and those who can't.**

Thomas Kurian
CEO, Google Cloud

4.1 Introduction. Talent as a Strategic Constraint and Fundamental Asset

In the post-pandemic, poly-crisis VUCA-BANI[1] world, talent has emerged not only as a foundational asset but also as the **most binding constraint on European competitiveness.** Talent, its availability, adaptability, and mobility, have become the **most critical bottleneck to Europe's long-term competitiveness.** As was shown in the **2024 Draghi Report,** addressing this constraint is essential not only for sustaining productivity growth but also for enabling the dual green and digital transformation that underpins the EU's strategic agenda. The challenge is not just quantitative (in terms of the number of workers) but also deeply qualitative, concerning the right mix of skills, occupations, and career pathways required for a rapidly changing economic structure.

[1] VUCA stands for Volatile, Uncertain, Complex, and Ambiguous. BANI, a newer framework, represents Brittle, Anxious, Nonlinear, and Incomprehensible. BANI is often seen as a more accurate representation of the current state of the world, which is perceived as more chaotic and unpredictable than when VUCA was first introduced. These two concepts can be nonetheless analysed in tandem.

The European business services industry continues to expand its economic and employment footprint, driven by the growing complexity of corporate operations, digitalization, and demand for specialized support functions. As of 2023, an estimated **39.4 million people** across Europe (broad-sense definition: EU-27 + EEC + UK + CH) are engaged in **modern business services,** representing more than **49% of all white-collar workers** in the region.

TABLE 4.1 **Business Services Sector in Europe – FTE and Share in White-Collar Workforce**

Segment	Headcount (2023, millions)	Share of White-Collar Workforce
Center-based modern business services	5.7	~7.0%
Knowledge-intensive business services (KIBS)	14.2	~18.0%
Modern business services (total)	39.4	49.9%
White-collar workforce	90.3	100.0%

Source: ABSL BI.

This broad definition includes both **center-based operations** (e.g., shared services, IT hubs, COEs, captives, GBS) and **distributed knowledge-intensive services** (e.g., legal, finance, consulting, marketing, software development, compliance). The **narrow-sense EU-27** benchmark suggests 32.5 million modern business services jobs, reflecting nearly **43% of all white-collar positions.**

Across Europe's diverse economies and regions, the **business services industry,** encompassing a broad array of knowledge-intensive functions such as finance, IT, legal, HR, compliance, analytics, customer, and supply chain support, is emerging as both **a bellwether of labor market pressures and a testbed for workforce solutions.** It sits at the intersection of key structural shifts: the digitization of services, the rise of new regulatory requirements, and the reshaping of global value chains.

Within this broader ecosystem, **GBS centers represent the most scalable, standardized, and transformation-driven part** of business services. These organizations have pioneered talent models based on functionally integrated teams, cross-border service delivery, and automation-assisted workflows. However, even beyond the sector's centers, the broader business services industry faces an urgent need to attract, retain, and upskill talent, especially in areas such as cybersecurity, AI, digital finance, and green compliance.

Five structural imperatives frame the talent debate in business services and beyond:

Demographic Change and Workforce Aging

Europe's aging population is shrinking the working-age talent pool, particularly in Western and Southern Europe. This limits the available domestic talent base, especially in high-skill service roles.

Skills adaptability

Europe's ability to reorient and deepen skill sets in line with fast-moving technological and regulatory trends remains limited. Despite investments in digital and green skills, gaps persist in mid-career reskilling and vocational agility.

Labor mobility and inclusion

Regulatory and institutional barriers to cross-border labor flows, combined with underutilization of youth, women, and migrant talent, constrain effective reallocation of skills to where they are most needed.

Workforce orchestration capacity

The ability to manage, reconfigure, and scale talent across multiple business functions, regions, and delivery models, long exemplified by GBS centers, must now be extended to the broader business services fabric.

Wage inflation and cost arbitrage shifts

Traditional labor cost models in key European markets are under pressure. This highlights the need to balance cost management and talent diversification with AI strategies, while still leveraging opportunities for local expertise and strategic influence. In the coming decade, talent will define not only the competitiveness of individual firms but the strategic trajectory of entire regions. Without addressing the talent constraint, even the most ambitious investments in AI, cloud infrastructure, and green innovation will falter. This chapter maps the demographic, educational, and institutional dimensions of Europe's talent challenge and outlines policy and business responses to turn constraint into capability.

In the following segment, we will deep dive into the European business services talent pool and skills landscape through the eyes of our strategic partner, Mercer.

4.2 TALENT IN EUROPEAN PROFESSIONAL SERVICES

Europe's professional services stand at a crossroads. With a workforce spanning generations and technologies reshaping every role, the future belongs to organizations that can master the art of agile talent management. As demographic shifts shrink the labor pool and AI transforms how work gets done, success will hinge on embracing skills over titles, empowering leaders across all levels, and harnessing technology not just to automate, but to innovate. The question is no longer if change is needed, but *how fast* and *how boldly* Europe's professional services can reinvent themselves to thrive in this new era.

4.2.1 Navigating a Transformative Landscape

Europe's professional services industry, encompassing business services, consulting, legal, accounting, and IT, employs approximately 40 million professionals (Eurostat, 2024a). This talent pool is a cornerstone of Europe's knowledge-based economy. However, **it faces multifaceted challenges: demographic shifts, immigration frameworks, technological advancements, skill-based employment and evolving workforce expectations, demands, and regulatory changes.** Throughout this section, we will explore these dynamics, exploring current trends, challenges, and strategic imperatives to harness and develop talent in Europe's professional services sector.

As organizations navigate the complexities of the modern workforce, the role of Human Resources (HR) and leaders has become increasingly pivotal in shaping talent strategies and enhancing organizational effectiveness. The landscape of work is evolving, and there is a pressing need for organizations to adapt to new challenges. Existing trends highlight the importance of designing talent processes around skills, improving people management capabilities, and leveraging technology to optimize organizational talent and HR functions as well as work delivery, productivity, and agility (e.g., Deloitte, 2023a).

In recent years, one of the most notable shifts in HR priorities is the increased emphasis on designing talent processes around skills (WEF, 2023). This change underscores a growing recognition that traditional

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job descriptions and roles may no longer suffice in a rapidly changing work environment. **Organizations are increasingly focusing on identifying and developing the specific skills required for success in various roles, rather than merely filling positions based on past experiences or qualifications.** The emerging importance of soft skills is becoming increasingly evident as organizations seek to enhance collaboration, adaptability, and client engagement (ibidem.). As the landscape evolves with technological advancements and changing client expectations, skills such as emotional intelligence, communication, and teamwork are essential for fostering strong relationships and driving innovation. Employers are recognizing that a workforce equipped with robust soft skills is crucial for navigating complex challenges and delivering exceptional service in a competitive market.

Another critical area of focus for HR leaders is the improvement of people management skills at all managerial levels. The increasing complexity of workforce dynamics, coupled with the rise of remote and hybrid work models, necessitates that managers possess strong leadership and interpersonal skills. Effective people management is essential for fostering employee engagement, driving performance, and creating a positive organizational culture.

Organizations are recognizing that **investing in the development of people managers and leadership is crucial for achieving overall business success.** By equipping managers with the skills to lead effectively, organizations can enhance team collaboration, improve employee satisfaction, and ultimately drive better business outcomes. This focus on people management aligns with the broader trend of enhancing the employee experience (EX) and employee value proposition (EVP) to attract and retain top talent (Gallup, 2022).

In this context, Mercer's recent Global Talent Report (2025) highlights the increasing importance of integrating advanced HR technologies into talent management strategies. The report highlights that the rollout of new HR technology **and the optimization of existing platforms have moved from thirteenth place in 2024 to sixth place in 2025.** This shift reflects the growing recognition of technology as a critical enabler of HR effectiveness. By leveraging advanced HR technologies, organizations can streamline processes, enhance data analytics capabilities, and improve decision-making related to their talent. This technological integration not only supports the development of essential skills but also empowers managers to lead more effectively in an evolving workforce landscape, ultimately driving organizational growth.

4.2.2
The European Talent Landscape: Current State and Challenges

Demographic Shifts and Workforce Dynamics

Europe is undergoing profound demographic transformation. The working-age population (15-64) is projected to decline from approximately 265 million in 2022 to around 258 million by 2030 (OECD, 2023-2024). This trend is driven by persistently low fertility rates, aging populations, and increasing life expectancy across the continent. Consequently, the ratio of retirees to workers is increasing, placing pressure on pension systems and healthcare services. Countries like Germany, Italy, and Finland are among the most affected, with their populations aging rapidly and birth rates well below replacement levels (ibidem.).

This demographic contraction is producing two core effects:

A shrinking labor pool (including the gap between available skills vs demand), which places upward pressure on wages and strains productivity.

An aging workforce, which introduces new demands on workplace infrastructure, leadership models, policy-making, and new models of generational collaboration.

Multigenerational Workforce: Composition and Challenges

Today's European workplace spans four primary generations:

According to the Mercer Global Talent Trends Report (2024), European employers are increasingly concerned about managing these generational differences, particularly in leadership succession, preferred communication styles, and expectations around flexibility and benefits.

Gen X and older Millennials (roughly 35-55 years) are heavily represented in professional services, particularly in decision-making roles. In some sectors, Baby Boomers still constitute a disproportionate share of board-level leadership and governance structures.

Baby Boomers (born 1946-1964) – nearing or at retirement age; hold a significant proportion of senior leadership roles.

Generation X (1965-1980) – often middle management and technical specialists.

Millennials (1981-1996) – the largest generational cohort in many industries; values flexibility, purpose, and technological enablement.

Generation Z (1997-2012) – rapidly entering the workforce; digital natives with high expectations for workplace culture, DEI, and development (see Figure 4.1).

Gen Z remains underrepresented in highly specialized sectors such as legal, accounting, and consulting-, partly due to time-to-credential and partly due to perceptions of industry culture.

Risks and Organizational Tensions

Knowledge Drain

As Baby Boomers retire, there is a potential loss of institutional knowledge and leadership experience, especially in regulated and complex industries like finance and legal.

Cultural Disconnects

Varied expectations on remote work, communication preferences, and work-life balance can create friction.

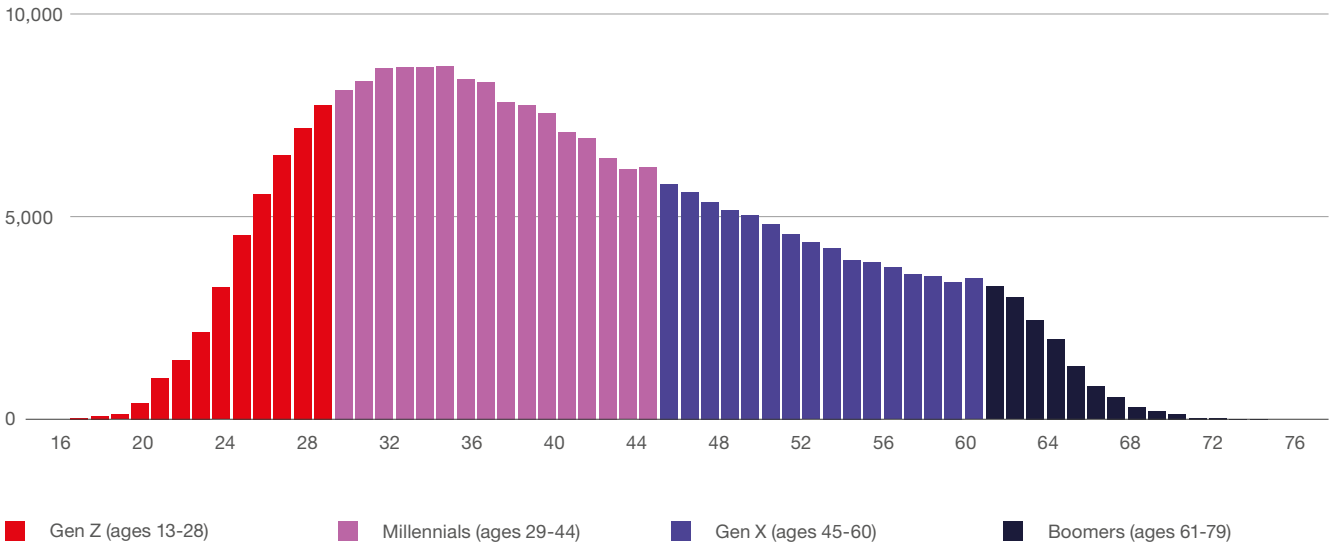
Succession Gaps

Some organizations are not prepared to replace aging leadership fast enough or are missing younger leaders due to a lack of promotion pathways or mentoring structures.

Digital Skill Gaps

While Gen Z and Millennials are typically more digitally fluent, Gen X and Boomers may lag in digital adoption, creating imbalances in transformation initiatives.

FIGURE 4.1 **Age Distribution of the Population Working in the Professional Services Sector, Europe 2024**



Source: Mercer's Total Remuneration Survey, 2024. Aggregation of data for the countries of: Slovakia, Great Britain, Netherlands, Finland, Sweden, Bulgaria, Spain, Germany, Austria, Czech Republic, Portugal, Romania, Croatia, Luxembourg, Hungary, Norway, Italy, Greece, France, Poland, Denmark, and Belgium.

By 2035, Eurostat (2024b) forecasts that **over 30% of Europe's population will be over the age of 65. At the same time, the European Commission projects that Gen Z and younger Millennials will make up more than 50% of the active labor force.** This transition period will demand proactive workforce planning, inclusive leadership, and agile HR practices to ensure generational cohesion and sustainable productivity.

The European professional services sector is facing a convergence of three disruptive forces impacting leadership:

1. An aging leadership cohort

Many executive and senior management roles are still held by Baby Boomers and early Generation X professionals-, with a considerable proportion nearing retirement. According to the 2024 ABSL European Report, in some mature markets (e.g. Germany, Netherlands, France), over 35% of business services leadership will reach retirement age within the next decade.

2. Multigenerational complexity

Leadership today must span the needs of four generations. Leaders are expected to manage upward (board/stakeholders), laterally (peers across generations), and downward (younger employees with evolving expectations) – often with dramatically different values and workplace norms.

3. AI and technology acceleration

The pace of change driven by AI, data analytics, and automation is testing leaders' digital fluency and transformation capacity. Many have built their careers in an era where leadership was experience-based and hierarchical; today, it is increasingly data-driven, collaborative, and iterative.

Together, these pressures are reshaping what leadership readiness means – and whether current European leadership is fully prepared for what lies ahead.

Are European Leaders Ready?

According to Mercer's Global Talent Trends report (2024), **only 43% of HR leaders in Europe believe their senior leadership is "equipped to lead in a digitally enabled, AI-transformed business."** Some notable gaps include:

Digital confidence

Many senior leaders lack hands-on familiarity with AI, automation tools, and digital business models. While strategic understanding may be present, operational fluency is low.

Agility and change leadership

Leaders are often too embedded in legacy structures and slow to pivot when transformation demands it. This is especially visible in professional services firms where long-established delivery models persist.

Intergenerational leadership

Just 29% of organizations surveyed by ABSL (2024) report that their leadership teams are "confident managing generational diversity at scale."

Furthermore, *BCG's Future of Work in Europe* (2024) survey found that younger employees (under 35) trust mid-level and emerging leaders more than executive leadership-, especially in areas like innovation, inclusion, and responsiveness to AI-driven disruption.

Key Risks if Leadership Gaps Persist

If these gaps remain unaddressed, organizations could face:

Succession bottlenecks

A lack of prepared next-generation leaders, especially in technical and transformation-critical roles.

Erosion of trust

Younger professionals may disengage from organizations where leadership appears – out of touch or stagnant.

Transformation paralysis

Delayed digital and AI adoption due to hesitance at the top; missed opportunities in operational efficiency and competitiveness.

Reputational drag

Clients and partners increasingly expect innovation and agility; leadership inertia can affect brand perception.

To bridge this readiness gap, professional services firms and organizations across Europe must pivot from legacy leadership pipelines to agile, inclusive, and AI-literate models of leadership development (*see Figure 4.2*).

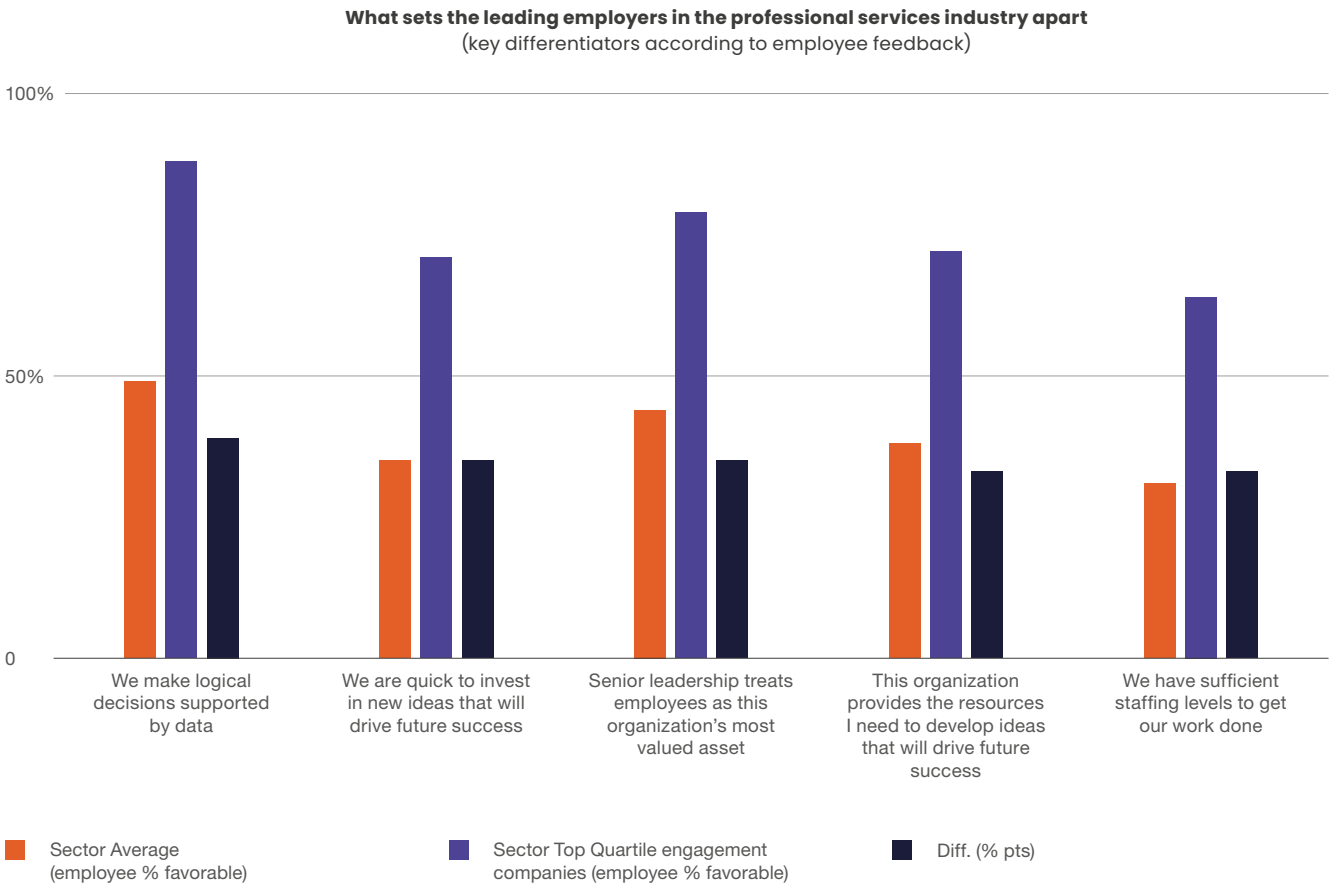
Organizations today are urged to shift from tenure-based promotion models to skills – and impact-based advancement. This transition necessitates a redefinition of leadership attributes to encompass digital literacy, psychological safety, inclusivity, and adaptability.

To accelerate the development of next-generation leaders, organizations should implement early leadership identification programs aimed at Millennials and Gen Z, facilitate cross-generational mentorship that promotes the exchange of digital fluency and experience, and create sandbox environments where emerging leaders can experiment with AI and transformation projects.

Investing in continuous learning for executives is also crucial. Organizations should provide mandatory AI immersion and digital strategy training for current leaders, incorporating simulations, coaching, and real-world transformation projects rather than relying solely on workshops. Additionally, reverse mentoring should be encouraged, allowing younger talent to advise executives on technology, culture, and emerging trends.

Finally, designing inclusive and adaptive leadership models is essential. Organizations should foster leadership teams that reflect generational and cognitive diversity and promote distributed leadership, where decision-making is shared and contextual rather than overly centralized. This comprehensive approach will ensure that organizations are well-equipped to navigate the complexities of the modern business landscape.

FIGURE 4.2 **What Makes a Leader? Key Differentiators in the Professional Services Sector** (%)



Source: Mercer Employee Experience Research, Europe, 2022-2024; Sample Size was 3,030 companies, 2,527,000 respondents from 46 countries.

Leadership Reimagined

The leadership gap in Europe is not just a risk – it's a strategic opportunity. Organizations that proactively develop a multi-generational, AI-literate, and agile leadership layer will be best positioned to thrive in uncertainty.

By 2030, we can expect:

The average age of C-suite entry is declining, particularly in fast-evolving sectors.

A rise in hybrid leadership roles that combine domain expertise with AI fluency.

A shift in prestige – from experience accumulation to value creation through adaptability and continuous reinvention (e.g., McKinsey Global Institute 2022; Deloitte, 2023b).

Firms that act now to reshape leadership development – rather than retrofitting old models – will define the next generation of high-performance professional services in Europe.

Immigration Policies and Talent Acquisition

Immigration has been a critical factor in mitigating labor shortages. Foreign workers have accounted for approximately half of the labor force growth in the eurozone since the COVID-19 pandemic (ECB, 2023). **Immigration is both a solution and a tension point in Europe. Political sentiments are influencing immigration policies, which affect how countries address labor shortages while also considering public concerns about integration and social unity.**

The Transformative Impact of Immigrant Talent

Europe is increasingly reliant on foreign talent to address growing shortages across high-skilled and essential sectors. According to the European Labor Authority (2024) and OECD (2023a) data:

50% of new labor market entries in the eurozone since the COVID-19 recovery (2021-2024) were immigrants.

Immigrants are critical in healthcare, engineering, IT, and logistics, and increasingly in business services and professional sectors, though access to the latter is more restricted.

Current immigration frameworks are not fully aligned with labor market needs. Most European countries face an administrative bottleneck, where skills-based visas are either too slow, too rigid, or too limited in scope (ibidem.).

For instance, the UK plans to tighten immigration rules, potentially reducing the inflow of foreign workers. Such measures could exacerbate labor shortages in sectors like healthcare and social care (Migration Observatory, 2023).

The European Union is addressing these challenges through initiatives like the EU Talent Pool, aimed at facilitating the recruitment of skilled workers from non-EU countries. Additionally, the EU Blue Card program offers work visas for highly skilled professionals, with relatively low salary thresholds in countries like Germany.[2]

While immigrants contribute substantially to labor force growth, there is a persistent mismatch between the talent that arrives and the talent that is most urgently needed. For example:

Many immigrants work in lower-skilled or underutilized roles due to barriers like non-recognition of qualifications, language proficiency, and licensing issues.

[2] More information can be found on European Commission sites, accordingly for EU Blue Card Program – https://ec.europa.eu/bluecard; for EU Talent Pool Pilot – https://eures.europa.eu/eu-talent-pool-pilot_en. Both accessed June 5, 2025.

According to Eurostat (2024a), in professional services, less than 20% of non-EU immigrants are employed in roles matching their educational background.

In contrast, Canada and Australia, with more employer-driven immigration models, have higher rates of skills alignment post-arrival (OECD, 2022).

Challenges to skilled immigration

Credential recognition remains fragmented across EU member states.

Language barriers, especially in client-facing sectors like consulting and legal services, limit full participation.

EU-level coordination is limited – many policies are still set nationally, which creates inconsistency and complexity.

Exploring Strategic Levers to Strengthen Talent Migration in Europe

In light of Europe's evolving demographic profile and growing demand for specialized skills – particularly in digital, green, and professional services – organizations and governments alike are exploring how immigration systems can more closely align with labor market realities. While individual member states retain distinct policy environments, several levers are available that could help enhance Europe's overall ability to attract, deploy, and retain global talent. Potential areas for strategic consideration are:

1. Optimizing Skills-Based Migration Pathways

Some countries are evaluating whether existing skilled migration channels – including the EU Blue Card – are sufficiently broad, flexible, and accessible. Options under review in various jurisdictions include lowering salary thresholds, expanding the list of eligible occupations, or streamlining approval timelines. Adjustments here could enable a more responsive approach to emerging skill gaps, particularly in fast-evolving sectors such as AI, cybersecurity, and ESG consulting.

2. Improving Qualification and Credential Recognition

Delays in recognizing foreign academic or professional qualifications continue to slow talent integration across many sectors. There may be opportunities to explore shared recognition frameworks or centralized evaluation mechanisms, especially in professions where standards are consistent (e.g., IT, finance, engineering). Some countries are piloting fast-track schemes or partnerships with industry bodies to reduce friction in onboarding international professionals.

3. Leveraging Public-Private Matching Platforms

Countries such as Canada and the Netherlands have tested demand-led models where employers can identify and recruit talent from abroad through digital platforms linked to immigration pipelines. Similar initiatives in Europe – such as the EU's Talent Pool pilot – could evolve further with closer alignment to private sector hiring needs and regional economic priorities (CIPD, 2023).

4. Supporting Integration and Activation of Foreign Talent

Beyond recruitment, attention is increasingly shifting to post-arrival integration, including language support, re-skilling pathways, and cultural orientation. Some employers are partnering with public agencies and NGOs to deliver onboarding programs that help international talent become fully productive more quickly (OECD, 2022).

5. Exploring Regional Flexibility

A few European regions have begun experimenting with localized quotas or priority occupation lists tailored to regional labor needs. While still in early stages, such models might allow for more targeted attraction strategies in areas with distinct sectoral strengths-, such as finance in Luxembourg or tech in the Baltics (Eurofound, 2023a).

Rather than suggesting a singular approach, these levers represent a portfolio of options that governments, industry bodies, and private sector actors can evaluate based on national priorities, labor market dynamics, and geopolitical context.

Each option involves trade-offs – between administrative simplicity and labor market responsiveness, or between centralization and regional autonomy. As demand for digital, technical, and client-facing talent grows, decision-makers may wish to consider which combination of these tools best fits their context and strategic ambition.

For employers operating across multiple European markets, understanding how these policies evolve – and where flexible talent pathways are emerging – will be increasingly critical to workforce planning and long-term competitiveness.

Technological Advancements and Their Impact on Talent

Artificial Intelligence (AI) is profoundly transforming professional services, reshaping how work is performed, talent is managed, and human resources (HR) functions operate, as well as how organizations engage with clients. As AI technologies continue to evolve, their integration into various business functions is not merely a trend but a fundamental shift that promises to enhance efficiency, improve decision-making, and redefine the workforce. From legal firms to consultancies and financial services, AI is no longer a futuristic concept-it is now embedded in everyday workflows, redefining efficiency, scalability, and value creation. **The integration of AI into professional services is not only changing task execution but also shifting organizational dynamics, talent strategies, and human capital management.**

AI Empowering Professional Services

In professional services, much of the work involves data analysis, problem-solving, and client interaction-areas where AI can play a significant role. Machine learning algorithms can now analyze massive datasets far more efficiently than human workers, uncovering trends, generating forecasts, and offering insights that guide decision-making. For example, in legal services, AI-driven tools like contract review platforms and predictive litigation models are automating routine tasks, reducing human error, and improving turnaround times. In accounting and auditing, AI automates reconciliations, detects anomalies in financial statements, and ensures compliance with evolving regulations.

AI also enables the creation of new business models and service offerings. Intelligent chatbots and virtual assistants allow firms to provide 24/7 customer support and instant responses to client queries. Cognitive AI tools are being used to draft reports, create presentations, and even generate initial versions of strategic recommendations. These capabilities are shifting the human role toward more strategic, creative, and interpersonal tasks, as routine and repetitive work is increasingly handled by machines.

Evolving Talent Management Strategies in an AI-Driven Workforce

The integration of AI into professional services also significantly impacts talent management. As AI technologies become more prevalent, the skills required in the workforce are evolving. Mercer's Global Talent Trends Report (2023) indicates that there is a growing demand for employees who possess not only technical skills but also soft skills such as emotional intelligence, creativity, and adaptability. This shift necessitates a re-evaluation of talent acquisition strategies, as organizations must seek individuals who can thrive in an AI-enhanced environment.

The availability of talent is critically influenced by AI. As organizations increasingly adopt AI technologies, the demand for skilled professionals in AI and data analytics is surging. The same previously mentioned report indicates that there is a notable skills gap in the labor market, with many organizations struggling to find qualified candidates to fill these roles. This gap presents both challenges and opportunities for professional services firms.

Needless to say, AI is significantly altering how talent is sourced, managed, and developed. As automation takes over specific roles, there is a growing need for professionals with a hybrid skill set-combining domain expertise with digital fluency and adaptability. This shift is prompting organizations to rethink workforce composition and invest in reskilling and upskilling programs. AI also supports better workforce planning by forecasting future talent needs based on business trends and performance metrics.

Furthermore, AI can play a pivotal role in talent management by streamlining recruitment processes. AI-powered tools can analyze resumes, assess candidate fit, and even conduct initial interviews, significantly reducing the time and resources spent on hiring. In their 2024 whitepaper, "Strategy AI Adoption in Talent Acquisition Today," Mercer highlights that "leveraging AI in recruitment can lead to more objective hiring decisions, minimizing biases and enhancing diversity within organizations. This capability is particularly important in today's competitive job market, where attracting and retaining top talent is crucial for success." These systems reduce bias, shorten time-to-hire, and improve quality-of-hire-, provided they are designed and audited for fairness and transparency.

Moreover, AI tools can personalize learning and development experiences for employees. Platforms that track individual learning paths and performance data can recommend tailored training programs, helping professionals continuously evolve alongside technology. This personalization improves engagement, retention, and career development outcomes.

Impact of AI on the HR Function

The HR function is undergoing a paradigm shift as AI becomes integral to its processes.

Administrative tasks like payroll, benefits administration, and employee queries are increasingly handled by AI-powered systems. This automation allows HR professionals to focus on strategic initiatives such as culture building, employee engagement, and leadership development.

AI-driven analytics are enhancing HR's ability to make data-informed decisions. Predictive analytics can identify flight risks among high-performing employees, detect patterns that signal burnout, turnover risks, and suggest interventions to improve employee

well-being and overall organizational health. These insights help HR teams move from reactive to proactive talent management, improving organizational resilience and agility. **By leveraging the data-driven framework, AI enables HR to implement targeted interventions that enhance employee experience and drive organizational success.**

However, the rise of AI also introduces ethical and compliance challenges. HR leaders must navigate concerns around data privacy, algorithmic bias, and employee trust. Clear policies, transparency, and governance frameworks are essential to ensure AI use aligns with organizational values and legal standards.

AI is fundamentally reshaping professional services, offering unprecedented opportunities to enhance productivity, innovation, and talent management. By automating routine tasks, supporting data-driven decisions, and enabling more personalized employee experiences, AI is redefining how work gets done. At the same time, it demands a strategic rethinking of workforce development and HR practices. Organizations that embrace AI thoughtfully-balancing efficiency with ethics and innovation with inclusivity-will be best positioned to thrive in this evolving landscape.

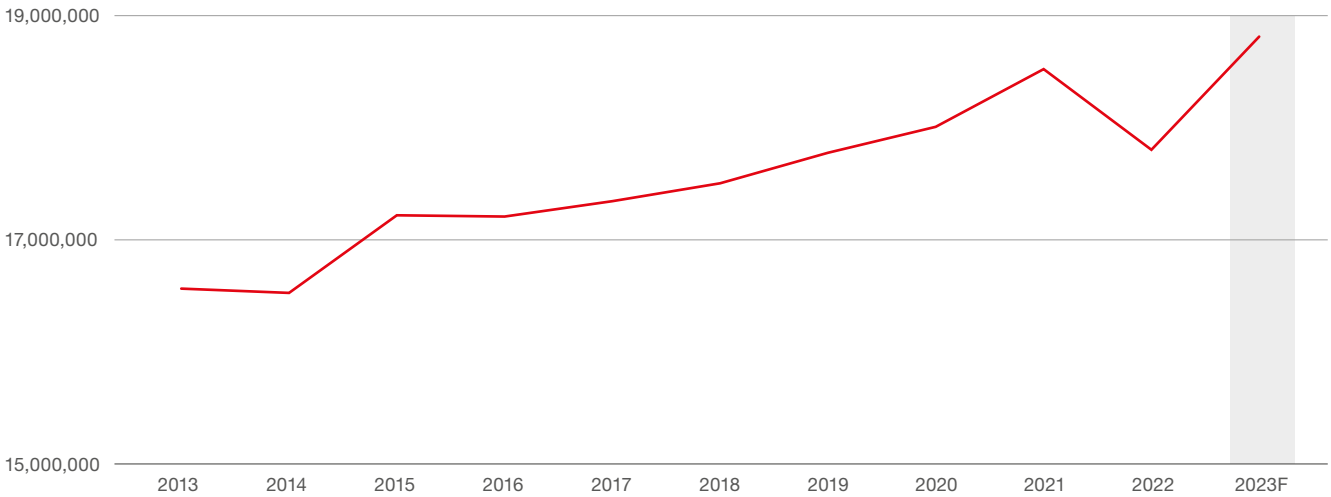
Skills Development and Education Systems

Europe faces a skills mismatch, with a gap between the skills workers possess and those employers require. To address this, countries are investing in upskilling and reskilling initiatives. The European Social Fund Plus (ESF+), launched in 2021, supports programs aimed at enhancing digital skills and vocational training (European Commission, 2024b).

The Nordic countries, particularly Finland, exemplify effective lifelong learning systems. State-funded training programs assist workers in transitioning between sectors, crucial as technology disrupts traditional industries (OECD, 2023b; Nordic Council Ministers, 2022).

Across Europe, the traditional model of higher education as the primary gateway to the labor market is undergoing significant change. While tertiary enrolment rates remain high – with over 40% of 25-34-year-olds in the EU holding a university degree (Eurostat, 2024c; Figure 4.3) – a growing share of young professionals are bypassing or supplementing formal education with short-term, skills-based learning, particularly in digital and technical domains.

FIGURE 4.3 **Importance of Formal Education. Enrollment in Tertiary Education**



The tertiary qualifications are steadily increasing, as in 2023: 43% of 25-34-year-olds in the EU held a tertiary degree; It is expected that by 2030 EU will surpass its 2030 target of 45% threshold in Tertiary Education attainment. This is happening despite demographic declines.

Source: Eurostat 2024; online data code: educ_uoe_enrt01

Platforms offering micro-credentials, coding bootcamps, and online certifications have gained traction, especially among Gen Z and early-career Millennials. **This shift reflects a demand for faster, job-relevant learning amid a volatile labor market and rapidly evolving skill requirements, particularly in areas like AI, data analytics, cybersecurity, and ESG compliance.**

Bridging the Skills Gap to Align Education with Europe's Labor Market

This diversification in learning pathways has mixed implications for the talent pipeline in Europe:

Broader access to certain skills

Non-traditional education routes are helping fill gaps in high-demand sectors like tech and customer analytics, accelerating workforce entry and enabling upskilling in real time.

Credential mismatch

Employers still heavily rely on degree-based screening, especially in professional services, which can exclude skilled candidates without traditional academic backgrounds.

Variable quality

Not all alternative learning models are standardized or quality-assured, creating uncertainty about the depth and consistency of acquired skills.

Labor market data suggests growing misalignment between fields of study and employment:

Fewer than 60% of European graduates work in jobs directly related to their academic discipline (CEDEFOP, 2023).

Fields like social sciences and humanities face oversupply, while sectors like STEM, healthcare, and AI show persistent shortages (CEU, 2025).

What are the consequences for the Labor Market?

1. **Underutilization of education:**

   Many graduates are underemployed or work in unrelated fields, reducing the return on educational investment (Eurofound, 2023b; McGuinness, 2020).

2. **Skill gaps despite formal qualifications:**

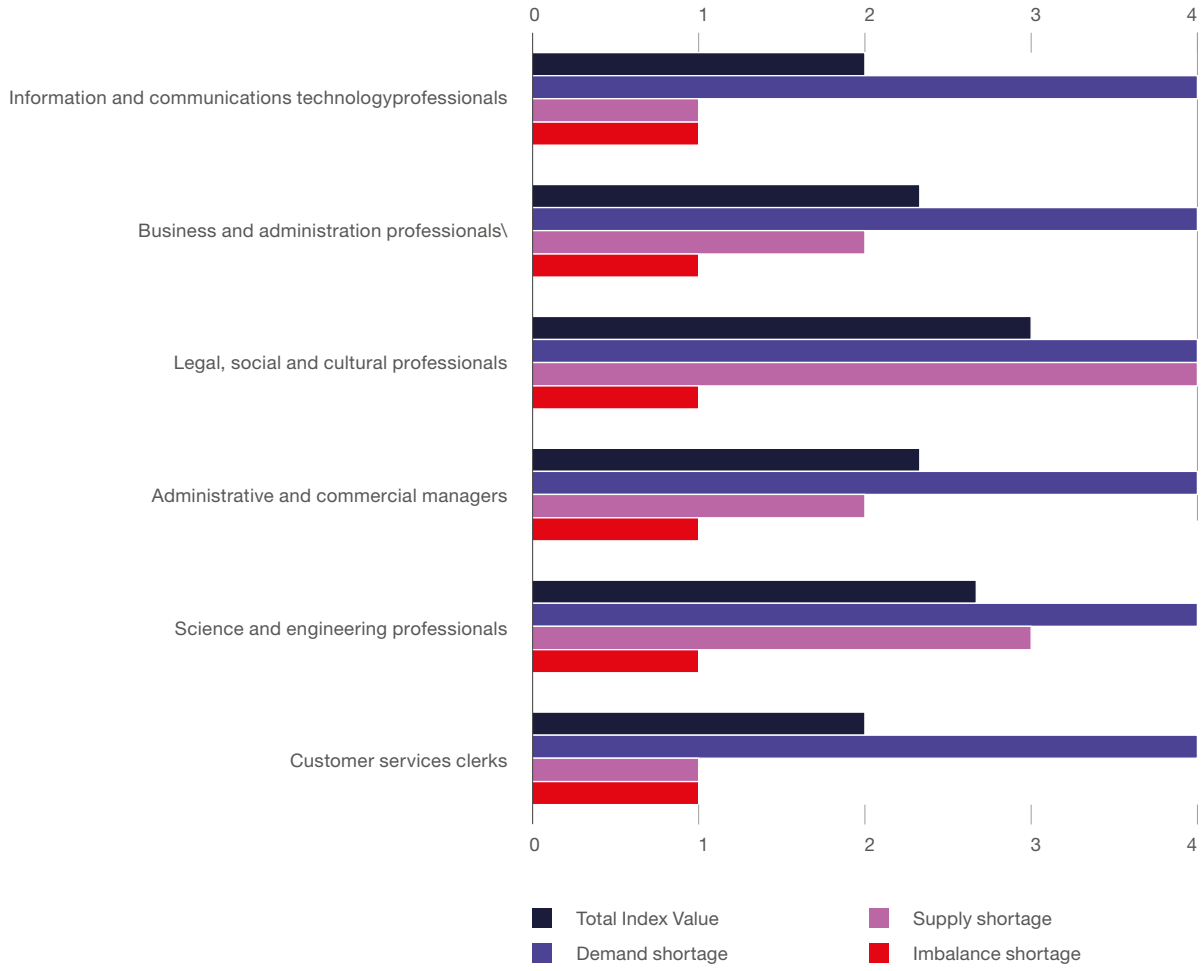
   Degrees do not always guarantee job readiness, particularly in fast-moving or highly technical roles.

The two challenges that arise from the mismatch between traditional education systems and the rapidly evolving labor market are the need for a revised financing model for education and the "marketization" of educational mechanisms to better align with labor market demands and skill requirements. To address these issues, Europe must modernize its education systems, ensuring they are responsive to the needs of employers and the economy. Countries like Germany and the Netherlands are effectively navigating this challenge by integrating vocational training and apprenticeships into their educational frameworks, thereby equipping students with the practical skills necessary for today's job market.

3. **Increasing need for lifelong learning models:**

   Employers are shifting focus toward continuous learning, adaptability, and real-world competencies rather than credentials alone.

FIGURE 4.4 **Shortages in the Supply of Employees in Professional Fields**



According to CEDEFOP, the shortages in supply of employees in professional fields, stem primarily from high demand. Supply shortages do exist, primarily in legal and science and engineering job groups. In other cases the insufficient supply seems to play a minor role. Despite high demand and moderate supply tightness for professionals, CEDEFOP reports only minor imbalance shortages. This is in opposition to other reports and seem to stem from the use of **broad occupational groupings.** These mask severe **skill-specific mismatches** — especially in fast-evolving roles like cloud security, AI/ML, and advanced data engineering.

Source: CEDEFOP; Cedefop Labour and Skills Shortage Index | CEDEFOP.

For Europe to maintain competitiveness, greater alignment is needed between education systems, alternative learning providers, and labor market needs. **A dual focus on foundational education and agile, skills-based development, supported by credential recognition frameworks, will be critical to building a resilient, future-ready talent base.**

Modernizing education systems to align with labor market needs is crucial. Emphasizing STEM education, vocational training, and digital literacy will prepare the workforce for future demands. Encouraging lifelong learning ensures continuous skill development (European Commission, 2024c).

Shift Towards Skill-Based Hiring

Employers are increasingly prioritizing skills over formal qualifications. In AI and green jobs, demand for specific skills has led to a decline in the emphasis on university degrees (WEF, 2023). Alternative credentialing methods, such as micro-certificates and online bootcamps, are gaining traction in Europe. This is because of their flexibility and ability to address the skills gap in the labor market quickly. These programs offer targeted, practical training that aligns with specific industry needs, allowing individuals to upskill or reskill efficiently. Additionally, as employers increasingly value skills over traditional degrees, these alternative credentials provide a viable pathway for job seekers to demonstrate their competencies and enhance their employability.

In today's dynamic business environment, organizations are increasingly recognizing the importance of adopting a skills-powered approach to drive human-centric productivity. According to the Mercer Global Talent Trends Report (2024), companies that prioritize skills development and insights are reaping significant benefits, with 92% of those further along in this journey reporting a positive impact.

The transition to skills-powered organization yields numerous advantages that can transform how businesses operate. The Mercer's data indicates that over 40% of organizations have experienced improvements in several key areas, including better sharing of talent across departments, more relevant employee development opportunities, increased productivity, and enhanced employee engagement. These benefits are crucial in fostering a collaborative and motivated workforce, which is essential for achieving organizational goals.

Moreover, **organizations that embrace a skills-focused approach see improved employee retention and faster talent deployment.** By aligning employee skills with organizational needs, companies can create a more agile workforce capable of responding to changing market demands. This alignment not only enhances operational efficiency but also contributes to a culture of continuous learning and development, where employees feel valued and empowered to grow within the organization.

Leveraging Talent Foresight for Better Hiring Decisions

A critical component of a skills-powered organization is the use of talent foresight to inform hiring decisions. Findings from the Mercer Global Talent Trends Report (2024) reveal that 74% of organizations utilizing psychometric assessments report making better hiring decisions. By combining talent insights with market outlook, organizations can gain the foresight needed to tackle productivity challenges and realize growth potential. This strategic approach to hiring ensures that organizations are not only filling positions but are also selecting candidates whose skills and capabilities align with the company's long-term objectives.

The emphasis on skills also extends to leadership development. Key skills that differentiate great leaders include the ability to make decisions in the face of ambiguity, promote a culture of trust and transparency, tackle complex problems with critical thinking, and drive innovation. By cultivating these skills within their leadership teams, organizations can create a more resilient and adaptive workforce, better equipped to navigate the complexities of the modern business landscape.

The shift towards a skills-powered organization is essential for driving human-centric productivity in today's competitive environment. The benefits of improved talent sharing, employee development, and enhanced engagement underscore the value of prioritizing skills within organizational strategies. Furthermore, leveraging talent foresight through psychometric assessments enables organizations to make informed hiring decisions that align with their strategic goals. As companies continue to embrace this approach, they will be better positioned to foster a culture of continuous improvement, innovation, and resilience, ultimately leading to sustained success in an ever-evolving marketplace.

Enhancing Workforce Participation

To counteract demographic challenges, increasing workforce participation is essential. Strategies include promoting employment among underrepresented groups, such as women and older workers, and facilitating flexible working arrangements.

As has been pointed out in Mercer Employee Experience Research (2022-2024), senior leaders play a pivotal role in shaping organizational culture and influencing whether employees feel heard, valued, and empowered. In today's professional services environment – marked by generational diversity, talent scarcity, and rising expectations for transparency – leadership must go beyond strategic direction to actively foster participation and trust.

Empowering employees at all levels to contribute to decision-making not only enhances engagement but also drives innovation and accountability. According to Mercer's Global Talent Trends Report (2024), **companies where employees feel involved in shaping the future are 2.3 times more likely to report high trust in leadership.**

Equally critical is the visible representation of women and underrepresented groups in leadership and decision-making forums. While many European firms have made progress on gender diversity, women still account for fewer than 30% of executive roles in professional services, and racial and ethnic minorities remain underrepresented in senior ranks. Addressing this gap requires intentional efforts in succession planning, sponsorship, and inclusive talent development (Mercer, 2023).

Attracting and Retaining Global Talent

Simplifying immigration processes and recognizing foreign qualifications can help attract global talent. Programs like the EU Talent Pool and Blue Card are steps in this direction. Additionally, creating inclusive workplaces and offering career development opportunities are vital for retention.

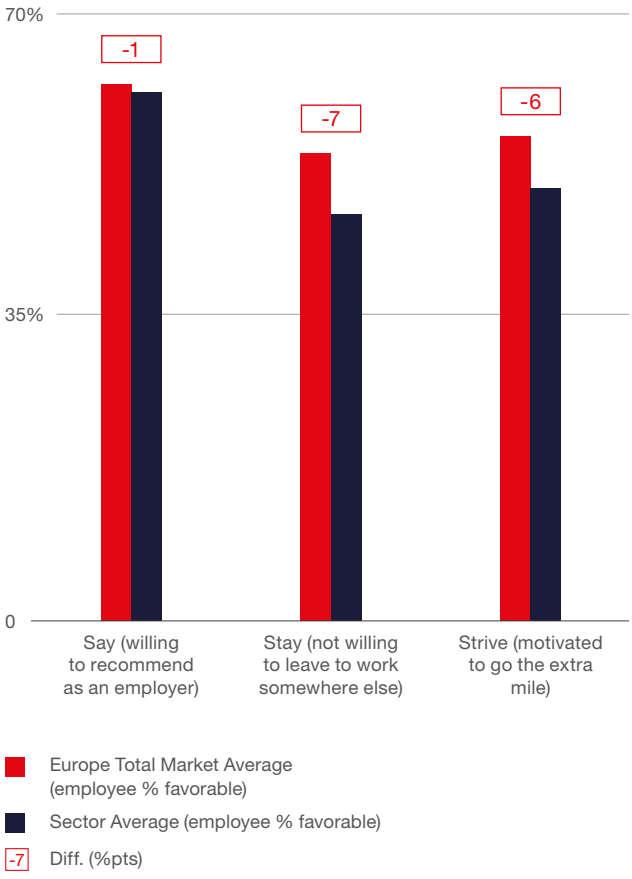
Is the Great Resignation Still a Phenomenon?

The phenomenon known as "The Great Resignation" – a period marked by widespread voluntary job exits, particularly in 2021-2022 – has evolved rather than disappeared (Cook et al., 2023). While the scale of resignations has normalized in 2024-2025, its underlying drivers continue to shape talent dynamics in Europe and beyond.

According to Eurostat (2022) and Mercer's Global Talent Trends (2024), Voluntary quit rates in Europe have returned to pre-pandemic levels, particularly in sectors with lower turnover historically (e.g., finance, legal, engineering). However, attrition remains elevated in certain segments – notably tech, customer support, and shared services – especially among younger professionals and mid-level talent.

This reflects not a short-term trend but a longer-term redefinition of how professionals view work, value alignment, flexibility, and career progression. **Workers are more willing to change employers when their expectations around flexibility, purpose, or career development are not met.** High performers in digital and knowledge-based roles are especially mobile, contributing to a persistent "war for skilled talent."

FIGURE 4.5 **Engagement Components**



Source: Mercer Employee Experience Research, Europe, 2022-2024; Sample Size was 3,030 companies, 2,527,000 respondents from 46 countries.

Although resignation rates have returned to pre-COVID levels, there are still noticeable risks of employee attrition and challenges to high performance. This situation is often referred to as "quiet quitting."

"Quiet quitting" describes a phenomenon where employees disengage from their work without formally resigning. Instead of going above and beyond, they do only what is required, leading to a decline in overall productivity and morale. This behavior can stem from feelings of burnout, lack of recognition, or dissatisfaction with their roles, ultimately impacting the organization's success (Gallup, 2023; Harvard Business Review, 2023).

Elevating Employee Experience and Retention Across Europe

Organizations are investing more in engagement, culture, and internal mobility to retain key talent. The demand for non-linear career paths, sabbaticals, and hybrid work arrangements remains strong, particularly among Gen Z and Millennials (Deloitte, 2023a).

Talent is increasingly driven by meaningful work, autonomy, and learning opportunities. **Career decisions are no longer based solely on salary or stability. Employers not perceived as progressive, inclusive, or development-focused risk losing out in the talent market.**

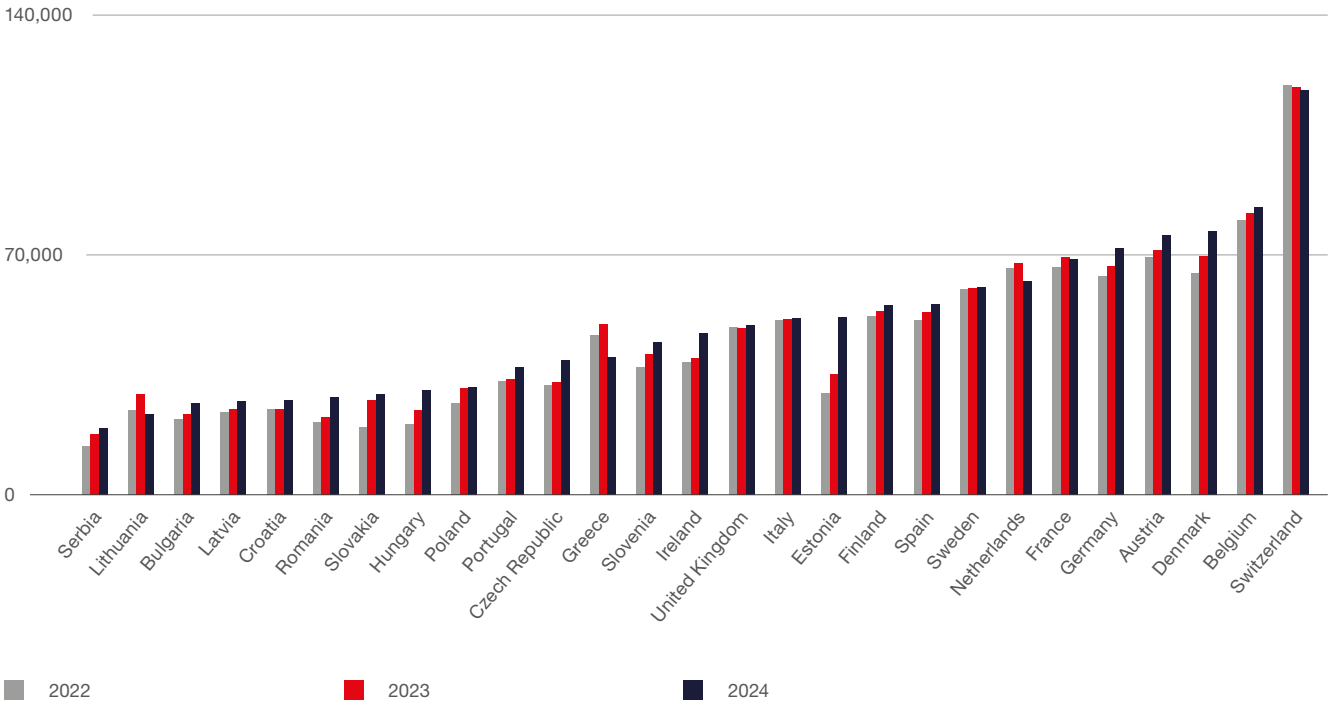
Compensation European Professional Services – Shifting the Paradigm

While salary has traditionally been the cornerstone of talent attraction and retention, it is increasingly clear that compensation alone is no longer sufficient to secure and sustain top-tier talent. Professionals today, particularly younger generations, are placing growing value on work-life balance, career development opportunities, or purpose-driven work.

Nonetheless, salary remains a critical component, but with notable regional disparities. In Western Europe, particularly in markets like Switzerland, Belgium, and Denmark, compensation levels are relatively high. In contrast, Southern and Eastern European markets, though offering highly skilled professionals, often feature significantly lower salary benchmarks, leading to persistent talent migration toward higher-paying regions (*see Figure 4.6*). This fragmentation creates both opportunities and challenges for firms looking to build pan-European teams.

For HR leaders in professional services, this means rethinking total reward strategies. Competitive salary structures must now be complemented by holistic value propositions that speak to the broader aspirations of the modern workforce, or risk losing talent to more progressive employers, regardless of geography.

FIGURE 4.6 **Annual Total Cost of Remuneration to Employer, (Experienced Professional), Services Sector (Both Financial and non-Financial)** (EUR)*



* All data collected for companies in the services and financial services sectors. National currencies converted using the average weekly exchange rate to EUR calculated for the first half of 2024; values include social security contributions of the employer, calculated for a single, non-married person.

Source: Mercer Total Remuneration Survey 2024.

Resilient Employee Satisfaction in Europe

Employee satisfaction levels in Europe have remained relatively stable despite the ongoing war for talent, rapid technological advancements, and shifting labor market dynamics. This stability comes from several underlying factors specific to the European context.

It is interesting to observe that although employee satisfaction levels across Europe (all industries) remain stable, there is a noticeable difference in the professional services sector, where satisfaction ratings have consistently been five percentage points lower than the overall average during this same period. This suggests a moderate level of employee satisfaction in this industry (Mercer, 2022-2024).

Based on Sentimental Data from Indeed (2025), the sentiment share of positive reviews in the professional services sector is c.a. 60%, which might be acceptable during stable times (*see Figure 4.7*). However, given the current disruptions, this level of engagement raises concerns. It is close to what can be described as “passive” involvement or “quite quitting” (discussed in section 4.5), which could hinder growth, transformation, and innovation. When employees feel neutral about their jobs, it can create significant challenges for organizations looking to move forward.

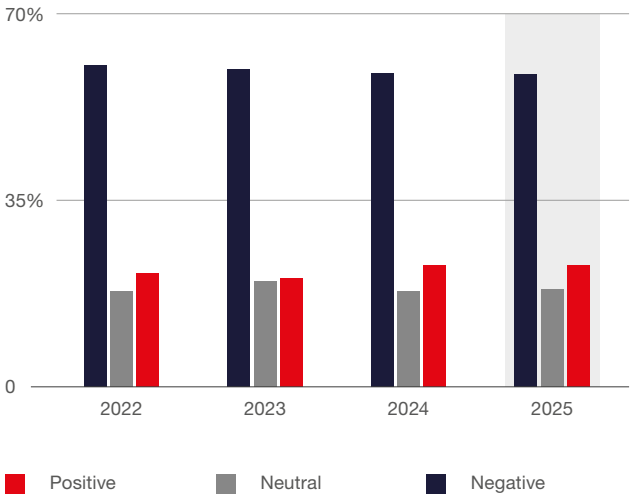
Holistic Approach to Employee Value

European employers are increasingly investing in mental health, diversity and inclusion, and sustainability initiatives, aligning organizational values with those of their workforce. These factors contribute meaningfully to how satisfied employees feel, sometimes outweighing salary concerns.

The relative stability in European employee satisfaction is not due to a lack of disruption – it reflects how well workers feel supported through disruption, thanks to a blend of policy, culture, and employer response.

Although employee satisfaction in Europe remains stable, the rising living costs and uneven wage growth could erode satisfaction, especially if employees feel their compensation is not keeping pace. While inflation has cooled in some regions, persistent economic pressures in countries like Italy, Spain, and parts of Eastern Europe may lead to discontent if not addressed through fair pay or additional benefits.

FIGURE 4.7 **Sentimental Data (annual). Services Sector.**



Source: The above data constitutes employer reviews collected from Indeed.com. It is based on more than 175 thousand employer reviews, collected globally for the following companies: MMC, Bain & Co, McKinsey, Deloitte, KPMG, EY, PwC, Nomura Research, Publicis Sapient, CGI, IQVIA, Capgemini, Wipro, Kone, Gartner, NTT-Data, Cognizant Technology, Fujitsu, Verisk, HCL-Tech, Paychex, InfoSys, AON, Manpower Group, Relx, ADP, Schneider Electric, Tata Consultancy, Accenture. The sentiment classes have been inferred using Google's roBERTa model. The data for 2025 has been collected for the months of Jan-May.

The increasing integration of AI and automation in professional services could also lead to job restructuring, role ambiguity, or skill redundancy. While tech can enhance roles, it may also create anxiety or dissatisfaction if employees feel unprepared or unsupported during transitions.

Unlike more aggressive markets, many European firms adopt new technologies with a more measured, consultative approach – often with employee involvement. This reduces fear of displacement and helps maintain morale. In professional services, for example, tech is often seen as augmenting roles rather than replacing them.

In general, the sentiment shares remain stable. The share of negative reviews for companies in scope has slightly increased from 2022 to 2025, while the share of neutral reviews stayed on more-or-less same level of 18%.

The share of positive reviews is slowly decreasing (60.6% in 2022 to 58.9% in first half of 2025).

TABLE 4.2 **Key Employee Experience Challenges in the Professional Services Sector***

Employee Experience top challenges of the Professional Services sector (according to employee feedback)	**Europe Total Market Average** (employee % favorable)	**Sector Average** (employee % favorable)	**Diff.** (%pts)
Employees from all backgrounds have an equal opportunity to succeed at this organization	71	47	-24
This is a socially and environmentally responsible organization	69	50	-19
The training that I have received has been useful and I have put it into practice	66	47	-19
The organization actively looks after the wellbeing of its employees	62	48	-14
We are quick to invest in new ideas that will drive future success	48	35	-13
People speak up if they encounter behavior that they believe should be addressed	52	40	-12
This organization delivers on the employee experience it promises	55	45	-10

* The data from Mercer Employee Experience Research (2022-2024) reveals several concerning trends regarding employee perceptions within the organization. Notably, there is a significant decline in confidence regarding equal opportunities for success, social and environmental responsibility, and the effectiveness of training. Additionally, while there is a moderate level of belief in the organization's commitment to employee wellbeing and responsiveness to new ideas, the overall sentiment indicates a need for improvement in fostering a supportive and engaging workplace culture.

Source: Mercer Employee Experience Research, Europe, 2022-2024; 3,030 companies, 2,527,000 respondents from 46 countries.

Younger employees (Millennials and Gen Z) place higher value on purpose, flexibility, inclusion, and mental well-being. If organizations do not adapt quickly enough to these shifting values, they risk disengaging key segments of their workforce.

Polarization, immigration debates, and shifting EU labor policies could impact employee sentiment-, especially in cross-border organizations. For example, changes in mobility rights or growing nationalism in some countries could affect how supported and secure international workers feel.

While flexibility remains a key driver of satisfaction, there is also growing concern around isolation, blurred boundaries, and team cohesion in remote or hybrid models. If not managed well, this could erode employee engagement and belonging over time (*see Table 4.2*).

Embracing Pay and Labor Reforms in Europe

Many European countries have robust labor laws, collective bargaining systems, and social welfare structures that ensure job security, fair treatment, and work-life balance. These protections foster a baseline of trust and predictability that contributes positively to employee satisfaction. From mandated paid leave and limits on working hours to strong protections against unfair dismissal, these frameworks aim to safeguard human dignity in the workplace while reinforcing social cohesion.

At the same time, several European nations are evolving these systems to reflect the realities of today's labor market. For example, Germany has introduced more flexible working arrangements under its "Mobile Work" legislation, encouraging employers to support remote and hybrid work while maintaining clear guidelines to protect employee rights. The Netherlands recently passed legislation enhancing the right to request remote work, reinforcing a culture of work-life balance without compromising operational flexibility. Poland, as a major hub for shared services and global business operations, has also modernized aspects of its labor code in response to rising demand for hybrid and remote work (ILO, 2023). Reforms introduced in 2023 legally recognized remote work, offering both employers and employees a clearer framework for flexibility, cost management, and regulatory compliance, especially important in high-growth sectors like business BPO and SSCs.

Balancing Flexibility and Employee Rights

Striking this balance is particularly relevant in sectors experiencing fast-paced change-such as professional and shared services-where global clients, evolving technologies, and shifting employee expectations converge. **Countries that empower employers to operate with agility, while simultaneously preserving a strong social contract, are showing that economic competitiveness and labor dignity can coexist. In practice, this means designing policies that offer structured flexibility, transparent pay and progression systems, and inclusive employee engagement strategies.**

Work-life balance remains a cultural priority across much of Europe. Shorter average workweeks, mandated vacation days, and flexible working policies (further normalized post-pandemic) help maintain satisfaction. While tech disruption can increase demands, many companies have integrated flexible hybrid models that employees appreciate.

Organizations that align with these evolving frameworks can build resilient, future-ready workforces-, positioned to thrive in both local and global markets.

European Directives on Pay Equity and Pay Transparency

As the European Union advances legislation such as the EU Pay Transparency Directive, executive leaders and HR teams in both professional services and shared services organizations must prepare for more than compliance-they must prepare for a shift in how talent strategy, employee experience, and business performance intersect.

In professional services, where compensation models are deeply intertwined with performance, billability, and client delivery, pay transparency will demand a clear articulation of how value is defined and rewarded. **For employees, particularly in fast-paced, high-pressure environments, greater visibility into compensation and progression pathways can significantly enhance trust, motivation, and loyalty.** From a leadership perspective, it is also a chance to modernize compensation frameworks to reflect evolving talent expectations better and promote a more inclusive, performance-driven culture. Firms that embrace transparency as a strategic differentiator-not just a compliance necessity-will be better positioned to attract, retain, and grow high-caliber talent across geographies.

Meanwhile, in shared services organizations, where roles are often standardized across functions and borders, transparency offers an opportunity to address long-standing concerns around pay equity by location, tenure, or gender. With many SSCs operating across varied cost-of-living regions and legal jurisdictions, the challenge lies in balancing operational consistency with local compliance. Transparent compensation practices can elevate the employee experience by providing clearer pathways for growth, enhancing internal mobility, and reducing attrition, especially in high-volume, early-career roles.

Across both sectors, the real opportunity lies in using transparency as a strategic tool to drive equity, retention, and organizational trust. It invites leadership and HR to reframe compensation not just as a transactional mechanism but as a reflection of values, culture, and long-term talent investment. Those who move early, communicate clearly, and lead with purpose will not only meet regulatory demands-they will set a new standard for what fair, modern employment looks like in Europe's evolving talent economy.

4.2.3
Talent Shifts. Implications for European Employers

While Europe's structural advantages (labor protections, cultural emphasis on balance) provide a buffer, employee satisfaction is not guaranteed to remain stable. The next few years will test how agile and human-centric employers really are. Those that adapt with empathy and foresight will likely maintain – or even boost – satisfaction levels.

Professional services firms are feeling the pressure to redesign employee value propositions. Long hours, hierarchical progression, and inflexible work models – once tolerated – are now talent repellents unless offset by purpose, growth, or flexibility.

In shared service centres and business services, attrition risk is higher in repetitive or transactional roles, pushing leaders to automate, upskill, and redesign jobs to retain engagement. The talent landscape has become employee-centric: individuals expect more agency and personalization in their work experience. Companies unable to adapt may face chronic retention issues and a weakened employer brand.

While the "Great Resignation" as a media headline may have faded, its cultural and structural effects

endure. T**alent today is less loyal, more values-driven, and increasingly mobile-, and the balance of power has shifted toward the skilled individual.**

For Europe's professional services sector, this means building cultures that emphasize purpose, flexibility, and progression as well as redesigning talent strategies not just to retain, but to re-earn employee commitment continuously.

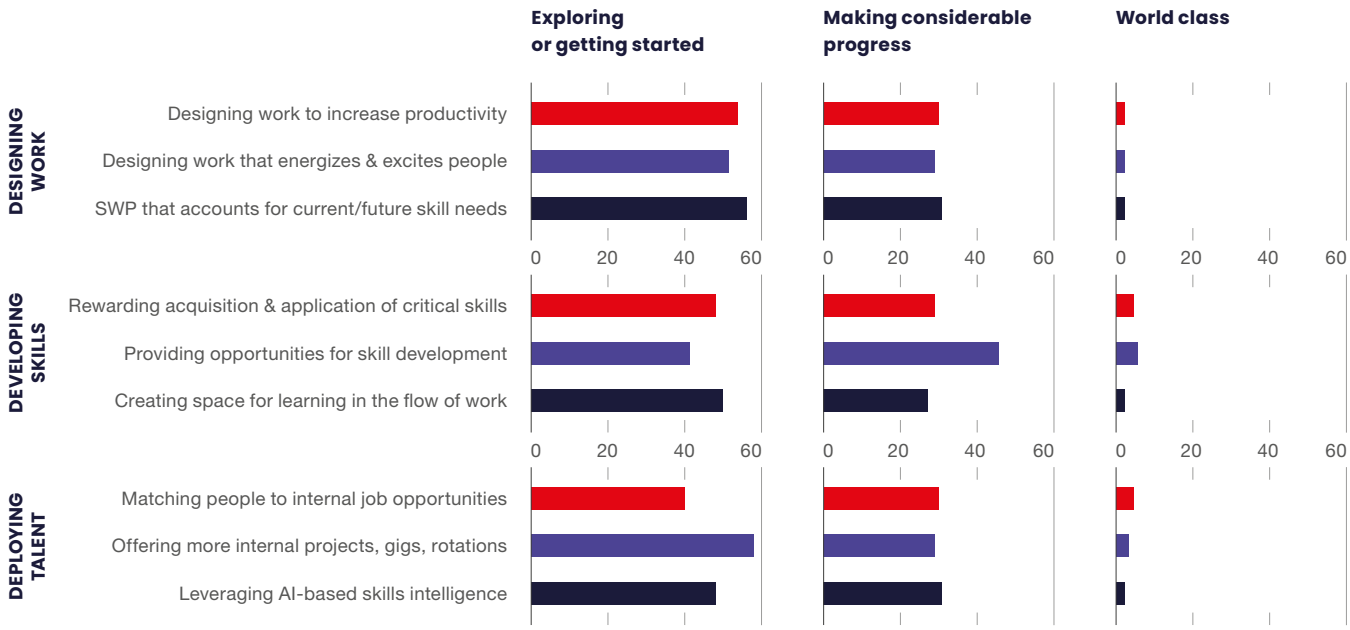
Organizations that interpret these shifts not as a crisis but as a signal to modernize workforce models will be better positioned to attract and keep high-quality talent in a highly fluid market.

4.2.4 Interplay between Talent, Business Transformation, and Technology

Talent, business transformation, and technology are interconnected. Technological advancements drive changes in business models, necessitating new skills and competencies. Conversely, a skilled workforce enables the effective adoption of new technologies, facilitating business transformation. Investing in talent development is thus integral to organizational resilience and competitiveness.

In the rapidly evolving landscape of work, organizations are increasingly focusing on enhancing human-centric productivity through three key areas: Designing Work, Developing Skills, and Deploying Talent. According to the latest Mercer's Global Talent Trends (2024) report, a significant number of companies are actively exploring or making progress in these areas, yet only 54% are concentrating on redesigning the work itself to boost productivity (*see Figure 4.8*).

FIGURE 4.8 **Leaning into Skills & Insights. Reinventing Jobs for the Future of Work by Companies** (%)



To remain competitive in an ever-changing world, organizations need to be great at three things: Designing Work, Developing Skills, and Deploying Talent. Many are strengthening their skills foundation (job architecture, skills taxonomies, etc) to accelerate and scale, but only 54% are focusing on redesigning the work itself.

Source: Mercer Global Talent Trends, 2024.

The data reveals that 56% of organizations are beginning to design work that increases productivity, while 54% aim to create roles that energize and excite employees. Additionally, 58% are working on strategic workforce planning (SWP) that accounts for current and future skill needs. In terms of skill development, 53% of companies are rewarding the acquisition and application of critical skills, and 47% are providing opportunities for skill development.

When it comes to deploying talent, 59% of organizations are matching people to internal job opportunities, and 51% are leveraging AI-based skills intelligence to optimize talent deployment. However, there remains a notable gap, as only 8% of organizations are making significant progress in utilizing AI for skills intelligence. This data underscores the importance of a strategic approach to workforce management, emphasizing that while many organizations are taking steps toward improvement, there is still considerable room for growth in effectively redesigning work and leveraging technology to enhance talent management.

4.2.5 Key Takeaways

The European professional services sector is undergoing a transformative shift driven by significant demographic, technological, and regulatory changes. With a declining working-age population and an evolving labor market, a multifaceted approach to talent management is essential.

Organizations must enhance workforce participation, attract global talent, and invest in education to meet the demands of today's dynamic labor landscape.

Leadership within the sector faces unique challenges, particularly the need for adaptive strategies to bridge generational gaps and address potential leadership shortages. Investing in the development of leaders who can foster employee engagement and drive performance in complex, hybrid work environments is critical.

Additionally, immigration policies play a vital role in mitigating labor shortages, underscoring the importance of strategic initiatives to facilitate talent acquisition from abroad.

The integration of AI and automation further complicates the landscape, necessitating a workforce equipped with hybrid skill sets capable of leveraging new technologies.

Bridging the skills gap through alternative education pathways and lifelong learning models is essential to ensure employees possess the competencies required by employers.

As employee expectations shift towards greater flexibility and holistic value propositions, organizations must modernize their compensation frameworks to promote equity and transparency. The shared services sector, in particular, stands to benefit from these developments, as it increasingly relies on streamlined processes and skilled talent to enhance efficiency and service delivery.

By recognizing the interconnectedness of talent, business transformation, and technology, companies can develop effective strategies to navigate the challenges ahead.

Ultimately, a proactive and comprehensive approach will be crucial for the European professional services sector, including shared services, to thrive in this dynamic environment.

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4.3 Business Services Talent Strategy – A Look into the Future

From Labor Arbitrage to Capability Platforms

The business services industry is undergoing a profound transformation. The legacy model-rooted in cost arbitrage, labor scale, and functional process execution-is giving way to next-generation platforms defined by depth of capability, agility, and enterprise enablement. This evolution from **GBS 1.0 and 2.0** to **GBS 3.0** is now accelerating toward what we define as **GenBS**: a convergence model that blends human and AI capabilities, integrates deep domain expertise with ESG and compliance mandates, and prioritizes workforce orchestration, innovation, and resilience over static process efficiency.

At the core of this shift lies a reimagined talent architecture-one that moves beyond static job roles to dynamic skill ecosystems powered by AI, internal mobility, and outcome-based design. Talent is no longer an operational input-it is a **strategic enabler,** managed as a modular, continuously evolving portfolio of capabilities linked directly to business transformation, sector-specific pressures, and stakeholder trust.

This shift is deeply aligned with the **skills-powered organization** model outlined in Mercer's analysis. GenBS organizations reconfigure not only who does the work but how, why, and where work is delivered-with human-AI teams, lifelong learning, and leadership redesign as foundational pillars.

From Functions to Capabilities: The GBS 3.0 Paradigm

Where early GBS models focused on vertical cost compression and process standardization, GBS 3.0 repositions business services as a **horizontal enabler of enterprise value.** GenBS will further restructure its business model to utilize human and AI capabilities to their maximum potential.

From a talent perspective, it yields several key insights, as presented in the table below.

TABLE 4.3 | **GBS Evolution from a Talent Perspective**

Dimension	GBS 1.0–2.0	GBS 3.0	GenBS
Strategic focus	Cost and process efficiency	Enterprise enablement and integration	Innovation and sustainable impact
Work design	Functional silos and transactional roles	Cross-functional squads and agile teams	Human-AI teaming, skill clouds, purpose-driven work
Technology use	ERP and workflow automation	API-enabled digital platforms	Generative AI, skills intelligence, and hyper automation
Talent model	Role-based external hiring	Skill adjacencies and internal mobility	Dynamic talent marketplaces, gigified internal roles (internal adoption of gig-like principles – internal project-based roles, agile talent development)*
Career structure	Linear ladders by function	Career lattices across domains	Mission-based, fluid career architectures with EX-embedded
Leadership	Tenure-based, hierarchical	Agile, cross-functional	Inclusive, AI-literate, intergenerational, outcome-focused

* These in turn means: breaking traditional full-time roles into smaller, **project-based, flexible assignments;** allowing employees to participate in **internal gigs** (temporary cross-functional projects or assignments) beyond their core role and/or creating **talent marketplaces** where employees can apply for short-term internal opportunities to gain experience and new skills.

Source: ABSL BI & Mercer.

This table reflects a true **evolution from operational service delivery to strategic value creation,** with GenBS acting as the most mature and transformative stage of the model, particularly relevant to high-performing GBS hubs across Europe.

Emerging Talent Archetypes, Skills Blending and Innovation Capabilities

As GBS organizations evolve into GBS 3.0/ GenBS models, they increasingly require **blended talent archetypes** that integrate:

Domain depth
(e.g., compliance, finance, ESG),

Digital fluency
(e.g., GenAI, low-code, analytics),

Change navigation
(e.g., agile leadership, design thinking),

and inclusivity and stakeholder engagement.

Notable emerging roles include:

Automation designers
merging UX, RPA/IPA, and process engineering across functions.

ESG data translators
ensuring taxonomies, disclosures, and audit trails are standardized and AI-readable.

GenAI prompts engineers and evaluator
to govern large language models (LLMs) in real-time knowledge work (e.g., risk reviews and compliance checks).

Trust and assurance architects
integrating ethics, bias mitigation, and regulatory foresight into AI-powered services.

These roles reflect the growing **fusion between functional expertise and cognitive technology,** with clear implications for recruitment, reskilling, and retention models.

In the GenBS model, innovation is no longer an isolated R&D function but an embedded capability across the talent pool of an organization. Talent strategies must explicitly cultivate innovation skills: creative problem-solving, rapid experimentation or fast prototyping, and cross-domain cooperation alongside technical proficiency. This means equipping employees not only with digital fluency (e.g., AI and data literacy) but also with the soft skills needed to navigate ambiguity, challenge existing processes and procedures, take risks, and create solutions with clients or key stakeholders.

We thus postulate that in the GenBS model, talent strategy and innovation capability become inseparable. High-performing business services hubs will increasingly embed dynamic capabilities, that is the ability to integrate, build, and reconfigure skills to adapt to rapidly changing technologies and markets (Teece, Pisano, & Shuen, 1997). This requires cultivating not only technical competencies but also the capacity to operate across the *Ten Types of Innovation* framework, extending beyond product or process to organizational, customer engagement, and business model innovation (Keeley, Walters, Pikkel, & Quinn, 2013). **GenBS talent architectures should therefore be designed for both sustaining innovation – incremental improvement of existing services as well as disruptive innovation, which creates new values** and often demands a rethinking of work design (Christensen, 1997). Innovation-readiness can be assessed through innovation capabilities audits, ensuring alignment between skills, resources, and strategic priorities (Tidd & Bessant, 2018). Embedding continuous improvement mindsets such as *Kaizen* (Imai, 1986) and Blue Ocean thinking (Kim & Mauborgne, 2004) across all workforce layers could ultimately enable GenBS organizations to move from innovation as an isolated function to innovation as a pervasive cultural and operational norm.

In this context, the evolution toward full innovation maturity of genBS can be guided by the *High Involvement Innovation* (HII) capability model, progressing from ad-hoc problem solving to a fully embedded learning organization where innovation is the dominant way of working (Bessant, 2003). **Reaching the highest HII stages (proactive/empowered and full capability) ensures that every employee actively contributes to both incremental and radical innovation.** Most European GBS hubs are today (likely

between Stage 2 – Structured HII and Stage 3 – Goal-oriented HII). GenBS requires movement into Stage 4 – Proactive/empowered HII and ultimately Stage 5 – Full HII capability in the Bessant sense. Innovation capability is not just about having new roles or tech, but about encouraging and ultimately embedding participation, experimentation, and knowledge sharing across the entire talent poll of an organization. It could also utilize, at least to some extent, the talent pool of the regions in which organizations are embedded in the industrial cluster sense. That, in turn, would require adjustment in models of operation.

Career Architecture and Workforce Orchestration

> **In the evolving business landscape, organizations must re-imagine how they develop and manage their talent. Traditional career paths are giving way to more dynamic, flexible models that align with strategic goals and technological advancements. Workforce orchestration plays a crucial role in ensuring the right skills are in the right place at the right time, enabling agility and continuous innovation.**

The shift to GenBS requires dismantling legacy talent hierarchies and building skill-centric, employee-empowered systems. Moving away from rigid hierarchies enables a more flexible, responsive environment where employees are empowered to take ownership and contribute their skills more effectively. Building a skill-centric system ensures that talent is aligned with strategic needs, fostering continuous learning and development. This approach not only enhances individual capabilities but also fosters a more adaptable organization that can respond quickly to changing market demands. Ultimately, a shift towards employee empowerment and skill focus is essential for GenBS to drive sustained growth and innovation in a competitive landscape. Leading organizations are investing in:

Skill-based career architectures
Defining roles by evolving capability clusters and future-readiness rather than job titles. Mercer's research, The Future of Work: Reimagining Talent and Workforce Strategies, shows that organizations adopting this approach see increased agility and employee engagement, as talent can navigate multiple pathways aligned with emerging business needs.

Internal talent marketplaces
AI-supported platforms dynamically matching people to roles, gigs, and upskilling journeys. Mercer's paper The Skills Revolution Building: Building a Future-Ready Workforce indicates that companies leveraging these platforms experience faster talent redeployment, reduced vacancy times, and improved internal mobility metrics.

Reskilling boot camps and academies
Enabling transitions from legacy roles (e.g., invoice processing) to high-value paths (e.g., GenAI auditing, ESG reporting). Targeted reskilling initiatives not only close skills gaps but also foster a culture of continuous learning, critical for future resilience.

Leadership renewal programs
Targeting Millennials and Gen Z with early access to transformation projects, reverse mentoring, and innovation sandboxes. Early leadership development in these cohorts accelerates digital adoption and drives inclusive, future-ready leadership pipelines (Mercer Leadership Development for Digital Age).

These transformations are not limited to HR; they cut across strategy, delivery, and risk functions-redefining how talent is sourced, grown, and deployed in a fast-moving services landscape.

Implications for Leadership and Readiness

In the evolution toward GBS 3.0, leadership plays a critical role in shaping how organizations leverage innovation and agility to create value. Leaders are responsible for setting a clear vision that positions GBS as a strategic partner rather than just a support function. They foster a culture that embraces change, encourages experimentation, and views failures as opportunities for learning and improvement.

A key aspect of this transformation is technological agility. Leaders must champion the adoption of emerging technologies such as automation, data analytics, and AI, ensuring their teams are equipped and motivated to integrate these tools into daily operations. They guide their teams through rapid development cycles, emphasizing incremental delivery and continuous feedback, which allows GBS to adapt quickly to shifting business needs.

Moreover, leaders facilitate cross-functional collaboration, breaking down silos and creating an environment where diverse perspectives drive innovation. They promote transparency and open communication, enabling teams to respond swiftly to new challenges and opportunities. By investing in talent development and fostering a mindset of continuous learning, they ensure their teams stay ahead of technological trends and maintain a competitive edge.

Ultimately, **effective leaders in GBS 3.0 recognize that agility and innovation are inextricably linked.** They actively shape the models and processes that enable GBS to be flexible, scalable, and future-ready. Their role is to create an environment where technological agility is embedded in the culture, allowing GBS to deliver ongoing value and support the organization's strategic growth.

As Mercer underscores, talent strategy without leadership readiness will stall. The GBS 3.0 and, to an even larger extent, the GenBS model place a premium on:

AI-literate, emotionally intelligent leaders capable of managing uncertainty, hybrid teams, and generational diversity;

Inclusive leadership design with flexible power structures and distributed accountability;

and continuous learning for executives, including exposure to real-world AI and transformation initiatives.

Without redesigning leadership models, GBS risks becoming digital in tools but analogue in culture.

GenBS will not merely be another operating model. It is a transformation framework. Its success hinges on reimagining talent strategy around agility, inclusivity, capability growth, and meaningful employee experience. In this way, business services can serve not only as efficiency engines but also as laboratories for the future of work in Europe.

4.4 Policy & Business Implications

Unlocking Europe's Talent Potential through Structural Reforms and Collaborative Action

The analyses conducted throughout this chapter reveal that Europe's business services industry, now employing nearly **40 million professionals,** sits at the center of the continent's transition to a **resilient, digital, and green economy and is key to its future.** Yet despite its growth and strategic potential, the sector faces increasingly binding human capital constraints. These are not uniform but instead are shaped by regional demography, vertical specialization, and institutional readiness to respond to 21st-century labor dynamics.

Considering the Mercer findings and the broader evidence presented in this chapter, **Europe must not only address labor shortages and skills mismatches but must also rewire its talent systems around agility, leadership readiness, and human-centric productivity. Talent policy can no longer focus narrowly on supply. Instead, it must align with how modern organizations deploy, grow, and empower talent in a digital age.** This includes investing in leadership renewal, redesigning EX or employee experiences, and embedding technology into both workforce planning and career architecture.

To fully unlock the sector's economic contribution, a coordinated response is needed across policy, education, migration, and industry practice. Below, we outline the key risk zones and propose a set of priority interventions to address structural talent bottlenecks.

TABLE 4.4 | **Talent Risk Zones**

Structural Challenge	Implication
Aging workforce	Shrinking working-age population – loss of mid-career specialists, rising dependency ratios
Skill mismatches	Education-labor market misalignment, low STEM/ VET uptake, underdeveloped digital skillsets
Youth emigration	Talent leakage to Western/Northern Europe and North America – long-term erosion of domestic capacity
Limited labor mobility	Language and credential barriers, low intra-EU migration relative to the US mobility baseline
Underutilized cohorts	Structural underemployment due to inflexible work models, cultural or regulatory barriers

Source: ABSL BI.

In parallel, strengthening the employee experience, modernizing compensation models, and fostering inclusive leadership will be essential to sustain engagement and productivity across generationally diverse and rapidly evolving workforces.

Strategic Priority Actions. Toward a Skills Driven, Leadership-Ready Europe

To strengthen Europe's position as a talent-based and knowledge-driven economy, with benefits to the economy at large and the business services industry, we recommend considering the following potential policy actions in the talent development domain.

1. Modernize Leadership Pipelines for a Digital and Multigenerational Workforce

To future-proof Europe's leadership capacity, we must move beyond traditional executive development and embrace AI-native, agile, and inclusive leadership models. This requires co-developing readiness signals, rather than certifying static competencies, and embedding transformation exposure into career pathways.

Launch EU-supported programs for early identification of high-potential leaders, supported by multigenerational mentorship and GenBS learning ecosystems.

Integrate AI-enabled leadership labs and real-world transformation projects into executive learning journeys.

Co-create public-private readiness frameworks for digital and hybrid workforce leadership, focused on adaptability, inclusion, and purpose orientation.

2.
Design Skills-Based Ecosystems Across Education, Industry, and Policy

Skills-not roles-define the future industry workforce. A new learning infrastructure is needed that supports modular skill acquisition, cross-border interoperability, and sector-driven standards.

Expand credential recognition to include stackable micro-skills, employer-issued proofs, and bootcamp-based learning.

Incentivize internal talent marketplaces, dynamic career architecture, and mobility platforms through EU innovation grants.

Scale workforce academies and digital credential pathways co-designed with sector councils (e.g., ESG, AI, data, RegTech).

Fund university-industry-GBS partnerships targeting applied reskilling in critical domains.

Support bootcamp transitions from legacy sectors (e.g., retail, manufacturing) into industry-aligned roles.

Use ESF+ funds to scale high-impact programs in underutilized regions.

3.
Attract and Retain Global Talent via a Frictionless and Distributed Migration System

Europe must pivot from a labor-import mindset to co-developing distributed, knowledge-based talent flows supported by trust, recognition, and remote enablement.

Pilot fast-track European Talent Visas for digital and business services professionals within the EU Talent Pool.

Expand Blue Card recognition and build regional credential onboarding networks ("skills clearinghouses").

Create mobility innovation corridors with trusted global partners and institutions.

Link migration strategy to long-term demographic resilience and sectoral innovation, not only short-term gaps.

Enable global talent access to EU-based remote and hybrid centres through regulatory harmonization.

4.
Advanced Credential Portability and Real-Time Skills Recognition

Workforce fluidity in GenBS depends on portable, interoperable, and real-time skill signaling mechanisms.

Accelerate rollout of European Digital Credentials for Learning, linked to cross-sector role-readiness frameworks.

Launch interoperable skill wallet pilots for individuals and employers across the EU.

Deploy AI-powered equivalency engines for real-time mapping of skills to emerging roles.

Promote EU-wide mutual recognition of credentials in high-regulation domains (e.g., ESG, compliance, health data).

As Europe advances in digital credentials, AI-powered skills recognition, and cross-border talent mobility, data privacy and security become critical. Addressing GDPR compliance, ethical data use, and trust in digital systems can reinforce the legitimacy and adoption of these innovations. Robust privacy frameworks and transparent data governance are essential for building trust and facilitating talent mobility and credential portability across Europe.

By ensuring data security, clear ownership, and consent, these frameworks encourage individuals and organizations to participate confidently in digital credentialing and cross-border talent initiatives. Standardized protocols and mutual recognition of credentials reduce administrative barriers and enable seamless validation of skills, fostering a more agile and inclusive labor market.

Additionally, transparent governance of AI and automation ensures ethical use of data, promoting fairness and accountability. Ultimately, empowering individuals with control over their data accelerates mobility, supports real-time validation, and strengthens Europe's position as a competitive, knowledge-driven economy.

5.
Integrate HR-Tech and Workforce Intelligence into National Talent Strategies

Data-driven workforce systems must become foundational to talent strategy at both the firm and government levels. Thus, we specifically need to:

Support widespread adoption of HR-tech in SMEs and public services for predictive planning and skills-based hiring.

Co-develop open-access AI platforms for labor foresight, talent gaps, and upskilling optimization.

Build ethical AI standards into hiring, workforce analytics, and employee evaluation systems.

6.
Rebuild the Employee Experience as a Lever of Retention and Transformation

Employee Experience (EX) is now a strategic asset for productivity. GenBS mandates its redesign to be adaptive, measurable, and linked to engagement, mobility, and well-being.

Require large employers to publicly report on EX metrics-wellbeing, mobility, flexibility, inclusion-alongside pay transparency.

Fund EX innovation programs in regions or sectors with high attrition or disengagement.

Encourage flexible employment architecture, including internal gigs, sabbaticals, and personalized career journeys.

7.
Activate Inclusive Workforce Participation at Scale

The GenBS model cannot scale without the inclusive activation of marginalized, remote, and aging cohorts.

Incentivize hiring of women returners, migrants, older professionals, and neurodiverse workers through tax credits and lifelong learning access.

Support hybrid delivery hubs with satellite talent pools in underrepresented areas.

Promote dual-education and apprenticeship degree programs to reduce NEET levels and build early-stage job readiness.

8.
Establish Cross-Border Talent Ecosystem Governance

To align supply and demand in a multi-country, multi-sector labor market, Europe needs a new governance architecture.

Form regional talent pacts linking macroregions (e.g., V4, Baltics, Iberia) with vertical councils, universities, and policy agencies.

Use real-time labor dashboards to forecast and adjust workforce supply across geographies.

Integrate talent capability metrics into EU Semester recommendations to hardwire resilience and inclusion into structural reforms.

Fostering regional innovation ecosystems, including clusters, hubs, and collaborative networks, is crucial for accelerating talent development and sector growth across Europe. These localized ecosystems enable shared talent pools, infrastructure, and resources, fostering innovation and enabling faster skills development tailored to regional industry needs.

By promoting cross-sector collaboration within these clusters, regions can create competitive advantages, attract investment, and stimulate economic diversification. Additionally, regional pacts that link macroregions with industry and educational institutions can help reduce disparities, ensuring more balanced growth and inclusive access to talent. Ultimately, strengthening these ecosystems enhances resilience, drives sector-specific innovation, and positions regions as leaders in the digital and green economies.

Lead, not follow. Building Europe's Talent Advantage

Europe's opportunity is not just to fill gaps, react to changing labor market and technology trends, but to lead in designing next-generation talent models that reflect a digital, fluid, and purpose-driven economy.

The Mercer data show that organizations further along in this journey report greater agility, retention, and innovation. Public policy must now catch up with this frontier. By supporting AI-literate leadership, employee-centric experience design, and skills-based talent systems, Europe can redefine its labor market not as a constraint but as the foundation for global competitiveness.

To remain globally competitive, Europe must treat **talent not as a constraint but as a strategic asset** or a foundation for economic security, innovation, and dynamic growth. **The business services industry provides the clearest blueprint. It has built dynamic cross-border teams, upskilled at scale, and translated capability into economic value. However, to generalize this success, Europe must urgently address fragmentation in education, migration, and credentialing.**

The **path forward requires alignment across institutions, companies, and regions,** with bold action on strategic reskilling, open talent flows, and adaptive learning ecosystems. Only by transforming today's workforce constraints into tomorrow's capabilities can Europe secure its place in a volatile, knowledge-driven world.

TABLE 4.5 **Correspondence between Talent Challenges, Strategic Directions and Trends, Policy Proposals, and GBS Transition**

Talent Challenge	Strategic Direction (Ch. 4.2-4.3)	Strategic Direction (Ch. 4.2-4.3)	Strategic Direction (Ch. 4.2-4.3)
Aging workforce & succession gaps	Develop AI-literate, multigenerational leadership through reverse mentoring and early leadership identification programs.	EU-supported leadership renewal programs, cross-generational coaching	GBS 3.0: early succession GenBS: distributed, inclusive leadership
Skill mismatches & education-labor gaps	Shift to a skill-based architecture, integrate micro-credentials, and establish internal talent marketplaces.	Credential recognition, workforce academies, modular boot camps for high-impact skills (ESG, AI, analytics)	GenBS: modular skills & gigified roles
Youth emigration & brain drain	Reshape EX to retain young talent: flexibility, mission-driven work, faster growth paths.	Talent attraction through purpose-driven EX; digital inclusion in peripheral regions	Classic GBS: high attrition GenBS: personalized EX, career agility
Limited intra-EU mobility	Address labor immobility with multilingual onboarding, visa support, and credential portability.	Fast-track visa corridors, skills clearinghouses, and micro-credential standards	Classic GBS: fixed hubs GenBS: fluid, location-agnostic teams
Underutilized cohorts (women, migrants, 50+)	Expand flexible work models; address DEI & visibility gaps; raise workforce participation.	Tax credits, return ship incentives, dual-education programs, and remote inclusion pilots.	Classic: rigid roles GenBS: inclusive, adaptive workforce models
Leadership unreadiness for AI & hybrid work	Build AI-fluent leadership, develop an agile mindset, and embed digital strategy exposure.	Immersive executive AI training; certification of transformation-readiness	GBS 1.0-2.0: tenure-based GenBS: outcome-focused, agile leaders
Credential rigidity in recruitment	Emphasize skills over degrees; support alternative pathways (bootcamps, certifications)	Pan-EU micro-credential framework; AI-based labor market intelligence platforms	GBS 3.0: career lattices GenBS: skill clouds, dynamic sourcing
Retention & disengagement ("quiet quitting")	Invest in internal mobility, sabbaticals, human-centred EX, and hybrid work culture.	Mandated reporting on EX indicators; innovation pilots in low-engagement regions	Classic: transactional HR GenBS: EX-driven transformation engine
Mismatch in talent-technology integration	Build human-AI teams; train cognitive specialists, AI trainers, ESG translators.	AI-skills funding, gig-role pilots, bootcamps in ESG, AI, RWE, RegTech	GenBS: tech-human fusion roles
Data-poor workforce planning	Adopt HR tech, AI-based skills intelligence, and real-time SWP	Policy support for HR-tech adoption in SMEs and the public sector; AI-enabled foresight platforms	GenBS: talent orchestration engine

Source: ABSL BI.

5

TECHNOLOGY AS A STRATEGIC DIFFERENTIATOR FOR EUROPE'S BUSINESS SERVICES SECTOR

5.1 Introduction

Technology is now the decisive force shaping the future of global business services. The next wave of advantage will come from mastering AI, modular data products, and resilient digital infrastructure - not from labor arbitrage or scale alone.

Europe enters this moment with two strengths: some of the world's most mature service centers and global leadership in setting digital and AI regulation. But these advantages

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are counterbalanced by persistent weaknesses: fragmented infrastructure, uneven adoption of advanced technologies, and a widening innovation gap with US and Asian counterparts.

This chapter explores how European business services, especially in their most advanced form, Generative Business Services (GenBS), referred to by Genpact as the AI-powered GBS, can evolve into a true engine of competitive differentiation[1]. It highlights the convergence of technologies reshaping GBS, benchmarks Europe's readiness against global peers, and lays out a set of calls to action.

The argument is simple: Europe has the assets, but without scaling technology adoption and building structural resilience, it risks falling behind. The time to act is now.

[1] In this chapter, we use the terms 'European firms,' 'European enterprises,' and 'European GBS centers' interchangeably to refer to business services operating in Europe. The focus is on the ecosystem and capabilities that enable Europe to be a strategic hub for technology, talent, and innovation.

5.2 From Classic GBS to the AI-Powered GBS: The Technology Evolution

To understand where European business services need to go, we must first understand how far they have come. The transition from Classic Global Business Services (GBS) to GBS 3.0 and now to the AI-powered GBS is fundamentally a technology maturity journey-from back-office consolidation to intelligent, AI-native business transformation.

In this progression, technology is no longer a support function-it is the enabler of global agility, customer-centricity, and enterprise value creation. AI-powered GBS centers embody this shift by embedding intelligent systems at the heart of business operations.

TABLE 5.1 **GBS Evolution and Technology Stack**

Dimension	Classic GBS	GBS 3.0	AI-powered GBS
Strategic Role	Cost optimization focus, process consolidation	End-to-end integrator, scaled operations	Business transformation engine, co-innovator
Technology Stack	ERP, RPA	Cloud platforms, analytics, APIs	Multi-cloud, LLMs, edge, Post-Quantum Cryptography (PQC), reusable data
Architecture	On-premises, siloed systems	Hybrid cloud, moderate automation	Platform-native, composable, AI-infused
Talent Focus	Transactional, function-specific	Operational excellence, some analytics	AI fluency, role-based upskilling, subject matter expertise, cross-domain
Data Maturity	Reactive, fragmented	BI dashboards, governed pipelines	Productized data with robust data governance, AI-ready, self-describing
Security Model	Perimeter-based, static controls	Role-based access, cyber monitoring	Zero-trust, PQC, edge AI*

* Zero-trust, PQC, and edge AI together represent a modern cybersecurity and computing approach where no user or device is inherently trusted (zero-trust), cryptographic systems are resistant to quantum attacks (PQC), and intelligent processing happens directly on local devices near the data source (edge AI).

Source: Genpact.

5.3 A Global View: How Does Europe Compare?

Despite strengths in governance and talent, studies have shown Europe is falling behind in certain areas of enterprise technology maturity, particularly in quickly and successfully scaling AI, building data products, and platformizing services. A clearer comparison reveals both the urgency and opportunity.

Europe's edge lies in trust, regulation, and mature delivery centers-but without scale and speed, this advantage could erode. The AI-powered GBS model provides a route to reverse that trajectory.

TABLE 5.2 **Regional Benchmark – Tech Readiness in Business Services**

Dimension	United States	Europe	Asia (e.g., India, Singapore)
AI Readiness	High-LLM integration, agentic AI pilots	Moderate – regulated, cautious, fragmented	Growing – strong engineering talent
Platformization	Mature – full-stack, reusable services	Early-mid-siloed, legacy fragmentation	Rapidly evolving – cloud-native scaling
Data Quality & Volume	Abundant, enterprise-wide productization	Strong governance, limited scale/sharing	Variable, but high volume in some sectors
Regulatory Agility	Light-touch, innovation-first	Strong guardrails (e.g., AI Act), slower implementation	Balancing innovation and state-led oversight

Source: Genpact.

5.4 Why Europe's GBS Ecosystem is a Strategic Asset

Europe's GBS ecosystem has undergone a quiet but powerful transformation over the past decade. From cost-efficient transactional hubs, GBS centers in countries like Poland, Romania, Hungary, Portugal, and the Baltic states have evolved into digitally mature, globally integrated service platforms.

Today, many of these centers are not only providing operational support but also playing a pivotal role in technology-led enterprise transformation.

This evolution is not incidental – it is the result of a deliberate shift toward higher-value work, deeper domain expertise, and stronger integration with business and technology functions. What sets Europe's GBS centers apart is their dual strength: operational reliability and strategic adaptability. In the age of agentic AI and autonomous platforms, this combination is increasingly rare-and incredibly valuable.

These AI-powered GBS centers are positioned to become launchpads for enterprise autonomy, where systems, data, and AI agents work in concert to self-

optimize decisions, adapt to change, and operate with minimal human intervention. If strategically scaled and aligned to the broader technology stack, they can help enterprises pilot, validate, and industrialize next-generation capabilities across AI, data, and digital operations. Specifically, Europe's GBS ecosystem offers five unique advantages that can be leveraged to position the region at the forefront of global enterprise transformation. Beyond advanced technology, it provides diverse service capabilities, proximity to key European decision centers, mature talent pools, regulatory leadership, and strong infrastructure resilience, together forming a foundation for enterprises to innovate, scale, and remain agile in a rapidly evolving landscape.

1. Testbeds for Trustworthy AI Under EU Regulation

Europe's regulatory landscape – anchored by the AI Act, GDPR, and the Digital Services Act – sets high expectations for transparency, fairness, and accountability in AI deployment. Rather than being seen as barriers, these frameworks can be turned into differentiators.

European GBS centers are ideally suited to pilot and operationalize responsible-by-design AI systems-especially those requiring explainability, human-in-the-loop workflows, and value-aligned decision-making. For example, a finance operations hub in Poland could pilot an AI agent for fraud detection in accounts payable that includes built-in audit trails, explanation modules, and override functionality – meeting both business and regulatory thresholds. This makes them ideal proving grounds for trustworthy AI that can scale across global organizations.

2. Creators of Modular, Reusable Data Products

One of the key imperatives for enterprise AI is the shift from one-off data solutions to productized, reusable data assets. GBS centers in Europe-already managing significant data operations-are uniquely placed to drive this shift.

They can lead the creation of well-governed data products that are easy to understand, consistently structured, and usable across different business domains. For instance, a Romanian GBS center supporting multiple consumer goods clients could develop a harmonized product master dataset that's reusable across forecasting, logistics, and marketing, accelerating time-to-value while enforcing consistency and governance. These assets reduce time-to-insight, improve decision-making, and support the development of AI agents that can act on structured, enterprise-grade information across use cases.

3. Accelerators of Edge-Enabled Service Delivery

With the rise of real-time intelligence, edge computing is becoming central to the next generation of service delivery models. European GBS centers-especially those supporting industrial, retail, or financial clients-can integrate edge architectures into existing workflows, reducing latency and enhancing responsiveness.

For instance, a GBS center in Hungary supporting a global manufacturing client could embed edge AI into supply chain monitoring systems. This enables factory-floor anomalies to be detected and addressed in near real-time, enhancing uptime and regulatory compliance. Such context-aware, on-site intelligence represents the future of digital operations, and Europe is well placed to lead.

4. Demonstrators of Responsible, Scalable AI in Action

What enterprises need now are real-world reference models – examples of how AI can be both impactful and responsible at scale. Europe's GBS hubs can play this role. With their operational depth, tech fluency, and access to regulated industries, they are well-positioned to demonstrate how reliable, explainable, role-based AI can drive business outcomes without sacrificing too much flexibility.

For example, a center in Slovakia managing customer service operations for a telecom provider could deploy AI copilots that summarize customer history, recommend next actions, and surface risk flags, while allowing human agents to approve decisions and provide real-time corrections. This hybrid model strengthens both efficiency and trust, and can be replicated across sectors.

5. Champions of Quantum-Resilient Architectures

As quantum computing edges closer to commercial relevance, future-ready enterprises must prepare today. GBS centers-particularly those with strong IT, cybersecurity, and platform teams – can take the lead in embedding post-quantum cryptography (PQC) and zero-trust models into core systems.

For example, a Portugal-based shared services center handling global payroll and sensitive employee data could begin futureproofing by deploying PQC protocols in its data exchange layers, ensuring encrypted communications remain secure even in a quantum era. Doing so not only helps secure critical infrastructure for the long term but also aligns with emerging EU mandates on critical infrastructure protection and cross-border data integrity. Europe can set the global standard for quantum-resilient digital infrastructure, starting within its own GBS backbone.

Europe's Moment of Leverage

These capabilities are not just operational advantages-they are potential strategic levers. In an environment where AI, trust, resilience, and speed are reshaping global competitiveness, Europe's GBS ecosystem provides a foundation to lead.

By repositioning these centers as AI-powered GBS accelerators, European enterprises can demonstrate how to scale responsible innovation, drive full-stack transformation, and enable enterprise autonomy. This is Europe's opportunity to set the global benchmark-not just in service excellence, but in technology leadership for the age of agentic AI.

5.5 Why Scaling Technology in Europe Remains Difficult

Despite a clear recognition of the opportunity – and significant foundational progress-, many European enterprises and GBS organizations are struggling to scale their technology ambitions. While pilot programs, proofs of concept, and departmental AI tools have multiplied, the leap to enterprise-wide platforms, autonomous operations, and data-driven value models remains elusive for many.

The barriers are no longer about awareness or intent. Instead, they are deeply embedded in the talent models, technology infrastructure, regulatory posture, organizational design, and the speed at which enterprises can deploy and scale new capabilities. Without addressing these root causes, transformation efforts risk stalling at the surface level-delivering fragmented innovation, but not sustainable competitive advantage.

The following are the four most persistent and strategic barriers that must be overcome:

1. Digital Talent Gaps and Capability Shortages

The biggest limiting factor is no longer tools or infrastructure-it is talent. The demand for high-end digital capabilities now far outpaces supply, especially in Europe. In particular, there is a chronic shortage of sustained and continuously available subject matter experts who are:

AI/ML engineers with experience in productionizing models within enterprise constraints,

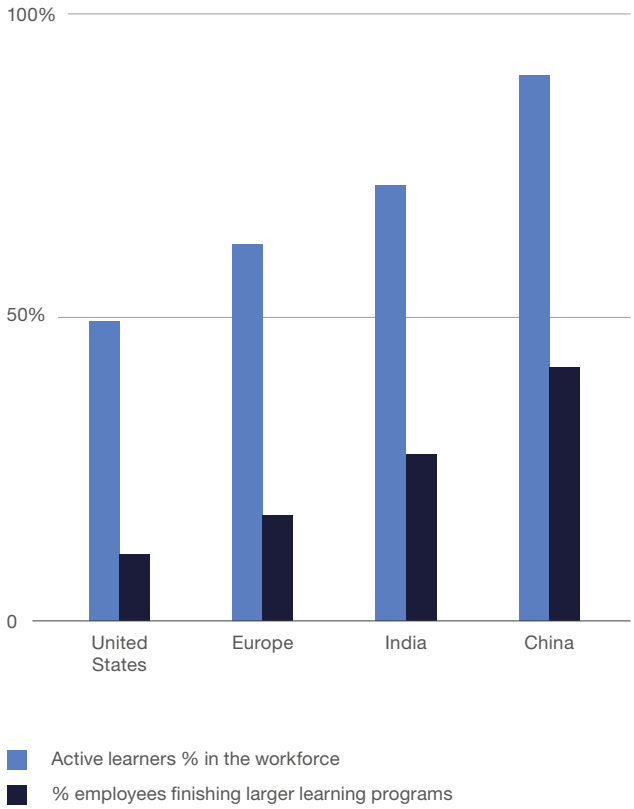
Full-stack cloud and data platform architects capable of designing integrated, scalable systems,

Quantum-safe security professionals who understand emerging cryptographic risks and zero-trust frameworks,

Cross-functional product managers and process owners fluent in both business value and technology design.

Without addressing this gap, transformation efforts remain dependent on fragmented expertise and external vendors, limiting internal ownership, slowing down iteration, and weakening long-term resilience. To move forward, European schooling systems must adopt role-based talent development programs to build deep, scalable digital fluency across functions from the bottom up. European enterprises must also provide this kind of training to their employees to address the shortage of talent in the existing workforce. And at the same time, address the learning culture amongst European employees. This is an area where European governments also need to step up, promoting a stronger learning culture among professionals within Europe. Genpact recently conducted a study amongst professional services employees for both captive and outsourced shared service centers, and found that European employees, across the board, spend less time on training provided by their organizations, as compared to employees from China and India. The graph below provides an impression of the same.

FIGURE 5.1 | **Learning Cultures Compared** (%)



Source: Genpact 2025.

2. Fragmented Data, Disconnected Platforms

Data is the foundation of autonomy and AI. Yet across many European enterprises, data remains siloed, inconsistent, and underleveraged. Critical issues include:

Lack of unified data governance, resulting in redundant or conflicting definitions and inconsistent quality,

Proliferation of point solutions with limited interoperability or shared metadata models,

Slow progress on data productization, where reusable, business-ready assets replace raw data extractions.

The table below shows the complexity of Genpact's customers in the different industries when looking at their core administrative systems. It also indicates to what extent this complexity will remain in the near future, as a consequence of ongoing M&A activities, and whether or not the organizations are investing in simplifying their IT environments.

This fragmentation makes it difficult to build trusted, reusable pipelines for AI agents or automation. Moreover, it limits the ability to derive cross-functional insights or deliver coherent digital experiences.

TABLE 5.3 **Technology Complexity Perspective on Selected European Industries**

Industry	Average number of core administrative systems (e.g., ERP, banking) in use (companies > USD 5 billion)	Industry M&A rate, indicating whether the problem will likely persist	Investments in core administrative system consolidation
Banking	8+	Medium-Low	High
Insurance	12+	Medium-High	Low
Pharma & Life Sciences	10+	High	Low
Telecom & Digital Media	7+	Medium-High	Medium
Automotive and mobility	12+	Medium-Low	Medium
Other manufacturing	15+	Medium-High	Medium
Energy and utilities	8+	Medium-Low	Low
Consumer goods	5+	Medium	High

Source: Genpact.

The solution lies in building a metadata-first data fabric[2] and investing in productized data assets-a priority already emerging in platform-driven transformation work. Enterprises should act now to standardize data governance, accelerate the creation of reusable data products, and embed these assets into enterprise workflows to unlock AI-driven value at scale.

3. Regulatory Over-Caution and Interpretive Paralysis

Europe leads the world in responsible technology governance. The AI Act, GDPR, and emerging digital sovereignty laws set strong regulatory standards. However, in practice, over-interpretation and lack of clarity and regulatory guidance often stifles innovation. Key issues include:

Delayed internal interpretations, given the significant financial penalties in the regulations, some enterprises wait for definitive regulatory guidance before launching initiatives,

Lack of proactive compliance design, leading to late-stage reengineering or risk-averse project stoppage,

Absence of clear risk frameworks, making it difficult to align legal, IT, and business teams around an acceptable level of regulatory exposure.

Rather than viewing regulation as a blocker, enterprises must begin by clearly assessing their AI risk appetite, considering factors such as data sensitivity, automation impact, and model explainability. From there, organizations can identify low-risk, high-confidence use cases that build both capability and trust. Embedding compliance-by-design remains critical, but must be grounded in realistic trade-offs and staged ambition, not all-or-nothing thinking

4. Legacy Architectures That Limit Scale and Reuse

Much of Europe's technology complexity stems from its corporate history. Many large enterprises have grown through decades of fragmented acquisitions-particularly outside the banking sector-resulting in a

[2] A metadata – first data fabric treats metadata as the foundation for discovering, governing, and activating data across systems, enabling AI agents and humans to understand, trust, and reuse data with context. This approach accelerates scalable AI by making data interoperable, compliant, and ready for automation from day one.

patchwork of localized systems and processes. This "local for local" mindset, combined with a reluctance to overhaul legacy ERP and IT infrastructure, has created significant structural inertia.

Many European organizations continue to operate on monolithic, rigid IT systems-often customized over the years for specific functions but now incompatible with modern, API-first, cloud-native design. As a result:

AI agents cannot easily integrate into operational workflows, slowing decision cycles,

Automation and analytics must be rebuilt for each use case, rather than reused across domains, increasing time to market,

Business experimentation is constrained by inflexible backends, requiring a heavy IT lift even for simple pilots, delaying innovation and speed of execution.

This slows down decision-making, delays results, and makes it hard to turn strategic goals into action. To overcome this, enterprises should move to flexible, modular platforms where data, AI, security, and processes can work together but remain independent. Here, combining process intelligence with AI is key, allowing technology to be deployed quickly and at scale across functions and locations.

The Real Challenge: Structural, Not Just Financial

Importantly, these barriers are not primarily financial. Most large European firms are investing in AI, cloud, and data initiatives. However, without structural changes in how Europe's learning culture is transformed, talent is built, platforms are architected, and regulation is interpreted, these investments will not scale.

This is the core challenge: building the muscle, not just the machinery. It is about creating an enterprise that is designed for autonomy and speed, not just enabled by tools.

To truly lead, Europe must also reimagine how it develops digital talent, especially within its GBS ecosystem. It is not enough to train like the rest of the world. The industries in Europe need to embed differentiated excellence and foster sustained, continuous development of subject matter expertise into their professional culture, developing deep specialization in areas like platform thinking, agent orchestration, AI product management, and compliance-by-design. If Europe wants its GBS workforce to be the equivalent of Japan in quality or India in scale, then it must cultivate a distinct skill DNA that becomes its global signature.

Only then can Europe fully capitalize on its strengths-mature GBS centers, regulatory leadership, deep domain expertise-and lead the next wave of enterprise transformation.

5.6 Blueprint: What Does an AI-Powered GBS Technology Stack Look Like?

To build scalable, secure, and future-ready AI-powered GBS capabilities, European enterprises must deploy a layered technology stack aligned to business outcomes. Below is a conceptual blueprint:

1. Infrastructure Layer

Foundational technologies that support scale, security, and resilience across cloud, edge, and quantum-resilient operations.

Multi-cloud, elastic computing

Enables workload portability, scalability, and resilience by distributing compute resources across public, private, and hybrid clouds.

Edge processing for real-time decision

Pushes analytics and inference closer to data sources to reduce latency, improve responsiveness, and support distributed operations.

Post-quantum cryptography and zero-trust frameworks

Prepares systems for future quantum threats while ensuring identity-driven, least-privilege access controls in today's environment.

Distributed observability and fault-tolerant architecture

Provides real-time monitoring, tracing, and automated failover to ensure uptime and system reliability across complex ecosystems.

2. Data & Integration Layer

The connective tissue that unifies, structures, and activates enterprise data for AI and business platforms.

Unified data fabric

Integrates structured and unstructured data across silos to create a consistent, governed, and accessible enterprise data layer. For example, a multinational retail company integrates customer transaction data (structured) with social media sentiment and product review texts (unstructured) into a single governed data layer, enabling a 360-degree view of customer behavior across markets.

Productized data assets with reusable semantics

Structure data into shareable, standardized products with clear ownership, APIs, and business context to enable reuse across functions. For example, A financial services firm creates standardized data products like a "customer risk profile" that can be accessed via APIs by different departments such as compliance, marketing, and fraud detection, reducing duplication and speeding up insights.

Metadata-first pipelines with active lineage

Captures, traces, and manages the flow of data transformations to ensure transparency, compliance, and auditability from source to consumption. As an illustration, in a healthcare enterprise, every transformation of patient data is tracked and documented, ensuring compliance with GDPR and enabling auditors to trace the origin and modification history of sensitive data for transparency and regulatory reporting.

Streaming data readiness for continuous intelligence

Equips platforms to process and analyze real-time data flows, enabling rapid situational awareness and dynamic decision-making. For instance, a logistics company leverages real-time shipment tracking data streams to dynamically reroute deliveries based on traffic and weather conditions, improving delivery times and customer satisfaction through instant decision-making.

Continuous learning loops through AI development factories

Industrializes AI development and refinement by creating feedback loops between deployed agents, human input, and retraining pipelines. For instance, an energy company operates an AI development factory where deployed AI agents monitor grid performance continuously, collect data, receive feedback from engineers, and retrain models to improve prediction accuracy and fault detection over time.

3. AI & Autonomy Layer

Core AI capabilities that enable autonomous decision-making, copilots, and continuous improvement.

Role-based AI agents and copilots

Embeds intelligent agents into workflows to assist specific roles (e.g., procurement analyst, claims adjuster) with contextual support and automation. For example, in a manufacturing firm, a procurement analyst uses an AI assistant that suggests optimal suppliers based on historical pricing, quality scores, and contract terms. At the same time, a claims adjuster benefits from an AI copilot that pre-screens claims for anomalies and recommends next steps.

Foundation model orchestration

Coordinates the use of large language and vision models across use cases, ensuring efficient access, tuning, and governance. For instance, a multinational insurance company coordinates multiple large language models to handle claims processing, customer inquiries, and fraud detection, ensuring each model is fine-tuned for its specific task and governed to maintain data privacy and compliance.

Guardrails aligned to the AI Act, explainability modules

Ensures all AI systems are auditable, transparent, and aligned with emerging European AI regulations and responsible AI principles. For example, a European bank deploys AI credit scoring systems with built-in explainability tools that provide clear reasons for loan approval or rejection, ensuring transparency to customers and regulators under the AI Act.

4. Process & Platform Layer

The operational layer that digitizes, modularizes, and automates core business processes.

Modular real-time systems that connect and respond to dynamic business needs

Decouples and modularizes business logic using APIs and events, enabling flexible, responsive process orchestration. For instance, a global retailer uses APIs to connect inventory, order management, and logistics systems so that when a customer places an order, events trigger real-time updates across warehouses and delivery partners, enabling seamless, flexible fulfilment workflows.

Low-code/no-code environments for business configurability

Empowers business users to easily tailor processes, forms, and dashboards without needing advanced technical skills. By placing business users at the center of configuration, organizations can accelerate innovation, foster ownership, and increase adoption across GBS functions. For instance, a finance team at a multinational corporation builds and modifies its expense approval workflows and customized dashboards using drag-and-drop tools, reducing reliance on IT and speeding up process improvements.

Integrated process intelligence (PI + AI) for optimization

Combines process mining with AI to detect bottlenecks, predict issues, and recommend improvements proactively. For example, a telecom provider applies process mining combined with AI to analyze customer service workflows, automatically identifying bottlenecks in call handling and predicting where staffing adjustments can reduce wait times and improve customer satisfaction.

Digital twins for operations and risk scenarios

Creates real-time virtual replicas of processes or systems to simulate, monitor, and optimize performance under varying conditions. For instance, a manufacturing plant produces a digital twin of its assembly line to simulate different production schedules and equipment maintenance scenarios, helping managers optimize throughput while minimizing downtime and operational risks.

5. Experience & Talent Layer

The experience layer encompasses the human-facing technology and tools that drive user adoption, engagement, and collaboration across the enterprise.

Cross-functional dashboards

Delivers unified, role-based views of operations, performance, and exceptions – enhancing collaboration and decision-making.

Self-serve data & AI experiences for business users

Makes data exploration, model interaction, and insight generation accessible to non-technical users via intuitive interfaces.

The Talent layer focuses on developing and sustaining the skills and fluency needed to leverage AI and digital technologies effectively.

Broad, outcome-focused skilling for AI

Provides comprehensive learning programs that go beyond role-specific training, enabling employees to understand and impact AI-driven processes holistically, improving quality, reliability, and business outcomes across the value chain.

Culture of innovation embedded into ways of working

Builds incentives, LEAN thinking, and leadership behavior that promote experimentation, continuous learning, and a transformation mindset.

This blueprint is not just technical – it is organizational. Building GenBS means creating the connective tissue between platforms, people, and purpose. This stack is modular, interoperable, and built for reuse, resilience, and responsible scale-exactly the requirements for GenBS organizations to thrive.

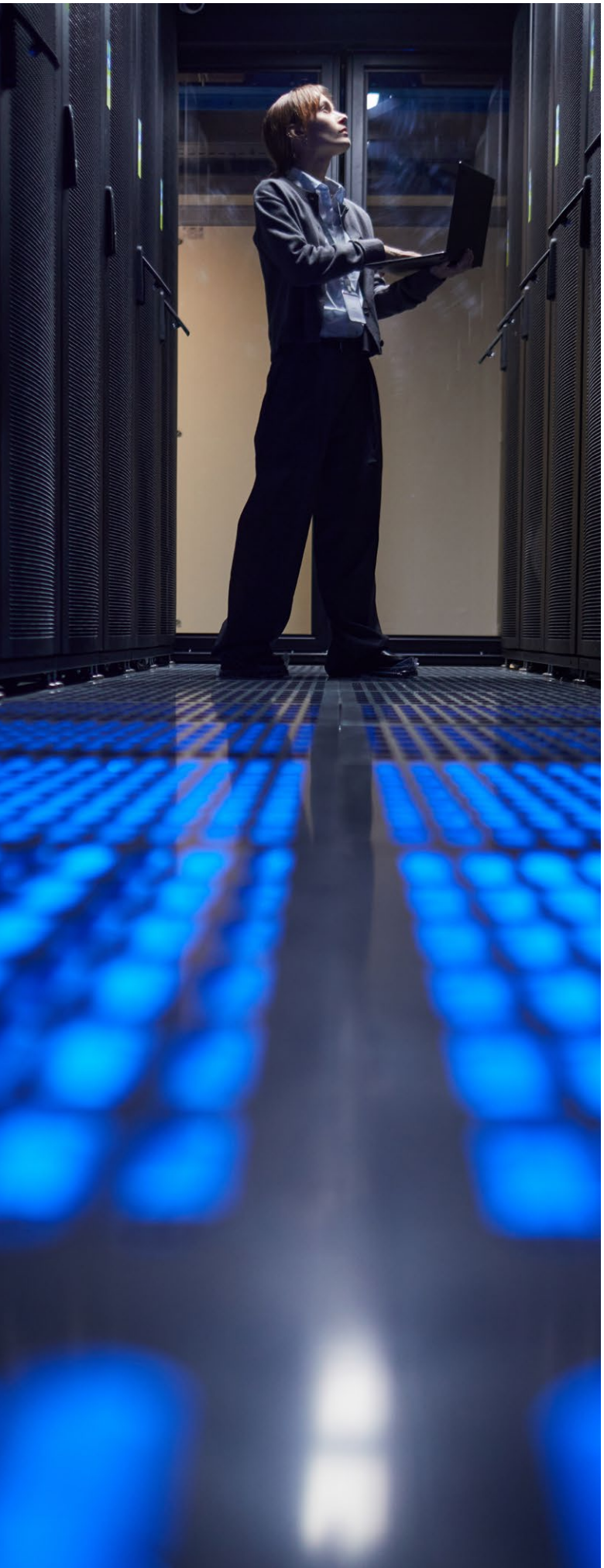
In essence, an AI-powered GBS is more than a collection of technologies; it is a living, continuously learning enterprise engine. European organizations that adopt this blueprint can accelerate decision-making, unlock cross-functional insights, and sustain competitive advantage in an era defined by speed, adaptability, and intelligent autonomy.

5.7 What If Europe Does not Act?

The next phase of enterprise evolution will be defined by the ability to scale technologies like AI, multi-cloud platforms, quantum-resilient security, and autonomous systems-not in isolated pilots but across entire organizations. If European enterprises fail to act with urgency, the consequences may be profound and long-lasting.

1. Loss of Competitiveness

As US and Asian enterprises push aggressively into agentic AI, full-stack automation, and advanced data monetization, the risk is that European firms will be outpaced not only in productivity but in innovation. Competitors are already operationalizing large AI agents, embedding real-time intelligence into processes, and using data as a revenue source. Without comparable investments, Europe may find itself stuck in an efficiency mindset while others race ahead with strategic agility.



2. Increased Vendor Lock-in

A lack of internal technology capabilities and platforms could push European enterprises toward over-reliance on third-party ecosystems. This deepens dependency, erodes bargaining power, and limits strategic flexibility. Vendor lock-in also weakens the ability to tailor AI models, data controls, and cybersecurity measures to sector-specific or regional needs. Without native capabilities, Europe may cede control over its digital future or have to forego many of the opportunities advanced technology will bring.

3. Underutilization of Europe's Regulatory Leadership

Europe has the opportunity to lead the world in building trustworthy, explainable, and ethically governed AI systems. However, without scalable technology infrastructures to implement the AI Act at enterprise scale, this regulatory advantage could remain largely symbolic. The risk is that others will shape the de facto standards of implementation, even if they originate from outside Europe's jurisdiction. The continent must act to convert regulatory foresight into operational influence with pragmatic and fast execution.

4. Digital Fragmentation Across Member States

Without pan-European technology coordination and investments, member states risk building siloed platforms, fragmented talent pools, and inconsistent data governance frameworks. This fragmentation hampers regional interoperability, slows cross-border service innovation, and weakens Europe's ability to act as a cohesive digital economy. A shared blueprint for transformation is critical to avoid a fractured landscape that underperforms at scale.

5. Stagnant GBS Centers That Under-Deliver

Europe's GBS hubs have long been recognized for their operational excellence and cost-efficient service delivery. However, many of these centers are at risk of stagnation if they do not evolve beyond traditional, legacy operating models. Without bold reinvention through AI adoption, modular technology platforms, and a data-product mindset, these centers may continue to provide basic support functions rather than driving strategic transformation.

This risk is already visible in the growing trend of work shifting from Europe to more agile and cost-competitive locations like India. Recent trends highlight that a significant volume of GBS work is migrating to India, driven by advanced automation capabilities, scale efficiencies, and a workforce increasingly skilled in AI and digital technologies. This shift serves as a clear signal that the reinvention of European GBS centers cannot be delayed.

If Europe's GenBS model fails to scale, with intelligent automation, reusable data assets, and AI-driven innovation, its centers risk being eclipsed by counterparts in faster-moving regions that combine efficiency with innovation and tangible business impact. **The imperative is clear: to remain competitive, Europe's GBS hubs must transform from service providers into engines of continuous digital innovation.**

The Clock Is Ticking

Europe stands at a technological crossroads. The cost of inaction is not just marginal-it is existential. While other regions sprint ahead, incremental improvements will not be enough. European enterprises, policymakers, and service ecosystems must pursue a bold and deliberate strategy to industrialize next-generation technologies across the enterprise stack. The window for shaping the future is still open-but narrowing fast.

5.8 Calls to Action: What European Enterprises Must Do

To close the digital maturity gap and build sustainable, long-term competitiveness, European enterprises must act decisively. The current technology inflection point presents both a challenge and an opportunity: either accelerate into the future with resilient, scalable platforms, or risk being outpaced by faster ecosystems. IT and GBS need to work closely together and leverage their technical skills, talent, and transformative expertise. The following seven strategic imperatives provide a roadmap for transformation, grounded in enterprise realities and GBS strengths.

1. Accelerate Platformization with Multi-Cloud and Edge Strategies

Enterprises should move from isolated digital projects to integrated technology platforms across the organization. Multi-cloud strategies give flexibility, help avoid vendor lock-in, and support local data and compliance needs. They also allow companies to run workloads where they are most efficient.
At the same time, edge computing brings AI and analytics closer to where data is generated, enabling faster, real-time decisions in areas like supply chains, industrial IoT, and customer experiences.
Platformization is not just about infrastructure—it's about creating operating models that embed intelligence at the heart of business delivery.

2. Invest in Full-Stack Technology Capabilities, Built for Resilience

Future-ready enterprises will be defined by their ability to operate full-stack: integrating infrastructure, data, AI, process, and security into a unified delivery architecture. Building this capability means moving beyond piecemeal tools or isolated automation layers toward cohesive, interoperable ecosystems that enable agility and reuse at scale.

This is not just a greenfield ambition.
For organizations with large legacy estates-especially in Europe-it means selectively decoupling core systems, wrapping legacy with APIs, and progressively introducing modular components that support interoperability. The path to full-stack resilience can be incremental, but it must be intentional.

Resilience must be designed in-, not only in terms of uptime or disaster recovery, but also to anticipate next-generation threats. PQC, zero trust architectures, and distributed observability should become integral to the architecture over time, not bolted on as afterthoughts. The modern enterprise, whether legacy-heavy or cloud-native, must be antifragile-designed to adapt, evolve, and strengthen through disruption.

3. Build Talent and Digital Fluency Across the Enterprise

Technology transformation will stall if it remains the domain of IT alone. Enterprises must democratize digital fluency across all functions-from finance to procurement, HR to operations – so that AI and automation are not just adopted but shaped by the business itself.

This goes beyond technical training.
It requires cultivating a workforce that understands end-to-end value streams, not just functional tasks. As AI systems increasingly operate across process boundaries-and as Edge AI drives decisions closer to real-time operational contexts-employees must be equipped to think systemically and influence outcomes across entire processes. End-to-end process literacy will become as critical as technical fluency.

Programs like role-based skilling, experiential learning, and simulation-based training can help close this gap. New roles are emerging-platform product owners, AI trainers, data translators, and copilot experience designers-that require hybrid expertise and adaptive learning models. European enterprises must treat talent as infrastructure: build it deliberately, modernize it continuously, and scale it with strategic intent.

4. Create Scalable, Reusable Digital Assets Powered by Data

The next wave of transformation depends not on bespoke tools but on reusable digital building blocks. AI agents, data pipelines, automation modules, and process intelligence should be built once and scaled many times across regions and functions. The enabler of this reuse is high-quality, well-governed, and interoperable data. To achieve this, data must not simply "pass through" GBS in the form of isolated transactions but be retained, structured, and made accessible for insight and reuse. Today, many GBS centers operate without a meaningful memory of the data they process-each transaction is disconnected from the next. Unlocking value requires building data persistence and intelligence into the core of GBS operations. Europe must invest in the foundations of a unified data fabric, emphasizing common taxonomies, metadata-first design, and real-time data pipelines. GBS centers, with their cross-functional visibility, are ideal testbeds for productizing data and turning scattered assets into enterprise-wide capabilities. Building reusable digital assets turns scale from a challenge into a competitive advantage.

5. Embed Security and Compliance by Design-Including Quantum Readiness

Security and compliance can no longer be treated as constraints-they must be integral to innovation. Enterprises must embrace "secure-by-design" approaches, embedding AI-native cybersecurity, automated policy enforcement, and privacy-by-default architectures into the core of all systems. The urgency to prepare for quantum disruption is real. While quantum computing may still be on the horizon, the encryption models protecting today's data need to be forward-compatible. Transitioning to PQC, adopting zero trust principles, and investing in cryptographic agility are critical actions today to safeguard enterprise value tomorrow. In a world of accelerating risk, trust is not optional-it is foundational.

6. Foster Cross-Border Collaboration to Overcome Fragmentation

Europe's strength lies in its diversity-but that diversity must be coordinated, not fragmented. Cross-border collaboration should be actively encouraged across enterprise ecosystems, GBS hubs, and policy frameworks. Mature GBS centers in Central and Eastern Europe, for instance, can serve as digital integration hubs-reusing AI models, sharing process intelligence, and standardizing data semantics across operations in multiple geographies. This reduces duplication, accelerates learning, and promotes interoperability. Shared governance frameworks, cross-functional Centers of Excellence (CoEs), and distributed delivery models can help stitch together a unified digital fabric across the continent. To accelerate this shift, policymakers and industry bodies should consider a new wave of incentives, targeted at helping European GBS centers adopt next-generation operating models, reskill talent, and invest in reusable digital assets. These incentives can act as a catalyst for scaling AI-enabled transformation across borders.

7. Leverage Regulatory Advantage to Reimagine AI and Business Models

Europe's proactive stance on AI regulation, including the AI Act, is not a hindrance-it is a differentiator. Enterprises that integrate responsible AI practices from the ground up will not only reduce compliance risk but also gain trust with customers, partners, and regulators. This opens the door to bold innovation in sectors like healthcare, financial services, and energy, where trust and transparency are paramount. Rather than waiting for global convergence on standards, European enterprises should set the pace, using AI regulation as a catalyst to reimagine business models that are auditable, explainable, and aligned with societal values. In doing so, Europe can also become a trusted hub for global enterprises-especially those in less tightly regulated markets-seeking to assure customers of the ethical and secure use of their data. Regulatory leadership, when operationalized well, becomes a source of strategic export advantage.

From Recommendation to Execution

These actions are not theoretical. They are already being implemented — at varying scales — by the most forward-looking organizations. The table below shows to what extent Genpact's customers (clubbed per industry) with a European base are using these strategic imperatives the most intensively. For clarity: in the Table below, the European industries are compared amongst each other and not with their US or Asian counterparts.

TABLE 5.4 **Usage of the Seven Strategic Imperatives across Industries**

	Banking	Insurance	Pharma & Life Sciences	Telecom & Digital Media	Automotive & Mobility	Other Manufac-turing	Energy & Utilities	Consumer Goods
1. Accelerate Platformization with Multi-Cloud & Edge Strategies	●●●●○	●●●○○	●●○○○	●●●●●	●●●●●	●●○○○	●●●○○	●●●●○
2. Invest in Full-Stack Tech Capabilities, Built for Resilience	●●●●●	●●●●○	●●○○○	●●●●●	●●●●○	●●○○○	●●●○○	●●○○○
3. Build Talent & Digital Fluency Across the Enterprise	●●●●○	●●●○○	●●○○○	●●●●○	●●●○○	●●●○○	●●●○○	●●●○○
4. Create Scalable, Reusable Digital Assets Powered by Data	●●●●●	●●●○○	●●○○○	●●●●○	●●●●○	●●○○○	●●●●○	●●○○○
5. Embed Security & Compliance by Design — incl. Quantum Readiness	●●●●●	●●●●●	●●●○○	●●●●○	●●●●○	●●○○○	●●●●●	●●○○○
6. Foster Cross-Border Collaboration to Overcome Fragmentation	●●●○○	●●○○○	●●●○○	●●●●○	●●●●○	●●○○○	●●○○○	●●○○○
7. Leverage Regulatory Advantage to Reimagine AI & Business Models	●●●●●	●●●●○	●●○○○	●●●○○	●●●●○	●●○○○	●●●●○	●●○○○

Source: Genpact, 2025.

●●●●● High usage
●●●●○ Advanced usage
●●●○○ Intermediate usage
●●○○○ Limited usage
●○○○○ Low to no usage

What separates leaders from laggards is not intent, but execution. From the above table, we can conclude that, especially in the stronger regulated industries (Banking, Insurance, and Energy), some imperatives are already gaining significant traction. In other industries, we observe a tendency to lag in execution.

These Enterprises must move from strategic whitepapers to operating playbooks, from vision to velocity. GBS and shared service centers can play a leading role in this shift, acting not just as delivery arms but as transformation engines.

Together, these seven calls to action form the scaffolding of a new kind of enterprise-one that is not only AI-ready but built for continuous reinvention. In a rapidly shifting global economy, this transformation is no longer optional. It is the path to enduring relevance and growth. Leaders must act decisively: invest in next-generation technology platforms, cultivate deep specialization in their workforce, and embed intelligence and compliance into every layer of their operations. This is the path to enduring relevance, growth, and global competitiveness.

5.9 Conclusion: From Potential to Performance

Europe stands at a crossroads. As technology rapidly reshapes the global enterprise landscape, the opportunity before European business service leaders is significant-but so are the risks of delay. This report has laid out both a caution and a call: without decisive action, Europe's GBS and enterprise ecosystem may fall behind more aggressive US and Asian competitors. The prioritization of regulation over innovation may have led to Europe having more referees than players! However, with bold investments in digital infrastructure, AI capabilities, and scalable platforms, Europe can reclaim a leadership position, setting new global benchmarks for trusted, responsible, and high-value business services.

We began by tracing the evolution from classic GBS to the next frontier-the AI-powered GBS, or GenBS-a model that's intelligent, adaptive, and deeply embedded in enterprise value creation. A powerful convergence of enabling forces underpins this transformation: an increasingly mature digital ecosystem, rising enterprise demand for autonomy and intelligence, and Europe's strength in trust-centric innovation.

We then explored the distinctive opportunity for European enterprises, highlighting why the region's mature service hubs, regulatory foresight, and diverse talent base give it an edge-if these assets can be activated at scale. The blueprint for achieving this was laid out across five interconnected technology layers, forming a holistic foundation for autonomous, AI-powered business services.

However, we also acknowledged the risks of inaction. Without rapid modernization, Europe may face increased vendor dependency, fragmented systems, underleveraged regulatory leadership, and stagnation in service delivery. The answer to this challenge is not incrementalism-it is strategic, future-facing investment in enterprise platforms, data infrastructure, AI capabilities, and workforce transformation.

Finally, clear calls to action emerge for European enterprises-from embracing full-stack platformization and post-quantum security, to democratizing digital fluency and turning GBS centers into digital growth engines.

The message is clear: transformation is no longer an option-it is the cost of staying competitive. However, the prize is real. By building a resilient, intelligent enterprise backbone, Europe can redefine what business services mean in the age of AI-not as back-office support, but as engines of innovation, speed, and value.

This is the moment to move from potential to performance. From vision to execution. And from fragmented progress to a continental scale.

6

TRANSFORMATION IMPERATIVE

> **Industrial competitiveness is about the speed with which a company can reconfigure itself.**

Carl Benedikt Frey
Oxford University

6.1 Introduction

Europe's competitiveness increasingly depends on its ability to accelerate transformation across key sectors. Business services, broadly defined to encompass all business functions carried out within our centers and across the industry as a whole, could play a central role in this transformation, fully utilizing our vast pools of talent and technological capabilities. This chapter examines how the business services industry is reshaping operational models, enabling digital adoption, and driving innovation in six core European verticals.

6.2 ABSL Industry Classification

To support a more targeted and data-driven analysis of vertical transformation across Europe, ABSL has developed a **dedicated industry classification.** This framework goes beyond traditional sectoral taxonomies by aligning industry categories with their **relevance to business services transformation,** supply chain integration, and digitalization potential. It reflects both **structural economic realities** and the **emerging role of business services** as a strategic enabler of vertical evolution.

The ABSL classification is based on **NACE Rev. 2 codes,** mapped into 17 aggregated categories representing core European industries. These include both **production-intensive sectors** (e.g., Automotive, Industrial Goods, Energy, Pharma & Biotech) and **service-driven verticals** (e.g., BIFS, IT/ICT, R&D). The classification ensures consistency in cross-country comparison and enables the tracking of transformation patterns within each vertical.

The final classification of sectors by NACE rev.2 groups is provided in the Appendix.

6.3 Initial Analysis

To support the identification of priority verticals for business services transformation, we developed a dedicated **vertical classification system** (see previous section). We combined it with **granular economic data** from EUROSTAT's Structural Business Statistics (SBS) to assess the economic significance and transformation potential of each sector across Europe.

The analysis uses the following dimensions:

- Number of enterprises
- Employment levels in the sector, standardized via z-score normalization.
- Total net turnover (revenues), also standardized to compare scale across sectors.
- Total working hours.
- Value added as well as a productivity proxy based on value-added per employee.

Each vertical sector was ranked by its position across the above variables to provide a composite view of sectoral significance. An unweighted average of the normalized indicators is used to identify sectors that combine high employment, revenue, and productivity levels.

All indicators were **standardized (z-scores)** to enable comparison across structurally diverse industries, regardless of scale. The analysis was designed to highlight both high-performing and structurally significant sectors, as well as those undergoing major shifts in output per worker or sectoral weight, two key indicators of transformation readiness.

This evidence base informs the **selection of five core verticals, which are analyzed** in detail in the next section, focusing on their business services maturity, transformation trajectory, and Europe's strategic position within the global landscape.

6.4 Selected Verticals for Transformation Analysis

Based on a rigorous combination of **quantitative assessment** (EUROSTAT SBS data on employment, turnover, productivity, and value-added) and **qualitative evaluation** by an industry expert panel, ABSL has identified six strategic verticals for deeper analysis. These sectors were chosen not only for their economic weight but also for their **transformation potential,** relevance to Europe's industrial strategy, and the **critical role of business services** in their evolution.

The selected industries are:

- **Banking, Insurance and Financial Services (BIFS),**
- **Automotive,**
- **Pharma and Life Sciences,**
- **Energy,**
- **Aerospace and Defense,**
- **Telecom.**

These verticals collectively illustrate the **breadth of transformation scenarios** occurring across Europe, from digitization and decarbonization to AI-driven R&D, regulatory adaptation, and operational resilience.

The radar chart offers a multidimensional snapshot of how six selected verticals: **Energy, BIFS, Pharma & Life Sciences, Telecom, Automotive, and Aerospace & Defense,** perform relative to the ABSL sectoral average across three key indicators:

employment,

net turnover, and

value added per worker.

All values are z-score normalized across 33 sectors to show distance from average performance.

Energy stands out as the strongest performer across all dimensions. It leads the group in **value added per worker,** confirming its role as a capital-intensive, productivity-driven sector. It also ranks above average in both employment and turnover, reflecting its strategic scale and critical role in Europe's decarbonization and resilience strategies.

Pharma & Life Sciences is the second-best in terms of **value added per worker,** demonstrating exceptional productivity. Despite its modest employment scale, it delivers high economic value, making it a prime candidate for vertically focused business services such as regulatory support, R&D enablement, and compliance automation.

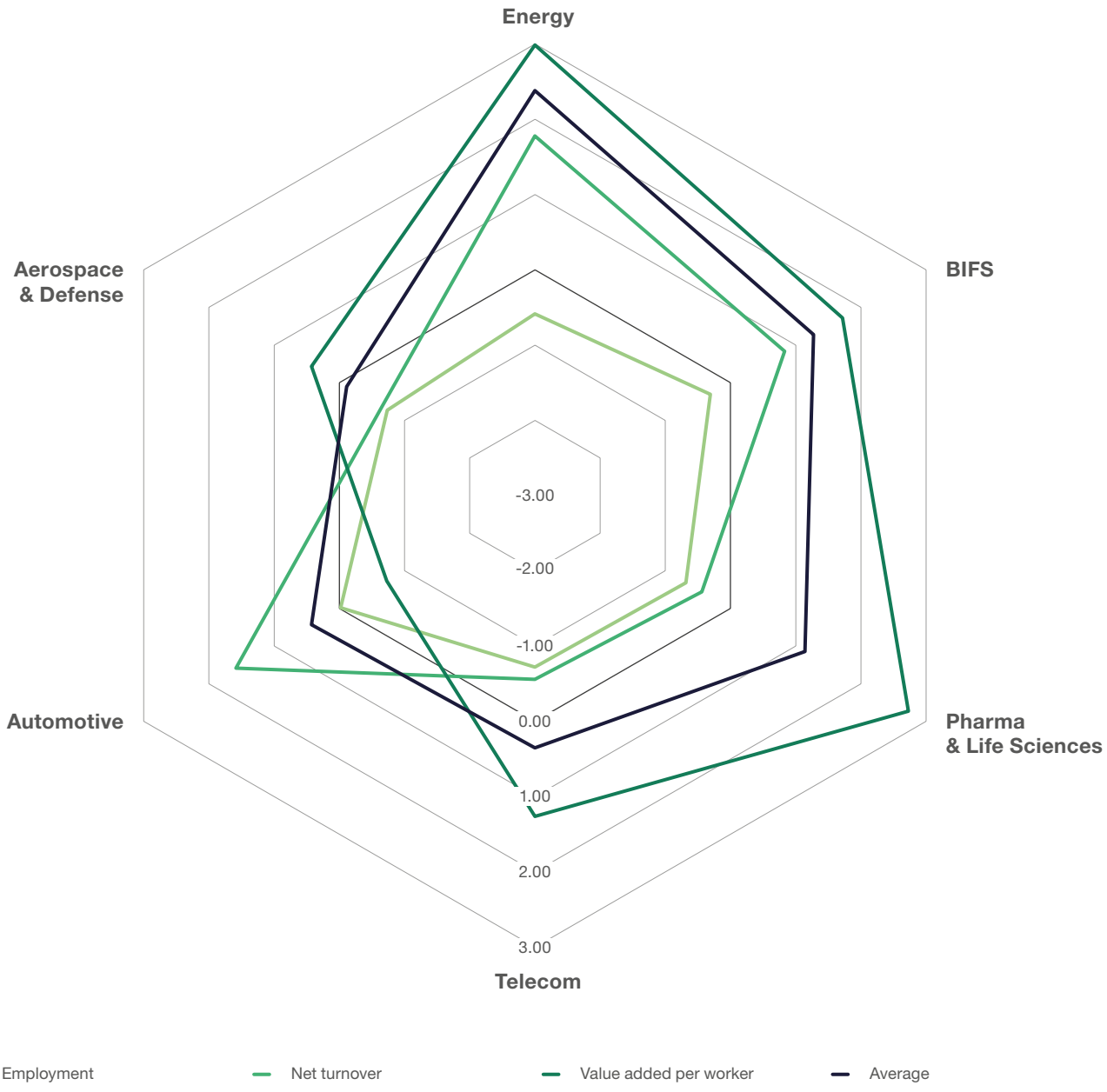
BIFS (Banking, Insurance, and Financial Services) performs consistently above average across all indicators. It combines **high productivity,** substantial **employment,** and significant **economic scale,** reinforcing its position as both a mature GBS segment and a driver of next-generation service integration (e.g., RegTech, AI-driven compliance).

Automotive is marked by **relatively strong turnover** but **below-average employment and value-added per worker.** This reflects its role as a scale-driven but increasingly cost-pressured sector, where transformation through digital twins, supply chain automation, and GBS integration is critical for future competitiveness.

Telecom, while vital for infrastructure, shows a **muted profile,** ranking slightly below average across all dimensions. Despite its strategic role in platform deployment and connectivity, it may be suffering from regulatory fragmentation and low-margin service saturation, indicating a need for deeper value chain integration through AI, CX, and cybersecurity-focused services.

Aerospace & Defense displays **mixed performance,** with **above-average value added** but **below-average turnover and employment.** This reflects its specialized nature and security-related constraints, which limit scaling but underscore the importance of high-value service integration (e.g., engineering, secure data flows, program management).

FIGURE 6.1 **Selected Verticals' Position Relative to all ABSL Sectors 2023**



Source: ABSL BI analysis based on EUROSTAT's SBS data. The analysis utilizes the ABSL sector's classification; please refer to the Appendix.

The radar chart reinforces that **vertical transformation strategies must be tailored to specific contexts.** High-productivity sectors, such as Pharma or Energy, demand tailored GBS support for compliance, innovation, and scale. Labor-intensive or turnover-driven sectors, such as the automotive or telecom industries, require service-driven efficiency and integration to protect margins and boost value.

6.5 ANALYSIS BY VERTICALS

Organizations today are under increasing pressure to extract greater value from their business services functions, including IT, HR, finance, and operations. To address this need, an exhaustive and structured framework has been developed. It is intended as a practical tool to help organizations unlock end-to-end value by guiding improvements in efficiency, agility, talent development, innovation, digital transformation, risk management, and strategic impact.

The focus of each of the seven themes in the framework, along with the specific value levels under each theme, is outlined below:

1. Efficiency Gains

Organizations are consolidating operations and standardizing processes to reduce costs and improve accuracy. This involves setting up shared service centers for functions like HR, IT, and finance, which leverage scale and consistency. Organizations should adopt this when facing duplication across business units or when they are looking to streamline at scale. Whereas a hybrid sourcing model, balancing third-party providers and in-house centers, works best when routine work can be outsourced. At the same time, complex or sensitive processes stay internal, enhancing flexibility and cost control.

2. Savings & Agility

Savings & Agility are driven by automation technologies such as RPA, AI, and process mining that eliminate manual work and boost speed. Firms looking to cut processing costs while improving responsiveness should invest in these tools or outsource to such business service providers, especially in high-volume, rule-based tasks. A mature automation function not only reduces headcount but also increases compliance and scalability.

3. Talent & Capability Building

Firms are increasingly focusing on building agile, cross-functional teams, alongside robust leadership

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TABLE 6.1 **17 Levers Identified across Seven Key Themes for End-to-End Value Unlock from Business Services**

Efficiency Gains	Multi-function centralization and standardization
	Adopt optimum sourcing mix of TPPs, GCCs or a hybrid model
Savings & agility	Build automation capabilities such as RPA and process mining
Talent & capability build	Build cross-functional and distributed teams
	Develop agile tech teams (squads, tribes) for faster product delivery cycle
	Enable Leadership development & cross-functional career paths
Innovation enablement	Develop topic-focused innovation pods such as Pricing and platform partnerships for innovative solutions & continuous improvement
	Institutionalize CoEs at GBS to scale GenAI solutions & build AI-native architecture
Digital enablement & transformation	Adopt Analytics-driven operations & monitoring
	Run large transformation programs such as ERP rollout, cloud migration, and data harmonization initiatives
Resilience with governance & risk management	Adopt global resiliency measures to contain concentration risk
	Basic regulatory reporting support
	Develop risk and compliance CoEs for company-wide support and expertise on changing regulations
Strategic value creation	Sales & Marketing Ops Support such as Campaign analytics and customer segmentation
	Enhance Customer Experience with AI-powered customer support and sentiment analytics
	Enable mid office functions such as market intelligence and investment research
	Embed Agentic AI-led workflows with minimal human intervention

Source: BCG Future of GCC study, Publication-Smart Simplicity in Global Business Service.

pipelines. Distributed, cross-functional teams foster innovation and responsiveness, though they require strong governance to stay aligned. Small, empowered agile pods are especially effective for rapid product development and iterative delivery. While these structures support short-term agility, cross-functional career paths play a critical long-term role in developing versatile leaders with an enterprise-wide perspective. Similarly, focus on SME development is imperative for GBS to support the transition from transactional to complex, knowledge-intensive services. A strong SME base creates career pathways within GBS, keeping high-potential talent engaged.

4. Innovation Enablement

Innovation Enablement involves structuring innovation through agile pods and Centers of Excellence (CoEs). Innovation hubs, cross-functional and experimental, suit fast prototyping and strategic experimentation. In contrast, CoEs are vertical, long-term structures focused on capability building in areas like AI or compliance. Firms should deploy pods for short-term, targeted innovation and CoEs to institutionalize expertise and scale capabilities enterprise-wide, especially in the long term.

5. Digital Enablement & Transformation

Enterprises are accelerating digital maturity by embedding analytics-driven operations and monitoring across functions. GBS plays a key role in enabling this by deploying real-time dashboards, AI-led insights, and cross-functional data observability tools, allowing teams to detect issues early and make faster, data-backed decisions. Simultaneously, GBS leads the charge on large-scale transformation programs, including ERP rollouts, cloud migrations, and data harmonization initiatives. These programs modernize legacy systems, integrate enterprise platforms, and create scalable digital infrastructure. Together, these efforts position GBS as a central orchestrator of digital transformation, driving both operational resilience and future-ready architecture.

6. Resilience with Governance and Risk Management

In a constantly evolving regulatory landscape, organizations are prioritizing continuity, compliance, and risk management. Building resilience through geographic diversification and adopting a 'follow-the-sun' delivery model ensures uninterrupted operations across time zones. At the same time, risk & compliance CoEs centralize critical control functions, enabling a more predictive, automated, and standardized approach to compliance. It is essential for these CoEs to maintain non-bureaucratic ways of operations to ensure speed-to-output. These levers are especially valuable for organizations operating in highly regulated sectors or across volatile geographies, where proactive governance and operational continuity are essential.

7. Strategic Value Creation

Leading companies are repositioning business services to drive business outcomes, such as topline growth and enhanced customer experience, extending far beyond their traditional support roles. GBS can play a vital role in enabling this shift by supporting sales and marketing through advanced analytics, campaign execution, and CRM operations. In parallel, AI-powered tools enhance customer interactions by providing personalized, always-on support that improves satisfaction and loyalty. Furthermore, mid-office capabilities like data science and market intelligence empower faster, insight-driven decision-making. At the frontier, agentic AI workflows take this a step further by automating entire processes with minimal human intervention, unlocking transformative gains in speed, scalability, and efficiency.

Each section that follows in this subchapter of the report explores:

The current state and competitive position of the industry in Europe,

The maturity and scope of business services functions within the sector,

The role of business services in driving organizational transformation and

Selected company-level case studies highlighting successful transitions.

Together, these vertical profiles provide a grounded, sector-specific perspective on how business services enable **structural change,** with implications for Europe's competitiveness, innovation ecosystem, and workforce development.

6.5.1 Banking, Insurance, and Financial Services

TABLE 6.2 **Structural and Productivity Overview of the European BIFS Sector**

Number of enterprises (2023):
560–570k

Employment (2023):
4,120–4,130k

Net turnover (2023):
EUR 2,020–2,050bn

Turnover per worker (2023):
EUR 490–500k

Value added per worker (2022):
EUR 190–200k

Value added per hour worked (2022):
EUR 160–170

Turnover growth (2021–2023):
0–1%

Source: EUROSTAT's SBS data. The analysis utilizes the ABSL sector's classification; please refer to the Appendix.

Strategic Position of the Industry in Europe

The Banking, Insurance, and Financial Services (BIFS) sector is one of the most technologically advanced and economically significant industries in Europe, contributing **5-6% to the EU's total GDP.**

The BIFS industry comprises diverse sub-sectors, each with systemic and strategic relevance:

Banking

Banks serve as the backbone of EU finance with nearly EUR 32 trillion in assets. Europe hosts some of the world's largest banks, including **BNP Paribas, Santander, HSBC,** and **Deutsche Bank.**

Insurance

The insurance sector serves as Europe's largest institutional investor with over EUR 10 trillion in assets. Major insurers such as **Allianz, AXA,** and **Generali** span life, health, and property lines.

Wealth and Asset Management

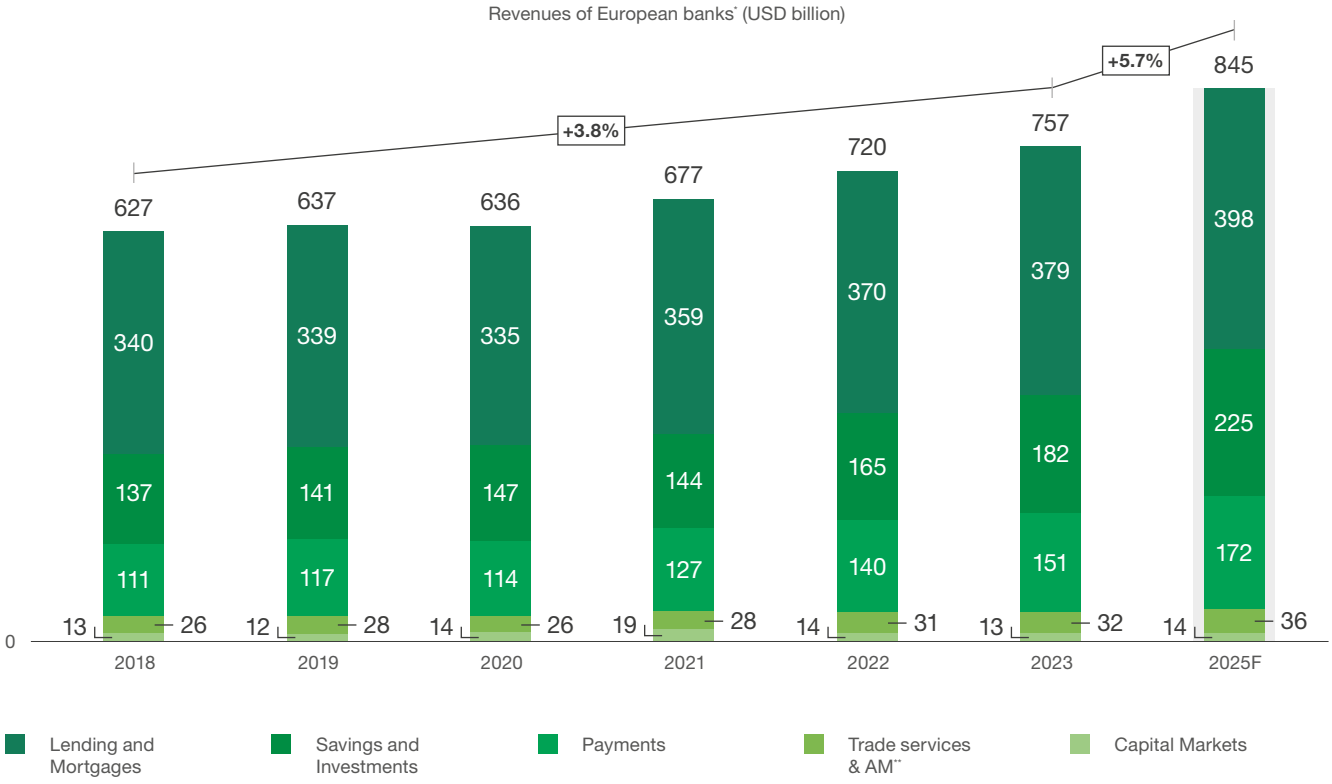
This sector channels capital into investments to fuel economic growth, with an increasing focus on sustainability. EU asset managers now oversee approximately EUR 17 trillion, 38% of which is in ESG-aligned assets (European Parliament, 2024). Europe is a global hub for institutional and retail wealth management, with **robust ecosystems in the UK, Germany, France,** and **the Netherlands.**

FinTech and Payments

This sector drives innovation in digital finance and broadens access to financial services. Europe is supported by regulatory frameworks, such as PSD2, and a thriving startup ecosystem centered in cities like **London, Berlin, Amsterdam,** and **Vilnius.**

Banking revenues grew steadily between 2018 and 2023 at a CAGR of 3.8% and are forecast to reach **EUR 845 billion by 2025** at a faster rate of 5.7%, reflecting sustained digitization,

FIGURE 6.2 | **The European Banking Market Today has more than EUR 700B in Revenue along the Entire Value Chain**



* Excl. Specialized Finance, FS, and tech software market, and insurance.
** Asset management.

Source: BCG proprietary datasets; BCG analysis.

product innovation, and credit demand. Lending and mortgages, savings and investments, and payments are the main contributors to this growth.

Since 2018, private equity (PE) activity in Europe's financial services sector has been robust, with over 2,000 transactions recorded, amounting to nearly USD 140 billion in cumulative deal volume. While financial institutions (FIs) accounted for 6% of all European PE deals in 2018, their share increased to 7% by 2022 (BCG), signaling sustained investor **interest in the sector. However, this interest has shifted markedly away from legacy banking assets and towards non-banking segments such as financial software, payments, and asset and wealth management (AWM).** These areas are being propelled by the rise of embedded finance, platform-driven service delivery, and the increasing importance of digital infrastructure. As a result, the European financial services investment landscape is becoming **more diversified and innovation-led.**

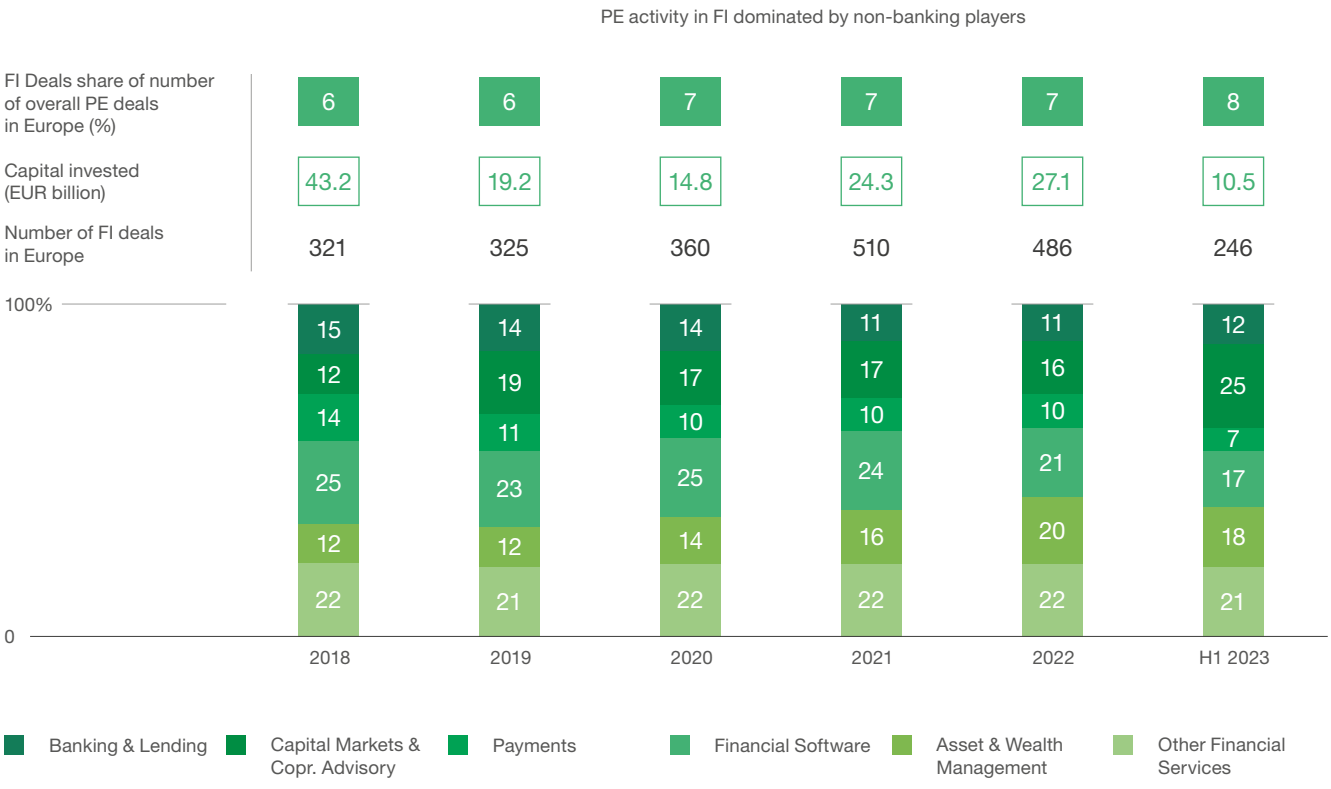
Beyond its substantial economic footprint, the BIFS sector holds deep strategic importance for Europe, which can be understood across the following dimensions:

1. Catalyst for Innovation and Digital Transformation

The industry is undergoing a profound transformation, driven by AI, cloud computing, blockchain, and cybersecurity technologies. Institutions are reimagining operations through digital-first strategies, enabling frictionless customer journeys, personalized risk pricing, and real-time compliance. Nearly all large players, including incumbents such as ING and Santander, have adopted **agile delivery models** and invested billions in digital platforms.

The sector is increasingly integrating **GenAI, embedded finance, and open banking ecosystems,** positioning Europe at the frontier of next-gen financial

FIGURE 6.3 | **PE activity in Financial Institutions in Europe**



Note: Other Financial Services, including financial information & research Services, BPO, Accounting and Tax Services, Holding Companies, SPACs, etc.

Source: Pitchbook, Bloomberg, Statista, BCG analysis.

experiences. This is evident with players such as the European Merchant Bank **offering Banking-as-a-Service (BaaS) APIs to fintechs and SME platforms.** For example, Noda (UK/EU), a pure-play open banking provider, enables instant payments, KYC, analytics, and even **AI-powered payment pages** for SMEs and content creators.

2. Backbone of Regulatory Harmonization and Risk Governance

Europe's dense regulatory architecture, anchored in frameworks such as **DORA, Basel IV, MiFID III,** and **CSRD,** has made the BIFS sector a model for compliance-driven transformation. Institutions are not just adapting to regulation; they are also **shaping the development of global standards** for digital resilience, sustainable finance, and systemic risk mitigation.

3. Enabler of the Green Transition

The sector is instrumental in financing Europe's decarbonization goals. Banks and insurers are integrating **climate risk modeling, ESG disclosures,** and **green loan origination** into their portfolios. Asset managers are reallocating capital towards sustainable infrastructure, clean tech, and socially responsible enterprises, driven by both investor demand and regulatory mandates. For example, UniCredit, in cooperation with the European Investment Bank, has launched EUR 5 billion in new loans to support SMEs investing in or operating **energy-efficient machinery and low-emission technologies.**

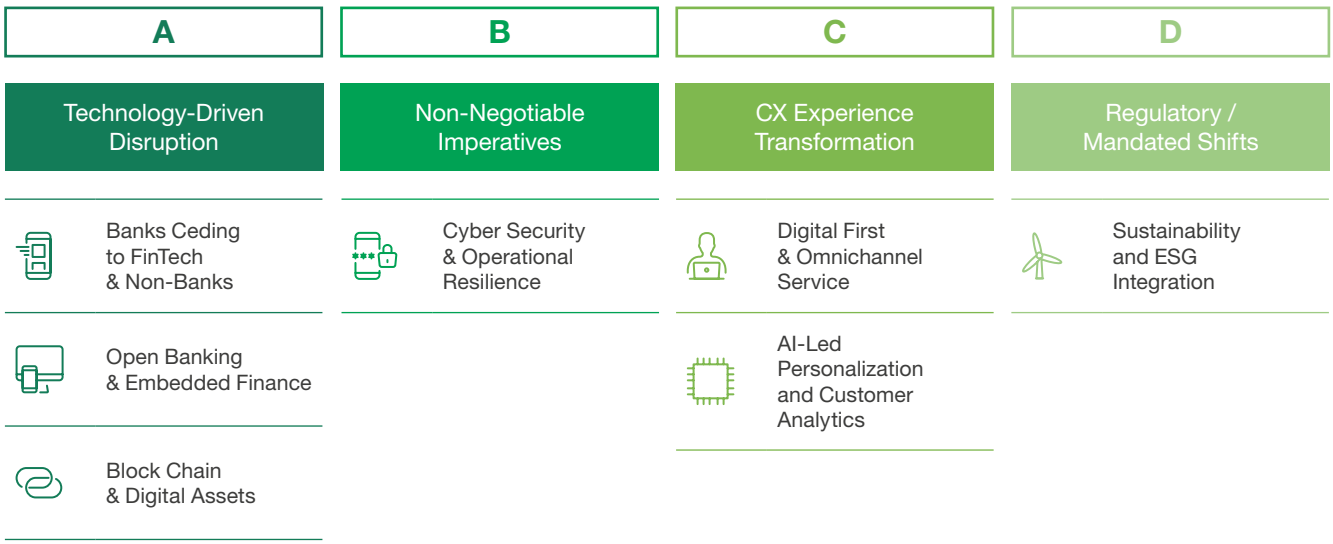
4. Anchor for Employment, Skills, and Business Services

BIFS holds the **largest share, about 34%, of the global GCC capacity,** and continues to grow at almost 10% annually. Europe has ~180 SSCs concentrated across **Poland, Ireland, Germany,** and **Lithuania** (SSON database, 2025). These hubs deliver a wide spectrum of services from regulatory compliance and fraud analytics to AI development, transforming the talent and innovation landscape across Europe.

Key Market Trends: Strategic Forces Reshaping Europe's BIFS Sector

The developments in Europe's BIFS industry are not only altering how financial services are delivered but also who delivers them. The key trends can be synthesized into four overarching strategic clusters:

FIGURE 6.4 | **Key Trends Shaping Europe's BIFS Sector**



A. Technology-Driven Disruption

Technological acceleration is redefining the understanding of financial institutions and the way people interact with financial services, with the following advancements:

1. Banks Competing with Fintech and Nonbanks

The European financial services landscape is being transformed by fintech startups, digital-only banks, Big Tech entrants, and private capital alternatives. These agile players are capturing an increasing share of industry growth, especially in fee-based businesses, while traditional banks rely on balance-sheet lending. Incumbents recently ceded "the most valuable ground" to fintechs, digital attackers, private credit funds, and other nonbanks. Europe's fintech sector, once lagging, is now projected to grow at 18%, outpacing North America and APAC at 12% in revenue growth.

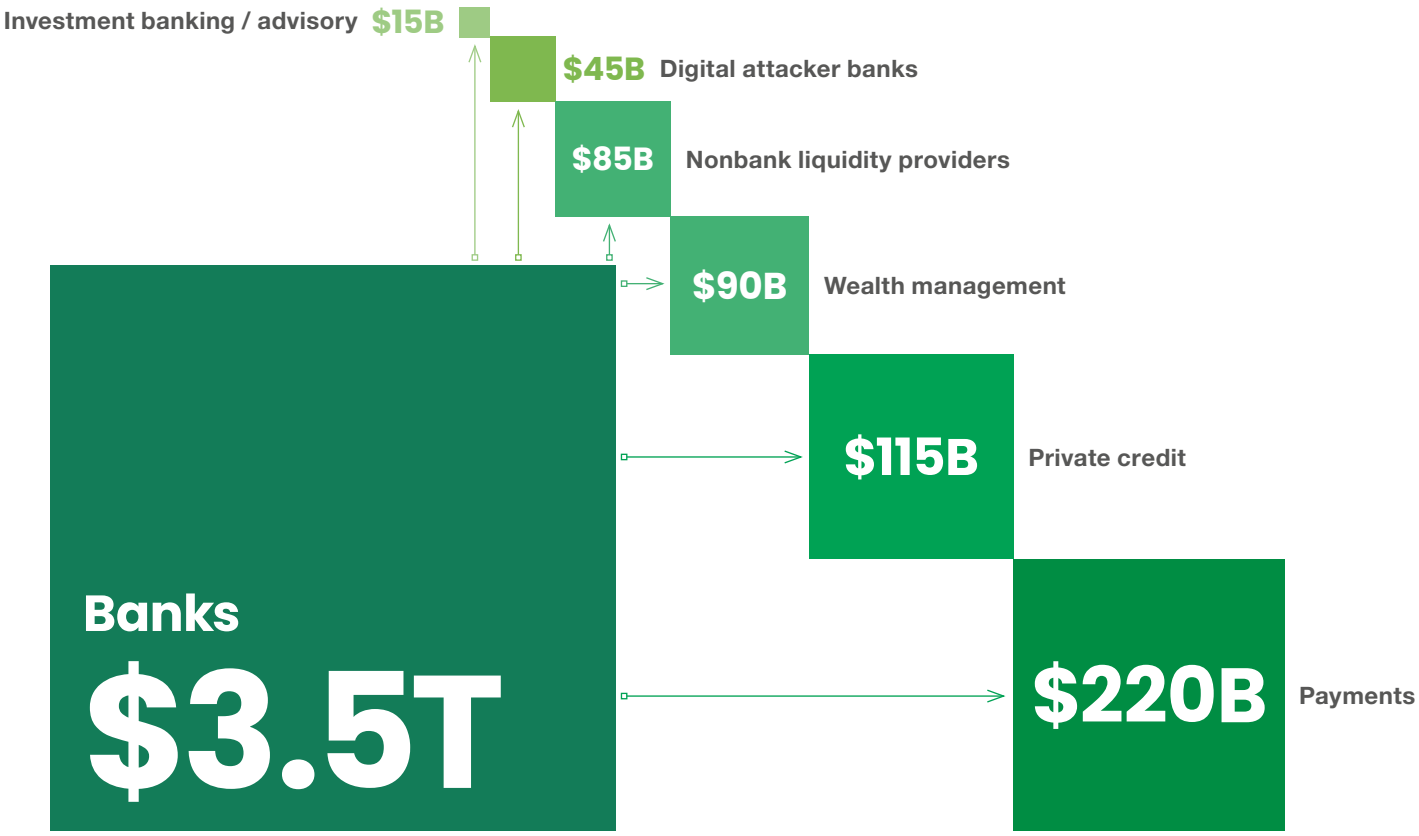
2. Open Banking, Embedded Finance, and Platform Models

Financial services are being delivered via platforms and non-bank ecosystems today, blurring industry boundaries. Banks and insurers are exposing their services through APIs, so that third-party brands from e-commerce sites to fintech apps **can embed products** such as payments, lending, and insurance. For example, Lithuania's European Merchant Bank offers Banking-as-a-Service APIs for fintechs and SMEs. Even Big Tech players have integrated payments and wallet services such as Apple Wallet and Amazon Pay deeply into consumer experiences, often masking the role of traditional banks.

3. Blockchain and Digital Assets

Distributed ledger technology (DLT) is opening new frontiers in finance, from **tokenized assets** to cryptocurrencies. It is estimated that **up to**

FIGURE 6.5 | **Value Migration to Focused Models is Set to Accelerate** (Estimated Revenues in 2023)



Note: Square sizes are proportional to the estimated average global annual revenues in 2023. Values reflect pools captured by each segment based on BCG analysis. Arrows indicate the migration of value away from traditional banks.

Source: BCG analysis.

USD 19 trillion in assets could be tokenized by 2033 as the adoption of DLT accelerates. This could fundamentally reshape areas such as payments, lending, and securities settlement. In Europe, crypto investing is growing mainstream, buoyed by supportive regulation, as a result of which the EU crypto market is projected to reach ~USD 14 billion in revenue by 2025.

B. Non-Negotiable Imperatives

Even as cost pressure mounts, players are compelled to sustain investments in security measures to protect customers' interests in an increasingly online world.

1. Cybersecurity and Operational Resilience

With financial services increasingly digitized, cyber threats pose a direct risk to stability, making cybersecurity spending and resilience measures non-negotiable. The European financial sector faced 488 publicly reported cyber incidents between January 2023 and June 2024, including a surge of **DDoS attacks, data breaches, and ransomware** targeting banks and insurers, leading to financial losses, regulatory fines, and reputational damage.

Regulators are focused on **operational risk,** ensuring that the financial systems can withstand shocks. Exemplifying this is the EU's **DORA** (Digital Operational Resilience Act), which requires firms to meet stringent IT risk management norms starting in 2025. In parallel, updates to the NIS2 Directive expand cybersecurity obligations for financial market infrastructure. European supervisors are conducting regular **cyber resilience stress tests** on banks and market utilities.

C. Evolving Customer Needs

Consumer expectations are evolving rapidly, favoring personalized, seamless, and connected experiences over traditional store visits. The market is responding with service-led digital innovations.

1. Digital First and Omnichannel Service

Customers have rapidly shifted to digital banking, forcing incumbents to transform every aspect of customer interaction. Mobile and online banking are now the primary touchpoints, as 85% of European online banking customers frequently use mobile

banking apps (Forrester, 2024). It is observed that convenience and speed drive loyalty; around 76% of consumers would switch banks for better digital services. Cash's share of in-person payments in Europe fell from ~40% in 2019 to ~22% in 2022 and is on track to drop to just 15% by 2026, replaced by contactless cards and digital wallets.

2. AI-Led Personalization and Customer Analytics

AI is transforming financial services by enabling data-driven, efficient operations from algorithmic underwriting to robo-advice and chatbots. **Most European institutions already employ AI/ML.** About 50% of EU non-life insurers and 24% of life insurers use AI in pricing, fraud detection, or claims.

Banks are experimenting with generative AI to personalize customer interactions and automate processes, as consumers increasingly expect tailored financial advice and offers. Notably, 70% of customers expect personalized recommendations from their banks.

D. Regulatory Shifts and Mandated Transitions

1. Sustainability and ESG Integration

Europe's financial industry also plays a global leadership role in sustainable finance. Regulators are enforcing standards like the EU Green Taxonomy, Sustainable Finance Disclosure Regulation (SFDR), and the new Corporate Sustainability Reporting Directive (CSRD) into financial operations and reporting standards.

Strategic Role of Business Services in Responding to Industry Disruption

Current business services maturity in the European BIFS Industry

European BIFS firms have significantly advanced in their GBS maturity as the sector leads global GBS adoption, accounting for ~34% of capacity, with centers **delivering diverse functions from fraud analytics and regulatory compliance to AI and ESG reporting.**

Maturity varies from **front-runners who are embedding GBS into strategic domains such as** product development, advanced analytics, and compliance, **while others remain focused on operational efficiency.**

The sector has a well-established GBS and BPO presence with ~180 SSCs and hotspots in **Poland, the UK, Lithuania, Ireland,** and **Germany** (SSON database, 2025).

TABLE 6.3 **Presence of BIFS Sector SSCs in Europe**

Country	# SSCs	Major Hubs (#SSCs)
Poland	49	Warsaw (23) Kraków (8) Wrocław (6)
United Kingdom	28	London (7) Glasgow (6) Edinburgh (6)
Lithuania	15	Vilnius (14)
Ireland	14	Dublin (14)
Germany	10	Frankfurt (4) Munich (3) Berlin (3)

Source: SSON database.

The trends described in the previous section are redefining the way services are tailored and delivered to BIFS clients, and therefore have implications for the industry. The **future of firms** will depend on the **ability to innovate and adapt rapidly,** requiring them to look at four focus areas elaborated below:

Focus Area 1

Creating Dedicated Innovation Hubs to Enable a Digital-First, Omnichannel Service Model Backed by the Latest Technological Developments amid Rising Competition:

The need for such dedicated innovation hubs stems from the technological disruption that is taking place, threatening the dominance of traditional players.

Therefore, the following business service interventions are critical under this focus area.

1. GBS-Led Customer Journey Integration and Omnichannel Enablement

GBS could be positioned as an orchestrator of end-to-end customer experience improvements by expanding the scope of shared services beyond the back office and integrating middle and front-office support (e.g., customer onboarding, claims processing, and loan origination steps) into global hubs. These hubs, armed with unified customer data and process ownership, can redesign customer journeys holistically, breaking silos between product lines and channels.

> **Rationale:** Customers expect a frictionless experience whether they are in a bank branch or on a mobile app. By consolidating customer-facing operations into common service centers and digital platforms, firms ensure consistent, high-quality interactions. A GBS-led approach brings process standardization and central data stewardship (enabling a 360° view of the customer).

AXA leveraged AWS to migrate claims operations onto the cloud. Completed in 9 months, the program improved processing speed, included automated workflows, and delivered enhanced customer experience across channels.

2. Develop Innovation Pods and FinTech Partnerships via GBS

GBS centers could be used as innovation "sandboxes" to pilot digital platform solutions and omnichannel customer journeys. Within service hubs, cross-functional pods should be set up to experiment with emerging tech (e.g., open banking APIs, mobile app features, blockchain). Partnerships with fintech startups, facilitated through accelerators or joint prototyping initiatives, could be considered.

> **Rationale:** Incumbent banks and insurers must innovate at fintech speed, but without compromising compliance. A dedicated innovation hub within the business services organization allows for fast, low-risk experimentation – new digital services can be tested and refined away from legacy constraints, then scaled if successful.

Santander established technology hubs in **Spain** and **Poland,** hiring over 1,400 STEM experts (cloud, APIs, AIs, cybersecurity). These hubs support innovation in corporate banking across Europe, accelerating the development of digital products and omnichannel platforms (Crowdfund Insider, 2022).

Focus Area 2

Enabling Platform Transformation to Migrate from Legacy IT Systems to Modern-Day Cloud Architecture and Provide a Seamless Customer Experience

The logic for this stems from the need to ward off cybersecurity threats and ensure operational resilience.

A business service intervention such as the following would be useful:

3. Run Large Transformation Programs for Core Systems Modernization and Cloud Migration

Leverage centralized shared services teams to coordinate enterprise-wide cloud adoption, data migration, and decommissioning of old systems in favor of scalable architectures. Standardize processes on single instances of core platforms (core banking, policy admin, ERP) and use cloud capabilities (APIs, microservices) to enable real-time data access across channels.

> **Rationale:** Legacy IT landscapes in European financial institutions hinder agility and customer

> experience. Moving to modern cloud architecture reduces outages and improves speed and scalability. Under a unified program, banks can eliminate redundant systems and streamline operations across business lines and geographies.

Deutsche Bank migrated **around 260 applications,** including SAP S4/HANA financial reporting systems, to Google Cloud. This shift halved data processing time and improved system recovery speed by 16–20X, enabling generative AI deployments (Google, 2025).

Focus Area 3

Adopting Gen AI for **Personalized** Customer Experience and to Stay Ahead of the Industry Curve

Evolving customer needs are the reason for this focus area. Firms that boldly integrate AI can achieve better personalization, sharper fraud detection, and significant efficiency gains, whereas laggards risk higher costs and subpar customer insight.

The business service interventions, in this case, should be the following:

4. Embed Agentic AI-Led Workflows with Minimal Human Intervention for Personalized Customer Experience

Leverage **Agentic AI** – autonomous systems capable of making contextual decisions with minimal human input – to transform front-end customer engagement. These AI agents, powered by large language models (LLMs), can independently interact with customers across digital channels, resolve service queries, recommend financial products, and even simulate human-like advisory conversations.

> **Rationale:** Agentic AI unlocks a new frontier in personalization by **reducing human bottlenecks and increasing responsiveness.** These systems can analyze customer intent, personalize interactions in real time, and provide always-on service, setting new expectations for convenience and accuracy.

BBVA upgraded its "Blue" virtual assistant using GenAI to manage **over 120 transaction** types autonomously. Now, it proactively advises customers on spending, handles card/account issues, and resolves 90% of interactions without escalation (BBVA, 2025).

5. Institutionalize AI Centers of Excellence (CoEs) to Scale GenAI across the Value Chain

Set up AI CoEs within business services to orchestrate enterprise-wide GenAI initiatives. These CoEs act as governance hubs, identifying high-impact use cases, managing risk and compliance, and industrializing successful pilots. Their mandate should go beyond customer service to span operations, finance, compliance, product development, and knowledge management.

> **Rationale:** Gen AI offers a step-change in both efficiency and personalization for financial institutions. On the operations side, AI can handle massive volumes of data and repetitive tasks far faster than human teams, freeing staff for higher-value work and reducing errors.

OTP Bank's Innovation Lab in Hungary nurtured an AI startup that analyses nearly 100% of customer service calls and chats (versus the 1–5% sampled traditionally), vastly improving service quality and compliance monitoring. The AI platform also identifies sales opportunities in real time.

Focus Area 4

Facilitating Speed to Compliance for Changing Regulatory & ESG Requirements

Regulatory shifts are the reason for this focus area. Firms that fall short on ESG risk face regulatory penalties and reputational damage, while also missing out on the growing green financing market. Complying with disclosure rules like CSRD's detailed climate reporting and achieving climate targets will strain resources, but these are **mandatory investments.** Prioritizing ESG now is critical to avoid being **priced out or penalized** for inaction in an eco-conscious market.

The business service intervention suggested in this case is the following:

6. CoEs for RegTech and Digital Compliance

Establish CoEs within business services to centralize deep regulatory, risk, and tech expertise (e.g., in AML/KYC, data privacy, ESG compliance). These hubs set standards and drive innovation in compliance processes enterprise-wide.

> **Rationale:** A CoE model prevents fragmented approaches by embedding consistent, automated controls and aligning compliance with business objectives. By concentrating talent (risk experts, data scientists) and leveraging advanced RegTech (AI monitoring, analytics), CoEs turn compliance into a strategic capability rather than a bottleneck. They enable faster adoption of new regulations and technology.

BNP Paribas established a centralized compliance lab in Paris to monitor transactions, enhance AML controls, support regulatory compliance, fight against corruption, and terror financing (BNP Paribas, n.d.).

Case Example

A large European Bank – GBS transformation in retail banking

Context

The Bank faced intense competition from digital-native challenger banks and fintechs. The UK division, grown through acquisitions of legacy high-street banks, had a high-cost base and fragmented, outdated systems. Internal metrics revealed inefficiencies, including high exception rates, manual interventions in customer processes, and slow turnaround times, which negatively impacted customer experience. The bank operated shared service centers in the UK and Poland for core processes, but these captive centers were costly due to legacy processes and low automation. So, it needed to radically improve its end-to-end customer journey, agility in handling volume spikes, and cost-to-income ratio to stay competitive.

What Have They Done in Business Services?

The Bank entered into a strategic operations partnership to lead this transformation. They built a lean blueprint identifying 83 processes for automation and digitization. The transformation proceeded in two phases – **"Transition, then Transform".**

It first transitioned ~600 full-time roles and seven business units' processes from the bank's service centers to the new CoE for customer onboarding and servicing. Knowledge transfer and upskilling ensured a "retain the brain" approach. So, experienced staff moved into higher-value roles (e.g., compliance) within the bank.

Next came **transformation:** core processes were **streamlined and automated** using RPA and AI. For example, corporate account closures were fully automated with **robotic process automation,** eliminating manual hand-offs and speeding up service. Customer onboarding was accelerated using AI-driven OCR to automatically extract and validate documents, reducing manual effort and improving compliance checks. Additionally, **advanced analytics** were applied to create dynamic forecasting models, allowing the bank to predict business volumes and staffing needs for seasonal demand spikes.

This holistic strategy – combining process centralization, digital automation, and data-driven management – transformed the bank's operations within a year.

Impact

Customer Experience: Net Promoter Score (customer satisfaction) rose by 5%, reflecting a sharper competitive edge in service quality.

Efficiency & Speed: Productivity increased by 25%, and key processes sped up. e.g., business account closures became 30–35% faster thanks to full automation).

Business Growth: With streamlined operations, the bank processed 20% more mortgage applications over the year.

Cost Savings: The operational improvements have driven a 10% improvement in the cost-to-income ratio.

6.5.2 Automotive

Strategic Position of the Industry in Europe

The automotive industry remains a **cornerstone of Europe's industrial fabric,** with an extensive supply chain network, high export intensity, and a central role in advancing the continent's green and digital transitions. Beyond its scale, the sector **serves as a powerful catalyst for growth, interlinked with critical industries** such as steel, machinery, energy, ICT, and logistics. Its complex footprint of regional manufacturing hubs and high-skill service clusters **underpins industrial development, infrastructure investment, and economic balance across both core and peripheral EU economies.**

TABLE 6.4 **Structural and Productivity Overview of the European Automotive Sector**

Number of enterprises (2023):
940–950k

Employment (2023):
6,310–6,330k

Net turnover (2023):
EUR 2,990–3,000bn

Turnover per worker (2023):
EUR 470–480k

Value added per hour worked (2022):
EUR 60–70

Turnover growth (2021–2023):
~9–11%

Source: EUROSTAT's SBS data. The analysis utilizes the ABSL sector's classification; please refer to the Appendix.

While the global automotive market has grown by 1.4% between CY2010 and 2024, the European automotive market has experienced a slight **decline of 0.14%** (S&P Global, 2024). The limited movement in the market over the past 10-15 years can be attributed to **market saturation,** driven by high vehicle ownership rates, stringent emission regulations, evolving urban policies, and shifting mobility trends, including increased use of public transit, ridesharing, and cycling. Even in the coming **decade of 2025–35, growth is expected to remain at around 0.4%** (S&P Global, 2024). However, Europe remains one of the key markets, maintaining a **steady 17% share of global sales** (S&P Global, 2024) (by units).

Employment

As of 2025, the sector directly employed **6.32 million people,** making it one of the largest industrial employers in Europe. Including indirect employment, the automotive sector supports approximately **13.8 million jobs,** representing **~6.1% of the total EU workforce** (European Commission).

Productivity

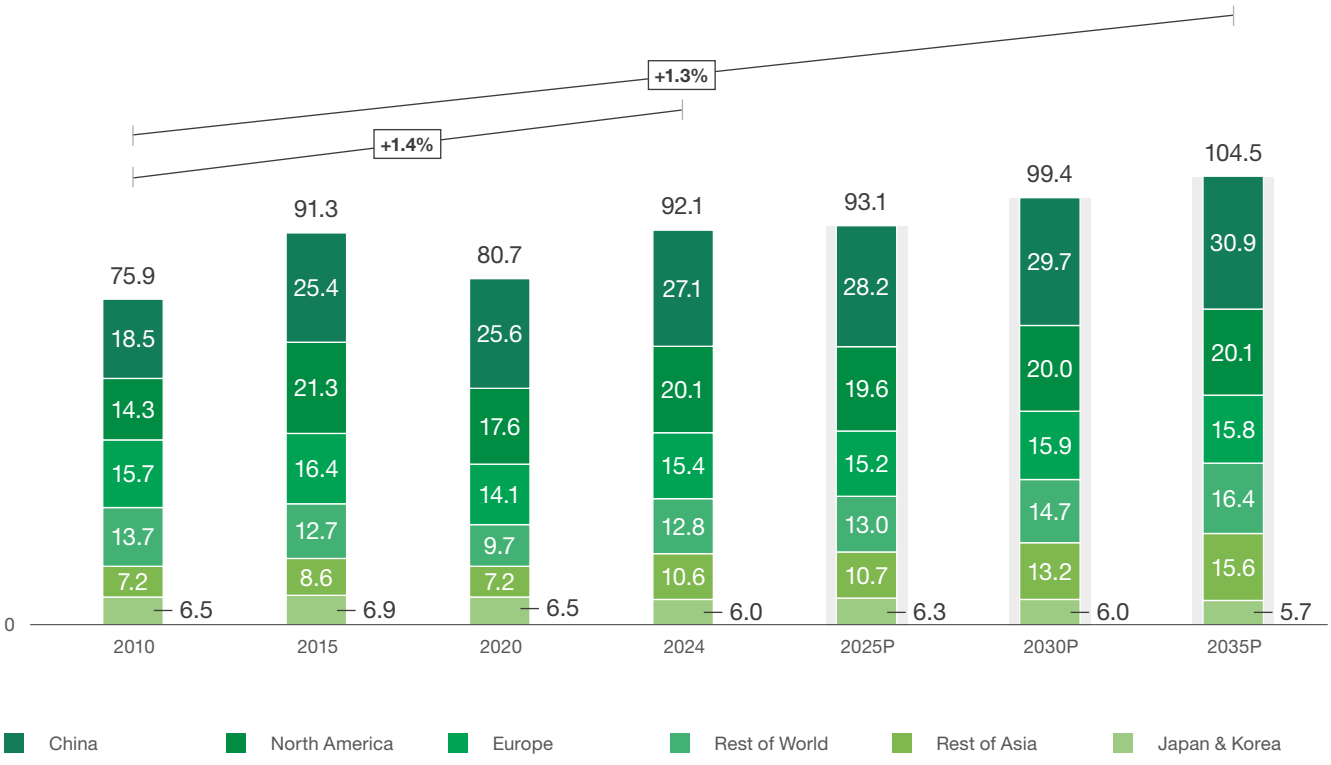
Despite its significant economic scale, the sector exhibits below-average productivity, with a value-added per worker z-score of −0.73, underscoring the need for transformation through digital manufacturing and the **integration of shared services.**

GDP Contribution

The automotive industry contributes approximately **7% of the European Union's GDP,** factoring in manufacturing, services, and aftermarket activities (European Commission, 2025).

The European automotive industry is concentrated in four key markets, **Germany (21%), the UK (15%), France (14%),** and **Italy (12%),** which together account for over 60% of unit sales (S&P Global, 2024).

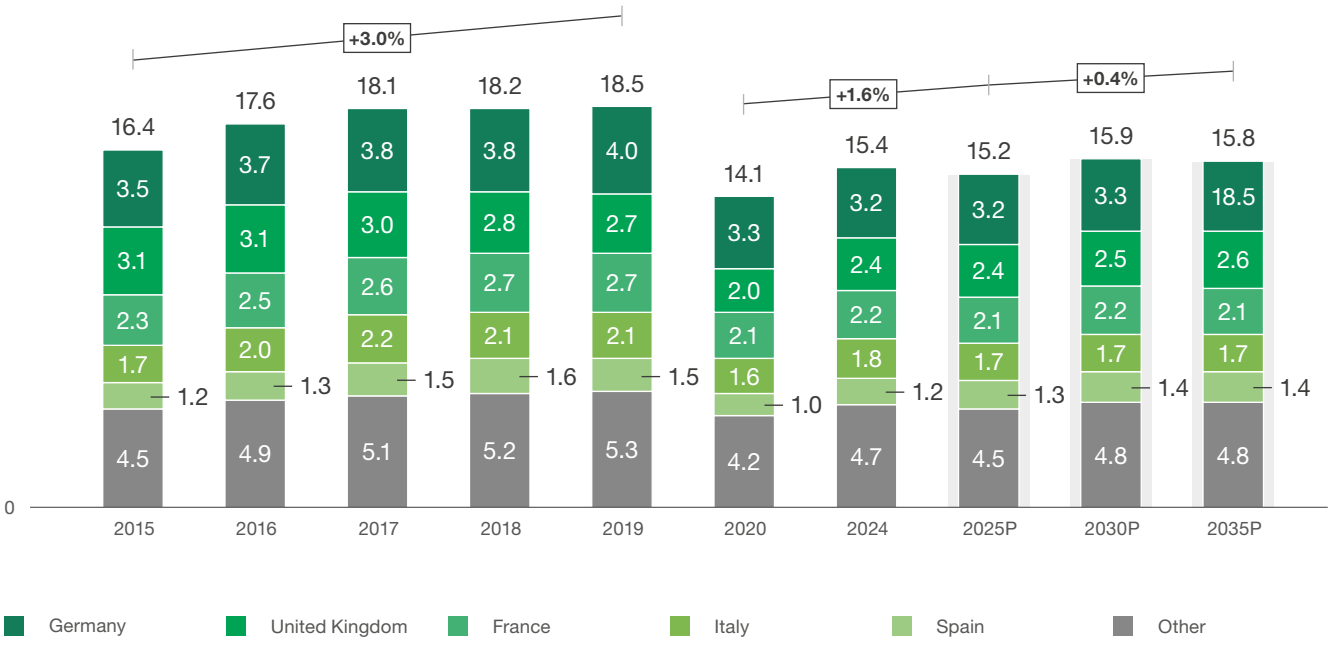
FIGURE 6.6 **Vehicle Sales by Region** (M Units)



Note: Europe is defined as EU-27 + UK + EFTA.

Source: S&P Global Mobility 2024; BCG analysis.

FIGURE 6.7 **New Vehicle Sales in Europe** (M Units)



Note: Europe = EU-27 + EFTA + UK, minor other market.

Source: S&P Global Mobility 2024; BCG analysis.

Apart from its substantial quantitative significance, **the automotive industry is also a strategically vital sector for Europe, powering innovation, exports, skilled jobs, and the broader shift to a green and digital economy.** This strategic relevance can be understood across four dimensions:

1. Innovation and R&D

The automotive industry in the EU has the **largest private investments in research and development,** accounting for approximately **32% of all industrial R&D spending** (European Commission, 2023). In 2022 alone, the sector invested around **EUR 70 billion** (ACEA, 2024), surpassing pharmaceuticals and ICT. These investments support advancements in battery systems, autonomous driving, power electronics, software integration, and connected mobility. The sector's high R&D intensity also drives innovation spillovers across AI, simulation, robotics, and materials science, reinforcing Europe's broader technological competitiveness.

2. Green and Digital Transformation

Europe's climate ambitions hinge on the decarbonization of transport, and the automotive sector is central to this shift. **EU CO_2 emission standards** require a 37.5% **reduction** in average new-car CO^2 emissions **by 2030,** relative to 2021 levels (ICCT, 2022), as part of efforts to reach net-zero by 2050. By 2024, battery electric vehicles (BEVs) comprised approximately **14%** (ICCT, 2025) of new car registrations, with a higher share in the Nordic region. For example, in 2023, 90% of new passenger vehicles registered in Norway were electric. Despite these advancements, tailpipe emissions remained similar to those of 2010 due to heavier and larger ICE vehicles offsetting efficiency gains.

The industry is also trying to simultaneously transform operations through digital twins (BMW – NVIDIA Omniverse), smart factories (HORSE by Renault/ Geely's Portugal Aveiro plant), and connected platforms (T-systems deploying digital twins for Mercedes on EU cloud infrastructure). This dual transformation of green and digital is turning the automotive sector into a proving ground for climate goals-aligned innovation and digital industrial models.

3. Talent and Skills

Automotive companies are at the forefront of developing Europe's next-generation industrial workforce. The shift toward software-defined vehicles, electrification, and autonomous systems is **fueling demand for hybrid skill sets** that blend traditional engineering with digital fluency. By anchoring technical education, fostering applied training, and creating pathways for upskilling, the sector is not only preserving Europe's industrial knowledge base but actively modernizing it for the digital and green economy. For example, the European Battery Academy has a 10 million euros budget to train 800,000 workers with new and enhanced skills by 2025 (iMOVE, 2022). Similarly, Players such as **Jaguar Land Rover and Peugeot are launching internal training programs for EV, high-voltage, robotics, and digital diagnostics and repair systems.**

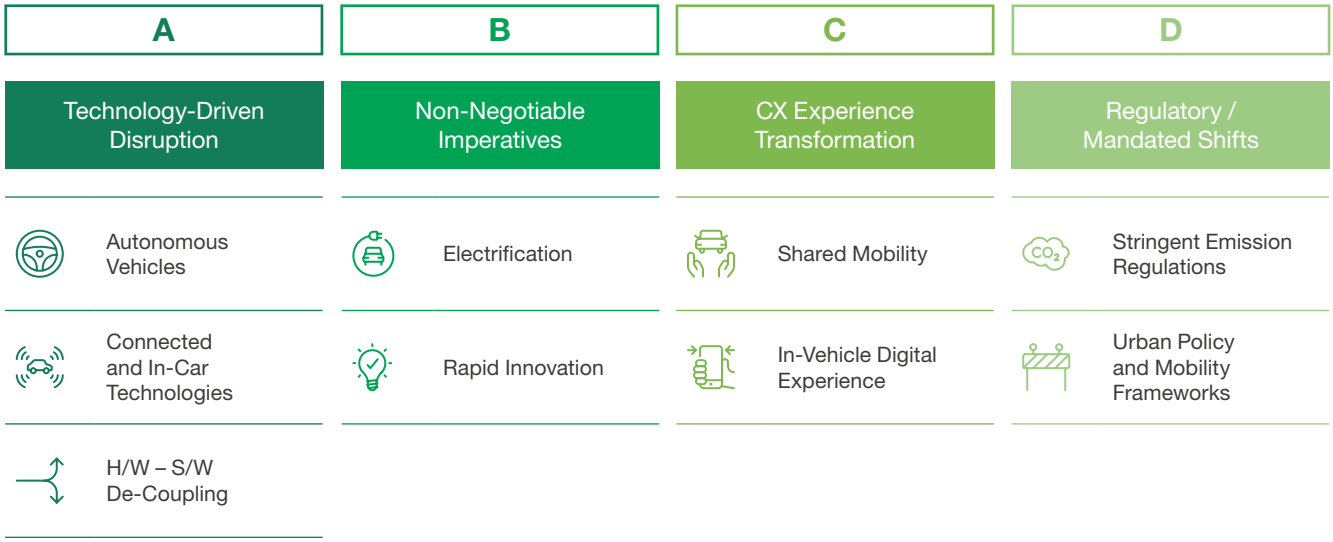
4. Talent and Skills

European automakers are global leaders in vehicle exports, particularly in the premium and performance segments. In **2024,** the EU exported **5.4 million vehicles** valued at **EUR 165.2 billion,** generating a **trade surplus of approximately EUR 90 billion** (European Commission, 2025). Germany alone exported **~76% of its total vehicle production** (Deutschland.de, 2025), exemplifying the sector's export-oriented model. This global reach supports economies of scale and enhances Europe's influence on international trade.

Key Market Trends: Strategic Forces Reshaping Europe's Automotive Sector

Europe's automotive industry is navigating a complex and high-stakes transformation. Disruptive technologies, changing consumer behavior, regulatory shifts, and global competition are simultaneously reshaping the mobility landscape. These changes can be categorized into four overarching clusters:

FIGURE 6.8 | **Key Trends Shaping Europe's Automotive Sector**



A. Technology-Driven Disruption

Technological acceleration is redefining what vehicles are, how they are built, and who leads in mobility, especially with the following advancements:

1. Autonomous Vehicles

Autonomous driving technologies are nearing deployment at scale. Enabled by AI, sensor fusion, and real-time computing, autonomous fleets, particularly **robo-taxis,** promise superior unit economics of ~USD 0.40 (Teslarati, 2024) per pooled mile by eliminating driver costs. Consumer readiness is also rising, with 10–15% of urban residents open to using shared autonomous electric vehicles (SAEVs).

2. Connected and In-Car Technologies

By 2025, over 75% of new vehicles are projected to be connected (Braibanti, 2025), enabling real-time diagnostics, OTA software updates, and in-car services. These digital layers enable cost reductions through fewer physical recalls and generate new revenue streams via subscriptions, in-car commerce, and data monetization.

3. Hardware–Software Decoupling

To accelerate innovation, OEMs and suppliers are separating software development from physical vehicle platforms. This "decoupling" enables **faster update cycles, scalable architectures, and greater collaboration** with external developers. The trend is giving rise to cross-industry ecosystems where automakers, tech firms, and cloud providers co-develop user-centric, updatable vehicle platforms.

B. Non-Negotiable Imperatives Despite Margin Pressure

Even as topline growth stalls and cost pressure mounts, OEMs are forced to sustain aggressive investments in future-facing areas such as electrification and R&D to remain viable in a globally competitive market.

1. Electrification

The EV transition is accelerating as battery prices fall, ranges improve, and public charging infrastructure expands. EVs are on track to surpass ICE vehicles in total cost of ownership across most regions by 2025. Governments are fueling this trend with subsidies and regulatory pressure, while OEMs are responding with over 400 NEVs expected by 2025-26. However, the capital intensity of this shift – across vehicle design, battery sourcing, manufacturing, and infrastructure – is straining midstream suppliers and challenging traditional P&L models (BCG).

2. Rapid innovation

Europe's automotive sector leads in R&D intensity, accounting for ~34.2% of total industrial R&D spend in the EU. Global auto-sector ER&D was estimated at ~USD 300B as of 2023 and is expected to grow to ~USD 500B by 2030 (8% CAGR) (BCG). Investments are focused on core technology transitions: EV platforms, autonomous driving systems, and next-gen connectivity.

C. Evolving Customer Needs

Consumer expectations are shifting rapidly, favoring flexible, connected, and digitally enriched experiences over traditional ownership. The market is responding with service-led innovations.

1. Shared Mobility

Urbanization, environmental pressure, and lifestyle shifts are redefining transportation preferences. By 2050, nearly 68% of the global population will live in cities (United Nations, 2018), increasing congestion and emissions. This is already spurring the adoption of shared mobility services such as **ride-hailing, carpooling, and micro-mobility.** Supported by venture capital and platform innovation, these models emphasize access over ownership and are reshaping urban transport economics.

2. In-Vehicle Digital Experience

With digital features becoming core differentiators, OEMs are embedding intuitive user interfaces, voice assistants, app ecosystems, and customizable driving modes. The connected car is now part of a broader digital lifestyle, demanding consistent updates, seamless integration with devices, and personalized service offerings. This requires a fundamental rethinking of customer engagement across the lifecycle.

D. Regulatory Shifts and Mandated Transitions

Europe's regulatory environment is accelerating rapidly. Environmental mandates and urban policy changes are pushing OEMs to transform faster than their cost structures allow.

1. Stringent Emission Regulations

> The EU remains a global leader in enforcing climate policies such as Euro 7 and the 'Fit for 55' packages. These frameworks aim to phase out ICE vehicles, drive EV penetration, and reduce life-cycle emissions. Compliance demands significant investments in powertrain redesign, manufacturing decarbonization, and alternative fuel R&D (e.g., hydrogen). Non-compliance risks include heavy fines, product restrictions, and brand damage.

2. Urban Policy and Mobility Frameworks

> Municipalities across Europe are implementing zero-emission zones, congestion pricing, and traffic restrictions for ICE vehicles. These changes directly influence product strategy and sales models, especially in dense urban areas, requiring OEMs to adapt offerings for regulatory heterogeneity across regions.

Strategic Role of Business Services in Responding to Industry Changes

Current State of Business Services Maturity in the European Automotive Sector

The European automotive industry has a widespread establishment of global shared service centers (SSCs) and Global Business Services (GBS) hubs, especially across Central and Eastern Europe. Countries like Poland have transitioned from offshoring destinations to strategic talent and innovation hubs.

Disruptors like Tesla set up a design and engineering center in Germany to tap into European engineering talent (CNBC, 2022). Similarly, BYD chose Budapest for its European HQ and advanced R&D center (Myles, 2025). Moreover, firms are embedding AI and analytics into core operations. **BMW,** for instance, uses process mining and generative AI (via Celonis partnership) to enhance automation and analytics across business functions. Apart from Poland, the sector has a strong GBS/BPO presence in other **CEE nations (Hungary, Slovakia, Romania).** Germany remains dominant in embedded services, while **Spain and the Czech Republic** are hubs for multilingual and engineering-focused centers. As of 2023, the Automotive industry has <60 SSCs in Europe, concentrated in Poland, Hungary, Romania, Spain, France, and Portugal (SSON database, 2025).

TABLE 6.5 **Presence of Automotive Sector SSCs in Europe**

Country	# SSCs	Major Hubs (#SSCs)
Poland	15	Katowice (5) Wrocław (3) Poznań (3)
Portugal	8	Lisbon (4) Porto (4)
Spain	5	Madrid (4)
Hungary	4	Budapest (4)

Source: SSON database.

The key trends mentioned in the previous section are not only reshaping the automotive industry but also redefining the way products are engineered and manufactured. The **next wave of growth** will depend on the **ability to innovate rapidly,** requiring OEMs and suppliers to focus on the following focus areas:

Focus Area 1

Dedicated Innovation Hubs to Enable Transition to Electrification amid Regulatory Pressures

The idea for this focus area stems from the technology-driven disruption that is taking place, a fallout of which is that Europe's dominance in internal combustion engine (ICE) development and mechanical engineering is under threat. US firms such as **Tesla** are setting global benchmarks in software-led electric vehicles

and autonomous technologies, while Chinese OEMs such as **BYD, NIO,** and **Geely** are innovating at pace in EV platforms, battery systems, and digital integration, and expanding rapidly into European markets.

There is also a fallout of regulatory shifts. Europe remains dependent on external suppliers for critical inputs, including semiconductors, rare earth elements, lithium, and cobalt. China dominates many of these value chains, and recent export controls are tightening supply. This exposes European OEMs to **geopolitical instability,** leading to raw material shocks, cost volatility, and delays, particularly as they compete for EV components with fast-scaling Chinese players like **Geely, CATL,** and **BYD.**

European automotive companies must therefore consider the following:

1. Establish CoEs for Specialized Capabilities and Risk Management

Centers of Excellence (CoEs) within the business services organization could be established to centralize deep expertise in critical areas such as R&D, geopolitical risk management, regulatory compliance, advanced analytics, and quality control. These CoEs function as internal consulting and governance units, setting standards, deploying best practices, and supporting enterprise-wide execution (e.g., Tax compliance CoE, AI & data science CoE, ESG reporting CoE).

In 2024, **BMW** deployed a CoE for process mining & automation use cases, complemented by **"Centers of Competence"** to tap expertise within individual departments while breaking down silos across its global operations.

2. Initiate Innovation Incubation and Platform Partnerships via GBS

Incumbents need fast, low-risk innovation to compete with disruptors. Use GBS as a sandbox for digital innovation, establishing dedicated "innovation pods" within service centers to pilot emerging technologies (e.g., autonomous simulation, digital twins, blockchain). These teams, while collaborating with R&D and IT, remain within GBS to leverage cross-functional

process expertise and data. GBS should also lead partnerships with tech providers and startups to run joint pilots and solve process challenges.

Bosch has partnered with Microsoft to explore **GenAI for automated driving** in a sandbox setting, effectively blending internal engineering teams with external AI expertise to accelerate learning and deployment (Bosch, 2024).

Focus Area 2

Cost and Margin Pressures due to Electrification and other Advancements amid Supply Chain Vulnerability and Geopolitical Pressure

This focus area stems from the pressure that OEMs face to sustain aggressive investments in areas such as electrification and R&D to remain viable in a globally competitive market.

Europe's manufacturing advantage – built on scale, automation, and low energy costs – is diminishing. Rising input costs and rigid labor models are hampering profitability. In contrast, global challengers such as **Foxconn** are entering the automotive space with software-centric, modular production approaches that lower costs and improve agility.

Secondly, Tier 1 and Tier 2 suppliers, as well as mid-market OEMs, face overcapacity and utilization pressures. As large OEMs consolidate sourcing and transition to electric drivetrains, many traditional component suppliers are being squeezed out or forced into costly retooling with uncertain returns. Finally, Europe's automotive industry, while quite advanced on traditional ICE models, still has to catch up with new-gen players such as Tesla, BYD, Geely, among others.

The solutions in this focus area are the following:

3. Global Consolidation and Standardization at Scale

Automotive companies should aggressively harmonize and centralize high-volume processes across the enterprise into global service hubs under unified governance. They should also expand shared services/GBS to deliver end-to-end processes in finance, procurement, HR, supply chain planning, and more, eliminating duplication across business units and regions.

This approach tackles cost pressures and margin erosion by eliminating inefficiencies from fragmented operations, especially as European OEMs must streamline to compete with leaner, tech-first rivals. Standardization also enhances regulatory compliance.

Mercedes-Benz's new finance operations center in Poland is part of a strategy to centralize **finance, purchasing, and logistics processes for the whole group in a few hubs (Stuttgart, Berlin, Madrid, and Cebu),** allowing uniform systems and controls across geographies (Mercedes-Benz Group, n.d.).

4. Embedding Automation and Analytics throughout Service Delivery

Automotive companies could deploy intelligent automation such as Robotic Process Automation (RPA), workflow orchestration, and real-time monitoring with analytics-based dashboards across high-volume, rules-based tasks in finance, HR, supply chain, and customer service. There is a need to establish an **automation competency center** within GBS to identify use cases, deploy bots, and scale adoption enterprise-wide. In a high-cost labor environment like Europe, automation is a strategic lever for maintaining competitiveness amid margin pressure.

Volkswagen Financial Services partnered with BlueSoft to build an RPA program that not only delivered immediate efficiency (10x acceleration in some processes) but also established internal automation competency for continuous improvement (BlueSoft, 2020).

Focus Area 3

Digital Transformation Demands to Scale Efficiently and Meet Customer Expectations on Connected Cars and In-Car Technologies.

Shifting consumer expectations are the reason why this focus area is important. Younger consumers are more brand-agnostic and prioritize digital experiences over legacy reputation. New players such as **Tesla, BYD,** and other mobility startups are gaining traction through user-centric platforms, omnichannel engagement, and direct-to-consumer sales. This erodes the traditional strength of European OEMs, who have historically relied on heritage, dealer networks, and engineering superiority.

Automotive players should, therefore, do the following:

5. Global Consolidation and Standardization at Scale

GBS should be positioned as a strategic orchestrator of enterprise-wide transformations and not just as a transactional support unit. The idea is to leverage its process expertise and cross-functional footprint to lead major initiatives such as ERP modernization, cloud migration, new EV business models, and DTC sales platforms. GBS should provide program management, data migration, testing, and change management, serving as the company's strategy execution arm. GBS, with its enterprise-wide view and operational capabilities, can drive integrated changes more effectively and at scale.

As part of its **Dare Forward 2030** strategy, Stellantis aims to drive **one-third of global sales through online channels by 2030,** launching a **global digital marketplace** for vehicle sales and aftersales services. It has leveraged shared digital teams across India and Europe to build and globally roll out a **direct-to-consumer e-commerce platform** (Printz, 2022).

Focus Area 4

Upskilled Talent in Software, AI, and EV Tech amid Ageing Europe's Population

One of the effects of the technology disruption is that with the shift in the fabric of the industry from ICE to EV, the key skills in demand have also changed from typical mechanical engineering to new-age software, digital-twin, and analytics expertise. With Europe's ageing population (the share of people aged 55 years or more in the total number of persons employed in the EU-27 increased from 12% to 20% between 2004 and 2019 (European Commission)), and a shift in the skills demanded, the industry must address the need for new-age talent/ technologies.

European automotive players need to consider focusing on the following:

6. Talent Hubs and Next-Generation Workforce Development

The sector is witnessing high demand for **mechanical and electrical engineers, digital twin modelers, battery systems specialists, and supply chain optimization experts.** Redefining the talent strategy by making business services a hub for digital skills and leadership development could be the next big move. Concentrate critical talent such as software engineers, AI specialists, data analysts, and procurement experts in global centers located in talent-rich, cost-effective regions (e.g., Central & Eastern Europe). It is also important to establish career pathways that rotate top talent through GBS and invest in continuous upskilling (e.g., AI, agile, design thinking), positioning GBS as a launchpad for enterprise leadership roles.

With 12,000+ people, **Bosch's GBS** not only delivers services but also effectively serves as a **training ground for digital skills,** aligning with Bosch's aim to be a leading AIoT company and serving all of the group's activities (Bosch, n.d.).

Case Example

German Automotive Group: Building internal software capabilities to drive EV and autonomous transformation

Context

The Group, one of the world's leading automakers, is undergoing a large-scale digital transformation to compete in the rapidly evolving electric and autonomous vehicle market. Historically reliant on the ecosystem of external partners for software development, the company identified integration inefficiencies, slower innovation cycles, and limited control over digital quality and timelines.

What Has Been Done

In response, the company established a dedicated software organization – **CARIAD** (formerly referred to as car.software.org) – tasked with significantly increasing in-house software development capacity. A key initiative under this effort is the creation of a unified operating system, to be deployed across its brands and vehicle platforms.

To support this effort, the company has expanded its presence in central and eastern Europe by opening technology hubs – such as its **software development center in Poland** – focused on:

- Modularizing vehicle software architecture,
- Enhancing capabilities in simulation and autonomous systems,
- Integrating connected services via cloud-based platforms.

The goal is to improve software integration, accelerate feature deployment, and reduce reliance on third-party providers through platform consolidation and open-source collaboration.

Impact to Date

- Early rollout of standardized software architecture has improved system compatibility across vehicle platforms.
- Investment in simulation tools and internal capabilities has reduced time-to-market for digital features.
- Regional hubs have broadened access to skilled talent in software engineering and automotive tech.

Expected Future Impact

- Enables scalable **vehicle-as-a-platform** business models with OTA updates and app-based services.
- Supports deployment of **Level 3+ autonomous driving** capabilities.
- Strengthens competitiveness through better user experience and innovation agility.
- Contributes to the company's long-term strategic goal of becoming a software-driven mobility company.

6.5.3 Pharmaceuticals

Strategic Position of the Industry in Europe

The pharmaceutical sector is one of Europe's most important strategic assets, combining high social impact with economic weight. From 2020 to 2022, the global pharmaceutical market grew at ~4% CAGR, driven by COVID-induced demand and steady consumption of chronic and specialty treatments. Europe saw a sharper rise in 2021, owing to a disproportionate share of pandemic-linked revenues, but contracted in 2022 as that demand receded, resulting in a more modest ~2% CAGR over the pandemic period.

TABLE 6.6 **Structural and Productivity Overview of the European Pharma and Life Sciences Sector**

Number of enterprises (2023):
67–68k

Number of persons employed directly (2023):
1.3–1.4 million

Net turnover (2023):
EUR 510–520bn

Turnover per worker (2023):
EUR 380–390k

Value added per worker (2022):
EUR 250–260k

Value added per hour worked (2022):
EUR 140–150

Net turnover growth (2021–2023):
–4% CAGR

Source: EUROSTAT's SBS data. The analysis utilizes the ABSL sector's classification; please refer to the Appendix.

The market saw a rebound in 2022-24 with **global growth at ~5% CAGR.** This was primarily driven by continued innovation in biologics and expanded government healthcare spending. Europe outpaced global growth by 1% during this period, benefiting from the same underlying demand trends and further supported by region-specific enablers such as the EU's 2023 Pharmaceutical Legislation reform and a renewed push for localized manufacturing under strategic autonomy goals. Its global market share has remained consistent between **22-24%** from 2014 to 2024. However, persistent challenges such as fragmented regulation, slower digital adoption, and talent shortages in critical innovation areas continue to limit overall competitiveness.

While the pharma sector in Europe is facing challenges in maintaining its global competitiveness, it supports major exports and is a critical innovation engine for the continent at large.

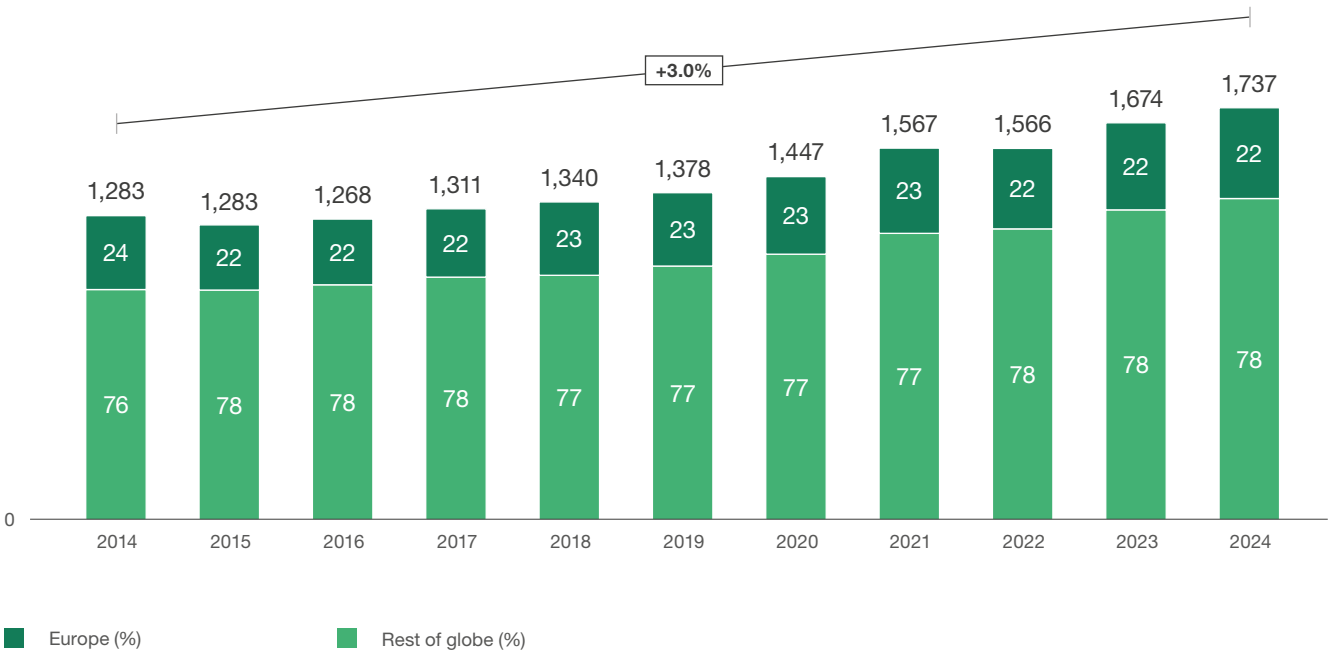
1. Outsized Export Contribution Challenged by Shifting Trade Dynamics

In 2024, the EU exported approximately **EUR 313.4 billion in medicinal and pharmaceutical products, driving a record trade surplus of EUR 193.6 billion.** Pharma exports alone accounted for approximately **12% of the EU's total goods exports,** underpinned by innovation-led manufacturing. Recently, however, relocation of manufacturing to the US is being seen. For example, EU-based drugmakers like Roche and Novartis have announced significant investments, USD 50 billion and USD 23 billion, respectively, to promote manufacturing in the US.

2. Critical Innovation Hub Despite Stringent Regulatory Requirements

Europe's top 5 markets, namely France, Germany, Italy, Spain, and the United Kingdom, accounted for ~16% of global innovative drug launches during 2018-2023, second largest after the USA at 67%. **R&D drives ~130,000 highly skilled jobs across Europe,** almost **10% of the overall** sector's direct employment. However, regulatory complexity and slow clinical trial timelines continue to challenge Europe's ability to compete as a global innovation leader.

FIGURE 6.9 **Market Size of Pharmaceutical Industry, Global and Europe, 2014–2024** (in USD Billion)



Source: Pharmaceuticals Market Size, Fitch; Aggregation of data for 172 countries comprising 38 European nations. Pharmaceutical sales are defined as the sum of revenues generated by generic (prescription), patented (prescription), and over-the-counter (OTC) drugs through hospitals, retail pharmacies, and other channels. Market value is reported at the final consumer price, including mark-ups, taxes, etc.

Key Market Trends: Strategic Forces Reshaping Europe's Pharmaceutical Sector

FIGURE 6.10 **Key Market Trends Shaping Europe's Pharmaceutical Industry**

A	B	C
R&D Shifts, Supply Chain & Execution Challenges	Evolving Engagement Models	Data Harmonization and Governance
R&D Migration to Emerging Nations	Acceleration in Omnichannel Engagement	Fragmented Data Governance
Supply Chain Dependencies	Hyper-Personalization for HCPs	
Advanced Drug Breakthroughs & Modalities	Lagging AI Adoption in Trials	

A. R&D Shifts, Supply Chain, and Other Execution Challenges

1. Emerging R&D Hubs in Developing Markets

Europe's drug manufacturers face **growing pressure from** emerging markets. **Indian-made generics** now account for nearly **20% of global supply,** highlighting India's dominance in off-patent drugs through players such as Cipla, Sun Pharma, and Dr. Reddy's. Simultaneously, China's biopharma champions such as WuXi AppTec and BeiGene are expanding rapidly in global innovation. From 2018 to 2023, the pharmaceutical markets in Brazil and India grew at 12.3% and 9.9% respectively, well above the 7.4% average seen in Europe's Top 5 markets.

2. Advanced Drug Breakthroughs and New Modalities Redefining Treatment

A wave of scientific breakthroughs from gene therapies and mRNA vaccines to precision medicines is disrupting traditional treatment paradigms. For example, the **landmark approval of Leqembi** in 2025 introduced the first EU therapy to slow Alzheimer's disease progression by targeting its underlying pathology.

Biologics represented **41% of the total** pharmaceutical market value in 2024 across Europe's top 5 markets, up from 23% in 2010, nearly 3x faster than the **small molecules market.** However, these therapies **demand specialized infrastructure** such as cold chain logistics, digital batch tracking, and cross-regulatory traceability. Despite the adoption of clinical trials regulations in 2022 (CTR), Europe lacks harmonized digital trial systems, which results in a lack of execution capacity for complex therapies.

B. Evolving Engagement Models

1. Acceleration in Omnichannel and Digital HCP Engagement

A 2024 IQVIA survey revealed that only **38% of UK and 45% of German healthcare** professionals' (HCPs) actual engagement methods aligned with their preferred channels, largely due to an over-reliance on face-to-face interactions. Pharma players are responding. Sanofi reported that 75% of its HCP engagements in Western Europe were either fully or partially digital in 2023, reflecting the growing importance of hybrid models.

2. Hyper-Personalization as an Enabler for Commercial Engagement

Healthcare professionals (HCPs) are overwhelmed by the volume of digital outreach, but continue to receive limited, relevant, **and tailored engagement.** On average, HCPs receive over 3,200 digital communications annually from pharmaceutical companies, yet **engage meaningfully with <2.5%.** Personalized marketing approaches have been shown to drive up to **70% improvement in HCP engagement rates** compared to non-personalized strategies, underscoring the need for more targeted interactions.

3. AI Adoption Lags Despite Growing Use Cases, Especially in Trials

AI tools in trial simulations and patient recruitment are improving design precision and reducing cycle time. Sanofi identified 90 AI-influenced drug targets in 2023, with 75% of its pipeline now AI-influenced. However, EFPIA notes that while the EU "is leading on regulation" of critical tech such as AI, it is "not in adoption and implementation" that spurs innovation, with initiatives like **GenAI4EU** only slowly closing the gap. About 55% of European pharma manufacturers face compliance complexity that delays AI scale-up across markets.

C. Data Harmonization and Governance

1. Fragmented Data Governance Undermining Clinical and AI Scalability

Despite the 2022 rollout of the EU Clinical Trials Regulation (CTR) aimed at simplifying multi-country trial processes, Europe's share of global clinical trial activity remains below 15%. A 2025 Hexagon-Forrester survey found that 68% of European pharma manufacturers report data silos that delay time-to-market.

Strategic Role of Business Services in Responding to Industry Changes

Business services maturity in the pharmaceutical sector

Pharma companies in Europe have almost 100 Shared Service Centers, representing approximately **7% of the region's total SSCs** (SSON, 2024) **and spread across five countries.**

While smaller in share compared to sectors like BIFS, the pharma GBS landscape demonstrates **high functional maturity globally,** with **~33% of centers** operating at advanced levels in **tech-enabled services and customer experience,** second only to the technology sector. Mature players are leveraging GBS not just for back-office consolidation but as **innovation hubs** for AI deployment, Gen AI-driven automation, and real-time safety monitoring. As pharma faces rising complexity in compliance, AI adoption, and decentralized trials, GBS is evolving into a strategic enabler of agility, scalability, **and regulatory resilience** across the value chain.

TABLE 6.7 **Presence of Pharma and Life Sciences SSCs in Europe**

Country	# SSCs	Major Hubs (#SSCs)
Poland	33	Warsaw (19) Kraków (4)
Ireland	13	Dublin (9) Cork (4)
Spain	10	Madrid (5) Barcelona (5)
Czech Republic	9	Prague (9)
Hungary	6	Budapest (6)

Source: SSON database.

To scale innovation and maintain leadership in a rapidly evolving landscape, Europe must focus on three areas:

Focus Area 1

Innovation Enablement and Delivery Readiness for **Scalable and Faster Execution**

As the EU continues to lose global market share, it is imperative to build a unified ecosystem with tight orchestration across regulatory requirements, R&D, supply chain, and drug trials. Pharma companies could, therefore, do the following:

1. Institutionalize AI-Focused CoEs in GBS to Pilot and Build Scalable AI/GenAI Solutions

The idea is to set up dedicated CoEs within GBS that focus on AI and generative AI solutions, serving as sandbox environments to pilot emerging technologies. These CoEs act as structured, low-risk testbeds to pilot GenAI use cases in areas like protocol optimization in digital trials, predictive logistics, or intelligent site monitoring, and enable rapid scaling and delivery of successful applications.

2. Deploy Agile Cross-Functional Tribes for Accelerated Delivery

Companies should deploy cross-functional agile teams combining R&D, IT, regulatory, and operations skills within the GBS framework to drive faster product development and process improvements. These tribes can work in rapid sprints to prototype solutions or streamline workflows with end-to-end ownership from concept to deployment.

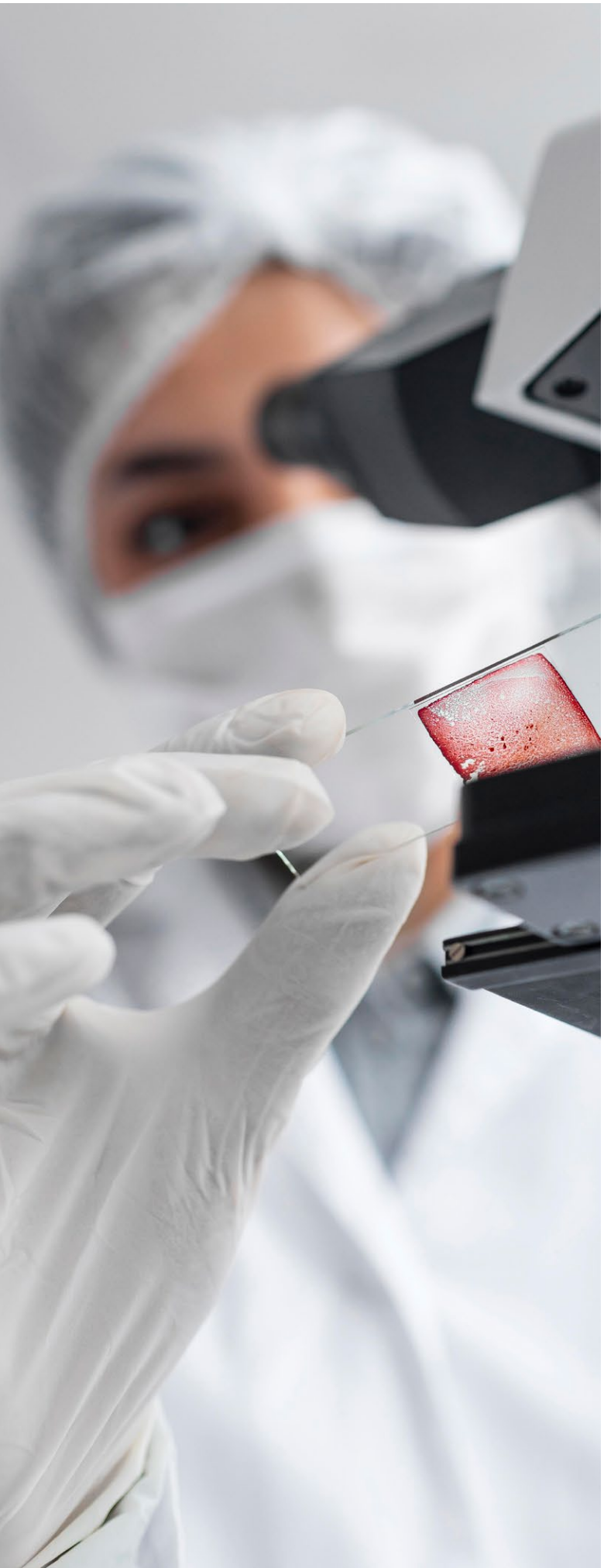
For pharma, this means faster clinical trial startups, more agile supply chain adjustments, and quicker rollout of digital initiatives.

Focus Area 2

Digital and Personalized Engagement to Maximize **HCP Reach and Drive Commercial Impact**

With engagement models evolving, companies that cannot meet HCPs in their preferred digital environments risk reduced engagement and a loss of commercial impact.

Also, firms that achieve enterprise-wide AI adoption by integrating AI into core R&D, clinical trial design, regulatory submissions, and pharmacovigilance can accelerate drug discovery and development. Firms that remain siloed risk falling behind US and Chinese competitors already deploying AI at scale.



Pharma companies must therefore consider the following:

3. Centralize Sales & Marketing Ops for Omnichannel Engagement

The idea is to leverage GBS to centralize and modernize sales and marketing operations by, for example, creating global content studios, digital campaign support teams, and multi-channel HCP service centers.

4. Using Gen AI and Agentic AI to Drive Personalization at scale

Hyper-personalization via Gen AI and Agentic AI can help create tailored content and outreach based on real-time data such as prescribing patterns, digital behavior, and preferences. GBS enables this at scale by connecting CRM, content systems, and AI engines to suggest next-best actions and automate responses.

Focus Area 3

Unified Data and Compliance Architecture to Accelerate **Real-World Evidence (RWE) and Cross-Border Scalability**

This stems from the need for data harmonization and governance.

Pharma companies need to do the following:

5. Establish Risk & Compliance CoEs

Pharma companies are increasingly leveraging RWE and global platforms, which means handling sensitive health data across multiple jurisdictions and meeting a patchwork of regulations like GDPR in Europe, HIPAA in the US, and a plethora of local trial laws. Establishing CoEs within GBS dedicated to risk management and compliance, will allow for a unified compliance framework. These CoEs set global standards, monitor compliance across all regions, and support business units in navigating complex regulations, thereby enabling the company to leverage data and operate seamlessly across borders.

Case Example

UK based Global Pharma company: Global regulatory compliance & pharmacovigilance hub in Poland

Context

To enhance regulatory oversight and pharmacovigilance, the company centralized multiple global functions into a shared services model in Poland. In 2021, the company consolidated six separate capability centers, including R&D, digital & tech, finance, procurement, HR, and supply chain, into the company's Poland Global Hub, spanning Warsaw and Poznań, now one of the company's largest global delivery sites.

Intervention

The Poznań site was designated a Global Regulatory Centre, supporting clinical operations, drug registration, and pharmacovigilance with a specialized R&D team of approximately 600 professionals.

The company implemented end-to-end digital automation tools for adverse event detection and safety monitoring, aligned with global pharmacovigilance standards.

Impact to Date

Scaled to become one of the company's **largest global delivery centers,** with the headcount growing from ~700 in 2019 to **2,200+ employees by 2024,** supporting six global functions.

Delivered measurable efficiency gains by implementing **digital automation in adverse event tracking, case intake, and risk detection,** enhancing compliance, and reducing manual workload across global safety operations.

Positioned Poznań as a strategic hub for **global regulatory submissions,** with centralized oversight enabling faster response to evolving requirements and streamlined collaboration across clinical and safety functions.

Expected Future Impact

The hub will accelerate regulatory approvals and safety surveillance globally through unified, automated workflows.

Expansion of digital pharmacovigilance tools is expected to improve real-time safety insights and reduce manual workload.

As a certified R&D Centre, Poznań is poised to take a larger role in clinical trial design, AI-driven safety analytics, and global registration support.

6.5.4
Aerospace and Defense

Strategic Position of the Industry in Europe

The aerospace industry is one of Europe's most strategic industrial sectors, linking technological leadership and advanced manufacturing. It spans three core sub-industries: civil aeronautics, defense, and space technologies, including satellites and launch systems. These three sub-industries had a turnover of **EUR 280-300 billion** in 2023, growing at 10% YoY and accounting for **~25% of global industry value.**

TABLE 6.8 **Structural and Productivity Overview of the European Aerospace and Defense Sector**

Number of enterprises (2021):
2,500–2,600

Number of persons employed directly (2023):
470–480k

Net turnover (2023):
EUR 200–210bn

Turnover per worker (2023):
EUR 410–420k

Value added per worker (2022):
EUR 110–120k

Value added per hour worked (2022):
EUR 70–80

Net turnover growth (2021–2023):
11% CAGR

Source: EUROSTAT's SBS data. The analysis utilizes the ABSL sector's classification; please refer to the Appendix.

Within this broader landscape, each of the three core sub-industries follows a distinct trajectory, shaped by shifting demand, policy priorities, and industrial dynamics:

Defense systems accounted for **~55% of Europe's total turnover** in 2023. Growth was broad-based across land and naval platforms, both rising by ~18%, and military aeronautics, which grew by ~16%.

Civil Aeronautics contributed EUR 110-120 billion in 2023, accounting for **~41% of the total industry turnover.** The sector surged by **~11% between 2021 and 2022,** fueled by a sharp recovery in passenger traffic and a wave of fleet replacement activity. However, **growth eased to ~3% in 2022-2023** as persistent **supply chain bottlenecks, workforce shortages, and rising input** costs began to constrain the pace of production and aircraft deliveries.

Space technologies contributed EUR 10-20 billion in 2023, representing just **~4% of the total turnover.**

Though small in scale, aerospace and defense punch far above their weight, anchoring Europe's export competitiveness and innovation capacity:

1. High-Impact Export Engine

Europe's A&D sector is a key driver of the continent's trade surplus. EU-27 exports reached **~EUR 139bn** in 2023, growing at ~12% YoY, and accounted for **8-10% of total EU goods exports.** Of this, **civil aeronautics accounted for ~65%** (Commission, 2024)

Europe is home to some of the world's top aerospace exporters, including Airbus, Dassault, Leonardo, and Thales, whose global platforms underpin the EU's position in high-value manufacturing.

2. Powerhouse of R&D

In 2023, total R&D investment across the European A&D sector reached EUR 23.4 billion, accounting for **~8% of total turnover,** second only to pharmaceuticals at

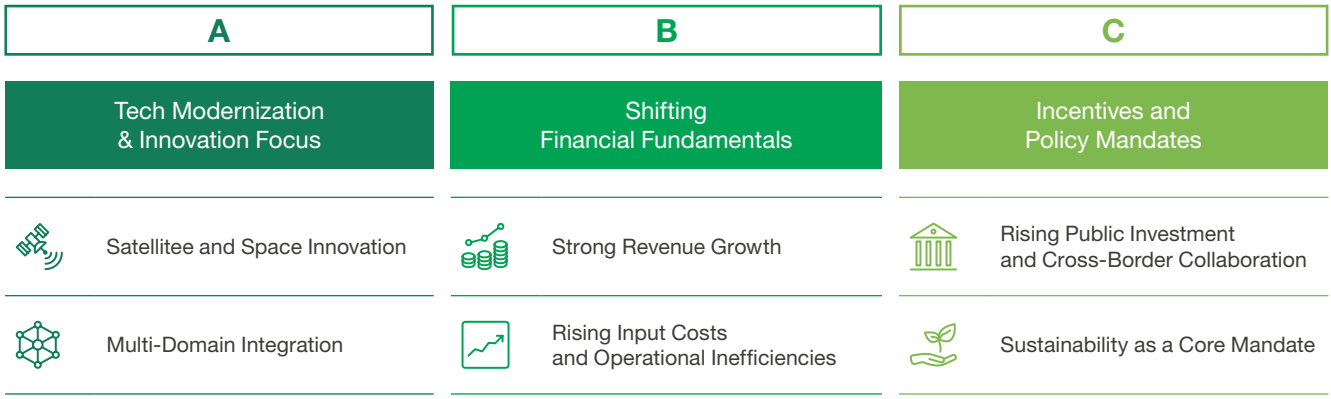
~9-10%. Within the sector, **civil aeronautics** continues to account for the largest share of R&D spend at ~40%, driven by programs focused on sustainable aviation, propulsion systems, and aircraft electrification. Public-private partnerships (PPPs) are increasingly instrumental in this progress, with initiatives such as Clean Aviation and SESAR 3 accelerating innovation in zero-emission flight technologies and the modernization of air traffic management (Commission, 2024).

3. Integral Part of a High-Tech Industrial Ecosystem

The aerospace sector in Europe supports a vital network of more than 2,500 specialized SMEs, operating in areas such as composites, electronics, avionics, and propulsion. Many of these are integral to Europe's defense supply chains and ongoing initiatives such as the European Defense Industry Program (EDIP), which aims to strengthen the region's cross-border resilience (Commission, EU Defense Industrial Strategy, 2024).

Key Market Trends: Strategic Forces Reshaping Europe's Aerospace Sector

FIGURE 6.11 | **Key Market Trends Shaping Europe's Aerospace and Defense Industry**



A. Technology Modernization and Innovation focus

1. Satellite and Space Innovation Gains Momentum

Europe's space sector is rapidly emerging as a hub for innovation. Since 2020, there has been a sharp rise in small satellite launches, national programs, and commercial startups. A key example is **IRIS²,** a planned 290-satellite constellation that will provide **secure communications for government applications and broadband connectivity for civilian use,** reinforcing Europe's space capabilities. In parallel, the EU is scaling its Earth observation (Copernicus) and navigation (Galileo) services, which similarly deliver critical data for public services and strategic operations.

B. Shifting Financial Fundamentals

1. Strong Revenue Growth due to Stabilizing Civil Aviation

Europe's aerospace sector is experiencing strong revenue growth, propelled by a steady civil aviation recovery. Civil aviation, after a ~11% post-pandemic

surge, slowed to ~3% growth in 2023 due to supply chain constraints and rising input costs. Meanwhile, shifting global dynamics are subtly reshaping global competitiveness. China's COMAC, which recently launched its first domestically developed narrow-body jet, illustrates how long-term capability building and global partnerships are enabling new players to slowly gain ground in commercial aerospace.

2. Margin Pressure Persists amid Rising Input Costs and Operational Inefficiencies

Even as demand grows, profit margins remain under strain. In 2024, firms across the sector continued to face elevated costs in energy, raw materials, and labor due to lingering supply chain disruptions and wage pressures in tight labor markets. In long-term fixed contracts, firms have limited ability to pass on these increases, directly impacting earnings. In response, companies are scaling up cost-optimization initiatives from **automation and predictive maintenance to restructuring supplier networks** to protect margins and improve operational resilience.

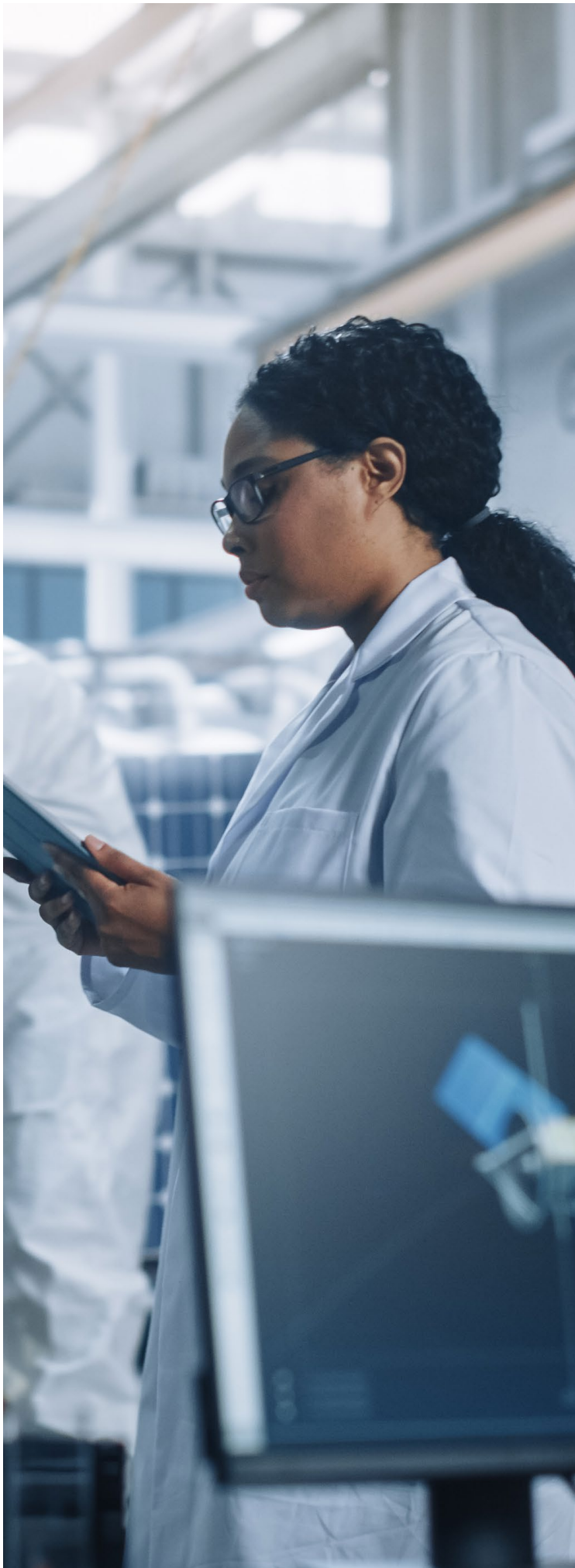
C. Incentives and Policy Mandates Driving Transformation

1. Strengthened Cross-Border Collaboration to Build Capabilities

EU-level initiatives like the **European Competitiveness Fund** are increasingly backing cross-border activities in **space systems** and **sustainable aviation** (Commission, 2024).R&D programs such as Clean Aviation, SESAR 3, and Horizon Europe are further supporting next-gen propulsion, green mobility, and sovereign launch capabilities. While this growth reflects urgency, it also highlights the strain placed on Europe's traditionally lean industrial base.

2. Sustainability as a Core Industrial Mandate

The aerospace sector is pivotal to Europe's climate agenda, accounting for 12% of total transport emissions and 4% of total GHG emissions in EU-27 and EFTA in 2022. To address this, the EU's Destination 2050 roadmap and ReFuelEU Aviation policies target a 55% reduction in emissions by 2030 and net-zero by 2050, starting with mandatory 2% sustainable aviation fuel (SAF) blending from 2025



(EASA, 2025).OEMs are aligning fast. **Airbus** aims to launch its first **zero-emission aircraft by 2035** (Airbus, 2023), and **Rolls-Royce** has committed to **100% SAF compatibility for all new civil engines.**

Strategic Role of Business Services in Responding to Industry Changes

Business Services Maturity in the Aerospace & Defense Sector

The GBS ecosystem within Europe's aerospace sector is growing fast. Current operations center around transactional and compliance-heavy domains, namely finance, procurement, export control, project accounting, HR administration, R&D documentation, and IT support. There is growth in cybersecurity and supply chain assurance. Most shared services are configured to support export control, regulatory compliance, and administrative tasks.

The delivery model is highly concentrated in Western Europe, particularly in France, Germany, the UK, and Spain, with emerging hubs in Eastern Europe in Poland, Romania, and the Czech Republic.

To tackle the challenges highlighted in the last section and to enable innovation at scale, Europe's aerospace sector must prioritize the following areas:

Focus Area 1

Connect Operations and Delivery Agility to **Enable Multi-Domain Integration within the Company**

As digital, AI, and space systems mature, the sector's challenge is no longer innovation but scaled integration. Here are the ways to ensure this:

1. Setting Up Cross-Functional, Agile Teams for Scaled Integration

As aerospace moves toward multi-domain operations, fragmented proprietary systems threaten connected operations. Traditional delivery models struggle to scale at speed across legacy platforms. Agile, embedded squads close this gap by integrating proven tech into mission-critical systems, ensuring interoperability, and reducing time to field.

Set up cross-functional agile pods embedded within engineering, IT, and operations to deploy and scale validated technologies across testing, certification, and systems deployment environments. Comprising aerospace engineers, software developers, and system architects, these teams focus on real-time system integration, certification readiness, and driving standardization in platform architecture. Use cases include streamlining onboard system upgrades, accelerating software releases, and ensuring compliance across multi-vendor ecosystems.

2. Creating Digital Engineering and AI Innovation Pods via GBS

Aerospace companies are advancing digital design, AI, and space-tech, but **struggle to scale these innovations across ageing platforms and siloed domains.** It is important to establish innovation pods within GBS focused on AI, digital engineering, and simulation to rapidly prototype and de-risk emerging technologies before field deployment. These pods enable targeted experimentation of use cases such as aircraft system simulations, AI-powered predictive maintenance, and digital mission planning, helping teams adapt and integrate new capabilities into legacy environments with minimal disruption.

Focus Area 2

Cost Discipline to **Protect Margins and Accelerate Capability Building**

This focus area stems from the need to navigate rising input costs and financial pressures, even while doubling down on operational efficiency, streamlining procurement, and prioritizing high-impact capabilities. Several leading players are already taking decisive steps. Airbus is automating production lines to reduce unit costs, while Leonardo is leveraging joint ventures with partners like Rheinmetall to share development and sourcing costs across partners.

The players in this space can consider the following:

3. Multi-Function Centralization and Standardization for Cost Efficiency

The need is to standardize support processes and consolidate non-core functions into global service hubs to reduce structural overhead and improve delivery consistency. Focus areas include finance operations, HR services, and procurement. GBS can drive harmonized workflows, toolsets, and KPIs across sites, enabling scale, repeatability, and faster onboarding.

4. RPA-Led Automation for Digitizing Non-Core Functions

Use GBS to scale **robotic process automation (RPA),** AI analytics, and digital workflows across transactional activities like finance, procurement, and MRO support. For example, **Airbus has implemented an RPA factory in partnership with Capgemini,** automating tasks such as supplier onboarding and invoice processing, delivering notable gains in speed, accuracy, and compliance.

Focus Area 3

Governance and Compliance Support **to Simplify Crossborder Supply Chains**

The shift towards cross-border initiatives highlights the urgency to resolve persistent fragmentation across procurement, development, and regulatory processes. Saturated production lines and inconsistent compliance standards are slowing execution.

And therefore, players in this space should do the following:

5. Set Up Regulatory Reporting and Compliance Execution Support in Cross-Border A&D Programs

The idea is to set up a GBS-led compliance and reporting support layer to streamline regulatory reporting and control execution across multi-country aerospace programs. This includes managing export control filings for joint platforms, coordinating cybersecurity compliance for shared digital programs such as IRIS², and centralizing supplier screening and audit preparation to meet EU-wide requirements without duplicating local effort. A centralized GBS support structure helps improve audit readiness and ensure consistent compliance execution across the collaborative program landscape.

Focus Area 4

Embedding Sustainability Into Core Operations to **Drive Long-Term Compliance**

Sustainability has become a regulated mandate, and therefore, there is an urgent need to **integrate climate goals into core R&D, procurement, and industrial planning.**

The players in this space could do the following:

6. Set Up the Sustainability CoE within GBS

As aerospace firms ramp up investment in next-gen platforms and face increasing sustainability mandates, the challenge is embedding climate goals into everyday capital, R&D, and procurement decisions, not managing them in parallel.

Establish a GBS-led Centre of Sustainability that integrates climate and compliance objectives into strategic decisions across R&D, sourcing, and program planning. The CoE tracks emissions, supports SAF adoption, embeds ESG criteria into supplier evaluations, and ensures sustainability-linked investments align with enterprise goals.

Case Example

European A&D company: Scaling GBS capabilities in Portugal to support enterprise operations

Context

As part of its pan-European transformation, the company has been accelerating the development of centralized service hubs to enable digital-first engineering and cost-efficient execution amid the rising complexity of civil and defense platforms, such as the A350, Eurofighter, and the Eurodrone program. In this context, the company needed a **harmonized model** to streamline its enterprise operations.

Intervention

The company established multi-functional GBS centers in Portugal, headquartered in Lisbon, to serve the group internationally and scale three core capability towers: finance & procurement services, engineering documentation services, and enterprise IT support. These hubs were also built to host **digital twin environments,** enabling PLM analysts to simulate lifecycle impacts of aircraft modifications before they move to production.

Impact to Date

Services span **8+ enterprise towers,** namely finance, HR, procurement, IT, legal, engineering, communication, and compliance, directly supporting the company's business units in multiple countries.

The center has scaled to **1k+ full-time professionals,** making it one of the company's largest multi-functional delivery sites globally.

Expected Future Impact

As the company progressively integrates **cloud-native infrastructure and intelligent automation** across global support functions, the Portugal GBS is expected to pilot **workflow digitization** and support **centralized SLA tracking** for internal customers

6.5.5 Telecom

Strategic Position of the Industry in Europe

The telecom sector serves as a critical backbone of Europe's digital infrastructure, underpinning essential services such as 5G connectivity and FTTH (Fibre-to-the-Home). Beyond its direct relevance, the sector **plays a central role in enabling other strategic industries,** reinforcing its importance in driving **innovation and digital sovereignty.** It accounts for **~1% of the EU's GDP** with a market size of **EUR 340-360 billion in 2023.**

TABLE 6.9 **Structural and Productivity Overview of the European Telecom Sector**

Number of enterprises (2021):
36–37k

Number of persons employed directly (2022):
800–810k

Net turnover (2023):
EUR 340–360bn

Turnover per worker (2023):
EUR 400–420k

Value added per worker (2022):
EUR 160–170k

Value added per hour worked (2022):
EUR 100–110

Net turnover growth (2021–2023):
4% CAGR

Source: EUROSTAT's SBS data. The analysis utilizes the ABSL sector's classification; please refer to the Appendix.

From 2014 to 2024, the global telecoms market grew at ~2% CAGR, while the European market remained **nearly flat at ~0.05% CAGR.** This prolonged stagnation in Europe has been driven by structural factors, including market saturation, slower investment cycles, and tighter regulatory controls on pricing.

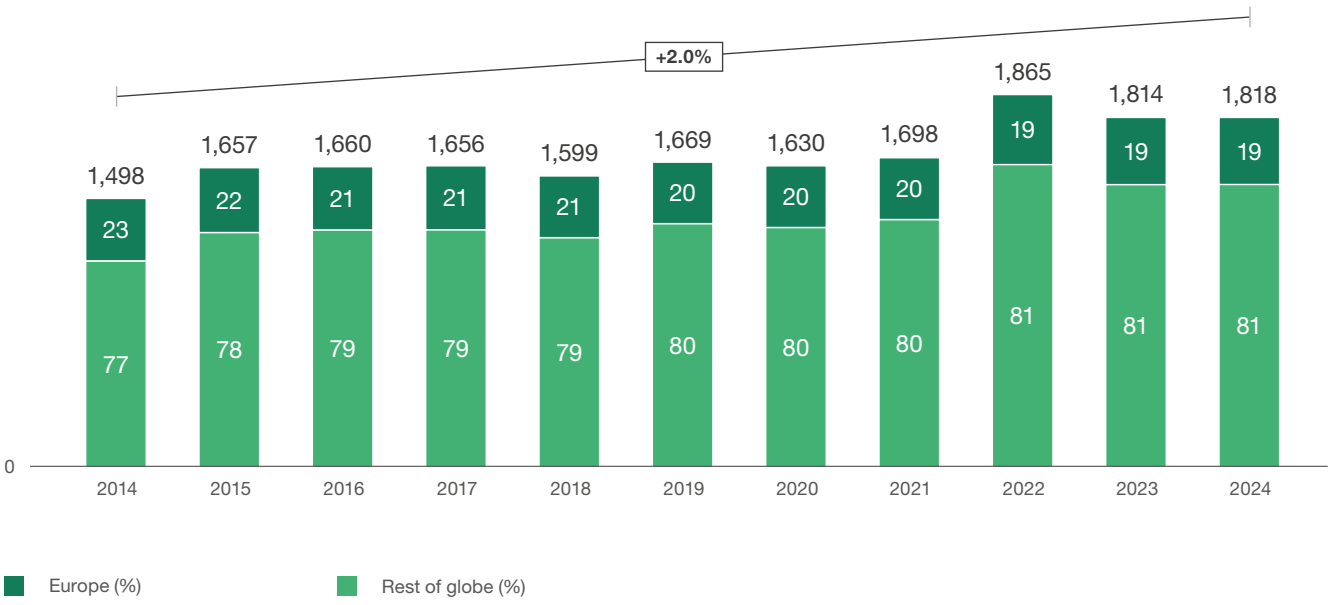
During the COVID period, i.e., 2020-22, global telecom revenues rose sharply by ~7% CAGR, fueled by a surge in demand for connectivity to support remote work, digital services, and at-home consumption. Europe, however, grew at a more modest ~3% CAGR during this period, constrained by limited pricing flexibility and a greater reliance on price-sensitive prepaid customers, particularly in southern markets (Enders, 2021). Between 2022 and 2024, global telecom revenues declined by ~1%, while the European market remained flat, reflecting the normalization of pandemic-era demand, persistent Average Revenue Per User (ARPU) pressures, and the limited monetization of new technologies such as 5G and IoT.

The sector is instrumental in strengthening Europe's global position and internal agenda:

1. Continued R&D Focus Despite Declining Global Share

Among the 95 largest telecom companies identified as **top R&D spenders globally** (EU Joint Research Centre) in 2023, **27 were EU-based.** These companies collectively spent EUR 81 billion on R&D, with **EU firms accounting for 16% of the total spend.** However, even while EU firms remain critical to global telecom R&D, their **share of global spend has declined sharply** from **44%** in 2003 to just **16%** in 2023 due to fragmentation, slower commercialization, and the rapid rise of Chinese players (ECIPE, 2025) like Huawei and ZTE. As geopolitics reshapes access to critical technologies, reclaiming Europe's position on the innovation frontier is **central to its ambitions on cross-border data flows and 6G standard setting,** with restrictions on data flows risking an annual GDP loss of EUR 330 billion.

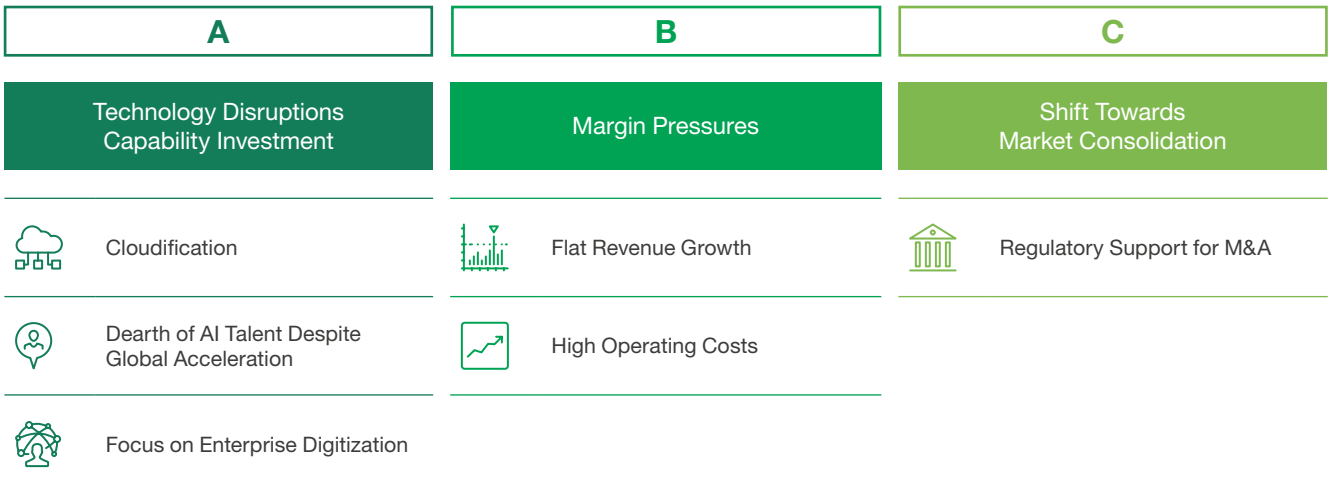
FIGURE 6.12 **Market Size of Telecom Industry, Global and Europe, 2014-2024** (in EUR Billion)



Source: Telecom Market Size, Omdia. Globe represents the aggregate of Africa, Central & Southern Asia, North America, Latin America and the Caribbean, Middle East, Eastern and South-Eastern Asia, Eastern Europe, and Western Europe. Turnover figure represents the **total revenues** from fixed telephony, FBB, and mobile telephony.

Key Market Trends: Strategic Forces Reshaping Europe's Telecom Sector

FIGURE 6.13 **Key Trends Shaping Europe's Telecom Sector**



2. The Underlying Engine Powering Europe's Digital Economy

With **500 million+ mobile subscribers comprising ~85-90% of the population and 5G coverage expected to surpass 80% by 2030,** telecom infrastructure is the bedrock of the digital market. The sector is foundational to e-health, smart manufacturing, and cross-border digital ID frameworks.

3. A Critical Lever for Europe's Green Industrial Agenda

The sector has made significant strides in sustainability, reducing **operational emissions per connection by over 50%** between 2019 and 2022, with some operators achieving reductions exceeding 80%. These gains stem from both energy efficiency improvements and greener sourcing, with approximately **75% of electricity used by European operators now sourced from renewables,** the highest share of any region globally.

A. Tech Disruptions & Higher Capability Investment

1. Cloudification and Programmable Networks with the Capex Burden

European telecom operators are ramping up investments in **network cloudification, programmable infrastructure, and edge computing** to improve service agility and unlock new revenue streams from 5G. Nearly **75% of operators have defined roadmaps** to migrate RAN, fixed, and transport networks to the cloud in 2024. At the same time, operators are evolving towards **'telco as a platform'** model, building scalable, disaggregated, and API-driven network architectures to serve enterprise demand.

However, these technological shifts come with a significant capex burden. European operators collectively spent **18-20% of their revenue on capital expenditures (capex) in 2022, one of the highest intensities globally, compared to ~15% in North America and Northeast Asia.** Despite this spend, **fragmented rollout approaches, lack of cross-market platforms, and siloed execution structures** continue to limit scalability. Therefore, Europe still lags behind, with only 10 standalone 5G networks and four commercial edge offerings, compared to 17 standalone 5G deployments in the Asia-Pacific region.

2. Global Telecom Operators are Rapidly Scaling AI Adoption, but Europe Lags in Talent

An estimated **31% of global telecom operators are considered AI leaders,** ranking among the top 7 out of 42 sectors globally for AI maturity (BCG). These firms generate up to **three times higher operating profit and 2.5 times more patents** than their peers, by generating ~62% of AI-driven value from core business functions. However, talent remains a key challenge in Europe. While the share of AI professionals is similar, at around 0.4% of the workforce across the US, UK, and EU, the UK and the US are growing their AI talent 1.2 times **faster than the EU.** Moreover, **~37%** of the EU workforce lacks **foundational digital capabilities** (LinkedIn, 2024), which can limit the region's ability to fully scale AI adoption.

3. Focus on Enterprise Digitization and 'As-a-Service' Software Offerings

Telcos are offering **secure, cloud-based networks and IoT/robotics support** to private and public sector enterprises. Deutsche Telekom, for example, is rolling out 'next-gen connectivity' services like software-defined networks, 5G slicing, and private 5G networks as part of an integrated B2B portfolio. They highlight 'as-a-service' offerings for SMEs and industry-specific scalable solutions for large enterprises, along with efforts to digitalize public services.

B. Margin Pressures from Eroding Topline and Escalating Costs

1. Market Saturation and Low ARPU (Average Revenue per user) per month Contribute to Flat Revenue Growth

Since 2014, European telecom operators have seen stagnant revenue growth, which is expected to continue till 2030. The market is nearing **saturation, and intense price wars** continue to compress revenue per user, resulting in flat topline growth across the region.

Mobile ARPU per month remains low at ~EUR 15, significantly below the **EUR 26.5** number **in South Korea** and **EUR 42.5 in the US.** This is driven

by structural fragmentation, with **more than 100 operators competing across 27 EU Member States** (Commission, 2024). Strict regulatory price caps and widespread **fixed-mobile bundling** further compress revenue per user (LinkedIn, 2024).

2. High Operating Costs to Meet 2030 Targets

While revenues remain flat, operators are still **investing heavily in network upgrades to meet Digital Decade 2030 targets,** which call for universal gigabit connectivity and full 5G coverage in all populated areas. These investments are further strained by the region's fragmented market landscape, which inflates rollout costs, alongside rising energy prices, evolving regulatory requirements, and the ongoing need to modernize ageing legacy infrastructure.

C. Shift Toward Market Consolidation

1. EU Regulators Shift Towards Scale and Consolidation

Europe's telecom **sector remains structurally fragmented, with 45 large mobile operators across 27 markets in 2023,** compared to 8 in the US, 4 in Japan, and 3 in South Korea. In response, the European Commission is signaling a more supportive stance toward **market consolidation and investment scale** (ETNO, 2024). The approval of the **Masmovil-Orange Spain merger in 2024** marks a notable shift, indicating growing regulatory openness to **4-to-3 consolidations.** Additionally, the **Digital Networks Act 2025** is expected to formalize this policy shift by harmonizing **merger assessment criteria and streamlining cross-border M&A rules,** paving the way for greater operational scale across European markets.

Strategic Role of Business Services in Responding to Industry Changes

Current state of business services maturity in the telecom sector

The telecom GBS environment is **mature and evolving** with core services spanning network operations, billing, customer experience, cybersecurity, and infrastructure management. Most leading telecom operators like Deutsche Telekom, Vodafone, British Telecom (BT), and Telefonica have consolidated transactional and back-office processes within centralized

or offshore Shared Service Centers (SSCs) and BPO platforms across Central and Eastern Europe, primarily **Poland, Romania,** and **the Czech Republic,** as well as Southern Europe, including **Spain and Portugal.**

While most centers remain operationally focused, **~25%** of telecom GBS setups globally demonstrate **maturity in** digitalization and resilience. For instance, Orange's digital hubs in Poland and Spain leverage RPA and advanced analytics for process automation and proactive cyber monitoring.

Other **~25%** have evolved into tech-led and **customer experience (CX) hubs,** indicating a growing strategic pivot toward more front-end and digital service delivery.

To unlock sustainable growth and navigate the current waves of disruption, telcos must focus on **three dimensions:**

Focus Area 1

Innovation Engines and Talent Bridging to **Scale AI and Cloud Deployment**

While operators are actively investing in AI and cloud-native networks, there is a pressing need to **move beyond pilots, scale-proven use cases,** and **align technology roadmaps through stronger cross-operator collaboration.** This is imperative to achieve better 5G penetration, as seen in leading nations such as South Korea, the US, and China, which are at 98%, 98%, and 89%, respectively.

The telecom companies can consider the following:

1. Run Cloud Transformation Programs Through GBS to Accelerate Legacy-To-Cloud Migration

AI and cloud investments are accelerating, yet value realization remains limited due to siloed pilots, a scarcity of digital talent, and inconsistent deployment across operating companies. GBS can lead modular cloud transformation programs to migrate legacy systems, modernize infrastructure, and accelerate cloud adoption across operating companies. These programs function as integrated execution hubs within GBS by leveraging common frameworks and automation assets to enable faster, more reliable rollout while minimizing duplication.

2. AI and CX Focused Innovation Pods for Innovative Solutions and Continuous Improvement

With over 63% of ICT professionals under 35 and a shortage of mid-career digital expertise, operators face challenges in sustaining even foundational transformation programs. Coupled with an ageing workforce and rising demand for next-gen AI skills, this can significantly hamper Europe's ability to hop on to the AI wagon.

GBS can host modular AI pods to rapidly develop and deploy high-impact AI use cases, particularly in areas such as **network maintenance, churn prediction,** and **digital customer analytics.** These pods can serve as embedded delivery units within GBS, allowing business teams to scale AI without relying on scarce functional talent or duplicating investments across operating companies.

AI pods provide a scalable, lower-risk engine to accelerate industrialized innovation from predictive analytics to service automation anchored within shared services.

3. Agile Tech Squads to Accelerate Time-to-Market

GBS can host cross-functional agile tech teams to accelerate digital service development, reduce time-to-market, and improve product quality. These squads bring together developers, architects, UX designers, product managers, and business specialists under GBS oversight to apply agile delivery methods for building and operating new telecom services. For example, **British Telecom** embedded agile squads within its GBS function to accelerate digital delivery across IT and network operations, cutting release cycles by 50%.

Focus Area 2

Optimum Sourcing Mix and Efficiency Gains for **Cost Optimization**

To reduce indirect costs, operators must adopt a more integrated approach, pursuing **cross-border sourcing, migrating to cloud-native platforms, consolidating vendor portfolios, and standardizing procurement** across markets. A notable example is **Project Sylva,** a collaboration between Deutsche Telekom, Orange, Telefónica, Vodafone, and TIM to develop a shared telco cloud infrastructure and unified software stack.

The telecom companies can consider the following:

4. Optimum Sourcing and Shoring Mix of GCCs to Sustain Execution Capacity at a Lower Cost

Non-core, non-value-adding, and repetitive activities can be outsourced to third-party providers. At the same time, organizations can explore a diversified location mix for captive centers, focusing on innovation and specialized knowledge closer to core operations. This approach ensures strategic functions remain under tighter control while optimizing delivery footprint for both efficiency and resilience.

This also allows continued access to transformation-critical skills such as cloud operations and analytics while reducing fixed cost burden and minimizing disruption. For example, **Vodafone** has steadily shifted IT, analytics, and finance to **Vodafone Intelligent Solutions (VOIS) India,** supporting over 25 countries from its Pune and Ahmedabad locations.

5. Automation-Led Service Delivery to Reduce Opex without Headcount Dependence

While automation in energy management, such as IoT-based load balancing, is underway, significant costs remain embedded in manual finance operations, customer care workflows, and network assurance tasks. Expanding automation to these areas can unlock additional opex savings and reduce dependency on manual headcount, especially in contexts of ongoing workforce rationalization. For example, **Telefónica** has deployed RPA across its finance and back-office operations, automating tasks such as invoice validation, cash allocation, and account reconciliation. This initiative reduced cycle times by over 80% and freed up capacity for higher-value financial analysis.

6. Multi-Function Standardization to Unlock Efficiency at Scale

The idea is to standardize key business-enabling functions via GBS, such as sourcing, IT services, network operations, and service support, to reduce fragmentation and unlock scale efficiencies. A unified delivery model ensures consistent execution, accelerates process harmonization across operating companies, and lowers the cost-to-serve.

Focus Area 3

Centralized Compliance to Enable **Consolidation and Scale**

This stems from the emerging case for consolidation and the complexities thereof. Consolidation will expose a lack of harmonized delivery models. The telecom companies can consider the following:

7. Regulatory Reporting Support via GBS

Designate a specialized regulatory reporting layer within GBS to support compliance mapping, audit readiness, and enterprise-wide control testing. These units act as shared platforms for automating reporting workflows, consolidating evidence, and standardizing how business units respond to evolving multi-country regulations such as DORA, NIS2, and GDPR.

Case Example

UK based Telecom operator: GBS-Enabled transformation of IT operations through OpenText Operations Bridge

Context

The company, with operations in 28 markets, faced inefficiencies due to fragmented monitoring systems, excessive alert volumes, and delayed incident response. These issues hindered the rollout of digital services and increased operational overhead. A key challenge was to **align IT more closely with business objectives and enable faster delivery of services,** requiring automation and end-to-end visibility across the hybrid infrastructure. To address this, the company's Global Business Services initiated a strategic program to modernize and centralize **IT monitoring through a unified, scalable platform.**

Intervention

The company's GBS center led the deployment of **OpenText Operations Bridge,** a comprehensive hybrid monitoring solution to streamline and automate IT operations. The platform replaced fragmented toolsets, enabled real-time event correlation, and provided end-to-end infrastructure visibility across environments. Implementation was managed through delivery hubs, aligning with the company's DevOps transformation agenda and enterprise-wide service delivery model.

Impact to Date

70% alarm reduction, significantly lowering operational noise and manual triage

Reduced noise levels through event correlation and consolidation

Improved collaboration between IT and engineering teams via DevOps-aligned practices

Increased focus on development and service enhancement, enabling teams to shift from reactive incident handling to proactive delivery

Expected Future Impact

Positions the company's GBS to take on a **larger share of IT operations' delivery,** reducing dependency on local market teams and improving consistency across geographies

Provides a proven model for **expanding automation into adjacent functions,** such as network monitoring, cybersecurity, and application performance management

6.5.6
Energy

Strategic Position of the Industry in Europe

The energy sector plays a critical role in Europe's economy, underpinning industrial output, energy security, and the continent's clean-energy transition. It is one of the most **capital-intensive, high-productivity sectors** with revenue per employee on the order of EUR 2.4 million. This high productivity reflects scaled automation in the sector.

Europe's power sector is rapidly evolving with the **generation mix** shifting decisively towards cleaner sources. In 2023, the total generation mix consisted of the following: renewables (45%), fossil fuels (32%), and nuclear (23%). The contribution of **renewable sources has significantly improved from 34% in 2019.** Wind and solar alone now contribute over a quarter of Europe's power output, while coal has been in steep decline. This marks a dramatic shift in Europe's electricity mix, driven by aggressive EU climate policies. The trend is expected to continue with many countries having firm **coal phase-out deadlines by 2030,** and renewable capacity forecasted to at least double by 2030 (IEA, 2024; BCG).

The EU's electricity consumption was ~2300 TWh in 2023, and the **long-term demand is poised to rise** with the electrification of transport (EVs), heating (heat pumps), and industry. Projections for power demand growth to 2030 vary. While optimistic scenarios foresee up to a **75% growth in electricity use by 2050** as electrification accelerates, conservative analyses predict this to be around **65%** (IEA, 2024; BCG).

Europe's oil and gas industry encompasses the following:

TABLE 6.10 **Structural and Productivity Overview of the EU Energy Sector**

Number of enterprises (2021):
195–200k

Number of persons employed directly (2023):
1,350–1,360k

Net turnover (2023):
EUR 3,220–3,260bn

Turnover per worker (2023):
EUR 2,300–2,400k

Value added per worker (2022):
EUR 270–280k

Value added per hour worked (2022):
EUR 650–700

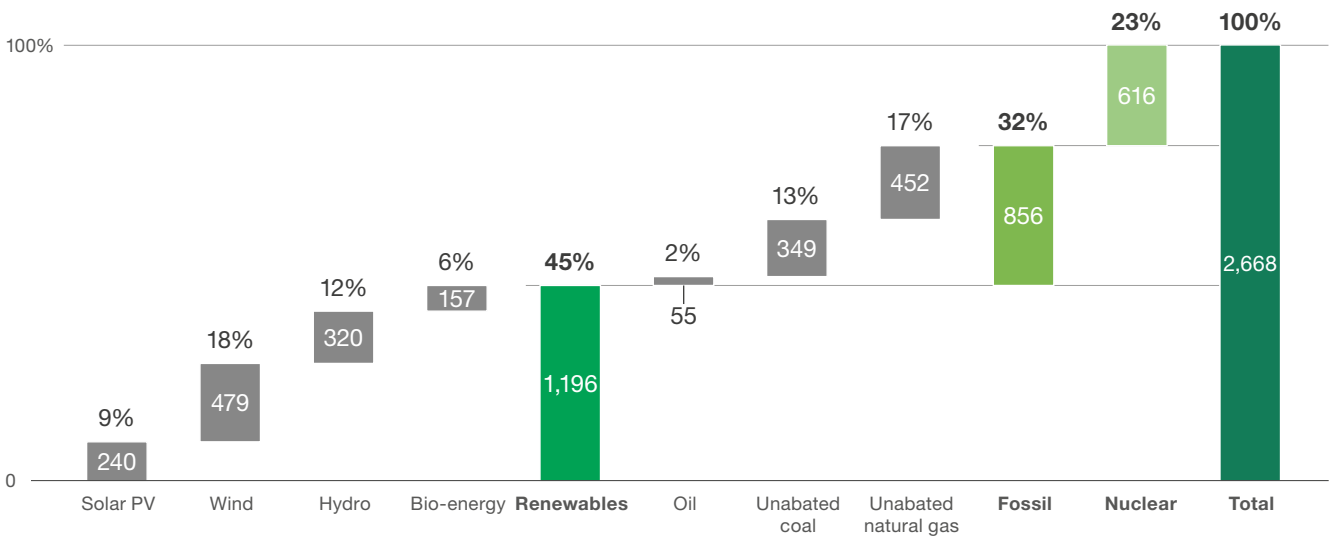
Net turnover growth (2021–2023):
15–18%

Source: EUROSTAT's SBS data. The analysis utilizes the ABSL sector's classification; please refer to the Appendix.

Upstream exploration:
It is concentrated in a few regions (North Sea offshore fields in Norway and the UK, and some onshore gas in the Netherlands). Overall output is in decline. In the last decade, EU oil output has declined by ~36% and natural gas by ~70% (European Commission, 2025), making the region increasingly import-dependent.

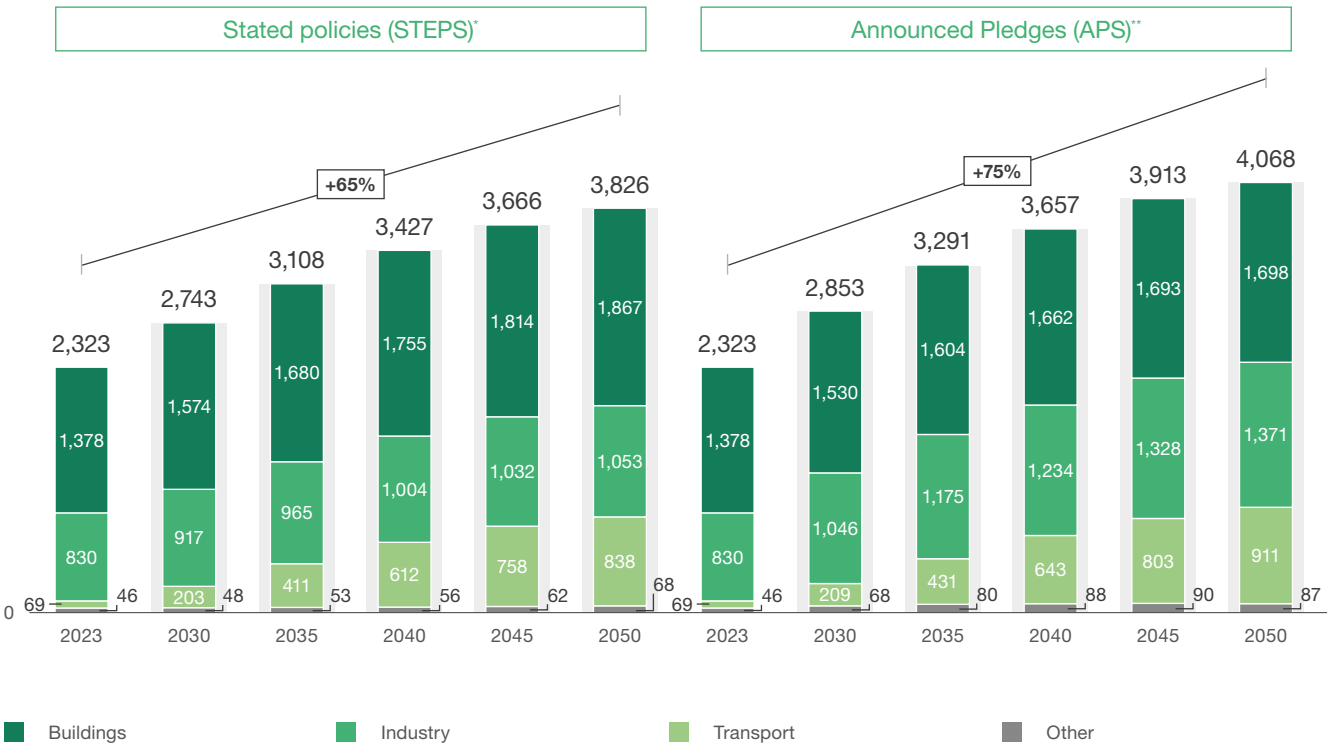
Midstream logistics:
Europe has an extensive midstream network connecting global supplies to consumers. This includes major oil import terminals, **~35,000 km** of crude oil pipelines (Concawe, 2024), and a dense **natural gas pipeline grid** that historically linked Russia to Europe's heartland. Dozens of LNG import terminals have been added or expanded post-2022 to diversify gas supply. Storage facilities for both gas and oil products provide a buffer against supply shocks.

FIGURE 6.14 **EU 27 Power Generation by Technology** (TWh, 2023)



Source: World Energy Outlook (IEA, 2024); BCG analysis.

FIGURE 6.15 **Two Scenarios for EU Power Demand** (EU-27 Power Consumption, TWh)



* Conservative outlook without major additional steering from policy makers.
** Outlook, where policymakers implement announced ambitions and targets.

Source: World Energy Outlook (IEA, 2024); BCG analysis.

Downstream refining/distribution:

Europe operates a large refining system to supply fuels and petrochemicals. As of 2023, the EU-27 plus UK and EFTA had about **75 major refineries** with a combined capacity of around 650–680 million tons per year (Fuels Europe, 2024).

EU crude oil production was only ~16 million tons in 2023 (covering <10% of its oil needs) (European Commission, 2025), yet the sector's turnover has been vast due to high-volume fuel sales overall. Europe remains a **major consumer** of oil (~470 million tons imported in 2023 (European Commission, 2025)) and gas (~290 billion cubic meters in 2023 (European Commission, 2024)), but is a relatively **small producer,** relying on imports for well over 90% of its oil and a large share of its gas demand.

Beyond the numbers, the **strategic importance** of the energy sector for Europe can be understood along several critical dimensions:

1. Anchor of the Climate Transition

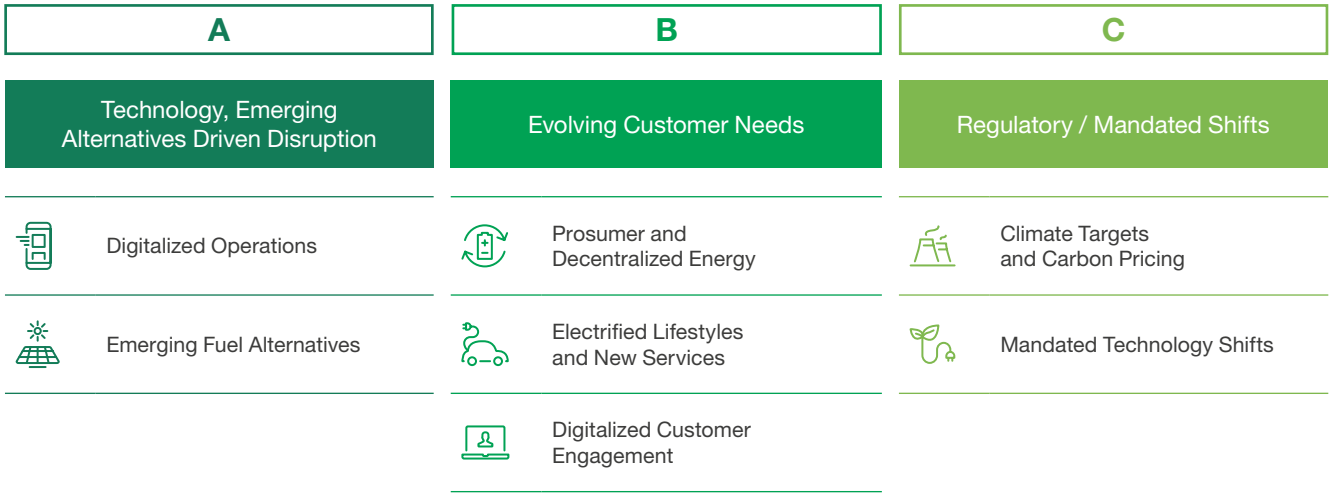
The energy sector is central to Europe's decarbonization strategy. Achieving the EU's 2030 target of a reduction in carbon emissions by 55% against that in 1990 (European Commission, n.d.) and the target of net-zero emissions by 2050 depends on overhauling power, oil, and gas systems. The electricity sector leads this shift. With renewable energy already accounting for **~45% share in energy generation,** it must scale up further to decarbonize transport, buildings, and industry. Simultaneously, the oil and gas sector must reduce its own footprint through carbon capture, low-carbon fuels, and methane abatement. With global investment in the energy sector reaching EUR 23.8 billion in 2023, **the sector is both the largest emitter and the most critical enabler of climate progress.**

2. Industrial Competitiveness and Innovation

Reliable, affordable energy underpins Europe's industrial base, from steel and chemicals to EV battery plants. **Historically, Europeans have faced high energy costs** compared to competitors in regions with cheap fossil fuels. In the 2021-22 energy crisis (Future Energy, 2022), the electricity price surge of up to EUR 400/MWh exposed structural disadvantages such as high carbon cost and exposure to geopolitical tensions, sparking fears of deindustrialization. A resilient energy sector delivering clean power at competitive prices is vital for retaining industrial activity.

At the same time, R&D in this sector catalyzes broader tech and manufacturing competitiveness, as is evident with **Europe leading in offshore wind, electrolyzers, and smart grid tech.**

FIGURE 6.16 | **Key Trends Shaping Europe's Energy Sector**



3. Energy Security and Geopolitical Resilience

Russia's 2022 invasion of Ukraine revealed Europe's overdependence on imported fossil fuels, especially gas. Since then, the **EU has cut Russian gas imports from 45% to 15%** (European Commission, 2024) and **nearly eliminated Russian oil.** The energy sector now plays a geopolitical role, securing diversified supply via LNG, renewables, and strategic reserves, while reducing exposure to hostile actors. With energy infrastructure increasingly recognized as critical national security infrastructure, resilience and autonomy have become defining strategic priorities.

4. Digitalization and Emerging Energy Vectors

Europe's energy sector is transforming through digitalization. **Smart grids, AI-driven forecasting of variable renewable energy's output, and cyber-resilient infrastructure** are enabling flexible, efficient power systems. Simultaneously, emerging vectors like **green hydrogen are bridging power and gas systems,** with the EU targeting 20 million tons of hydrogen, including domestic and imports, by 2030. This innovation wave links energy with sectors like transport, buildings, and digital services, positioning energy as a systemic enabler of a low-carbon, tech-driven economy.

A. Technology and Emerging Alternatives Driving Disruption

1. Efficient Operations Enabled by Digitalization and AI Safety

Energy companies are deploying advanced digital tools, from AI algorithms and digital twins to IoT sensors and drones, to optimize exploration, production, and grid management. For example, power utilities such as Enel and EDF are now utilizing digital twins of power plants, AI-based energy management, and drones for grid inspection to reduce costs and enhance safety.

With ageing assets and leaner budgets, energy companies cannot compromise on safety or system reliability; catastrophic accidents or cyberattacks would outweigh any short-term savings. For example, the EU's new Cyber Resilience Act is pushing O&G operators to bolster defenses for critical infrastructure.

2. Emerging Fuel Alternatives and Delivery Mechanisms

Renewable generation costs have plummeted owing to improved efficiency of photovoltaic cells and evolved turbine designs, enabling massive capacity additions. Solar power hit a record in June 2025 by being the EU's single largest electricity source at ~22% share. Wind is also reaching record highs, and renewables' surge pushed EU coal-fired power to an all-time low of ~6% in mid-2025.

Battery storage is also emerging as the crucial next step to extend renewable supply into night-time and winter peaks. Looking ahead, Europe is betting big on green hydrogen and carbon capture as foundational elements of a decarbonized energy system. The EU aims to deploy 40 GW of electrolysis by 2030, enough to produce ~10 million tons of hydrogen annually. Meanwhile, European oil and gas majors are piloting CCUS (carbon capture, utilization, and storage) technologies to curb industrial CO_2 emissions.

B. Evolving Customer Needs

1. Rise of the Prosumer and Decentralized Energy

European consumers are evolving from passive ratepayers into active participants in energy markets. Millions are installing solar panels, home batteries, and smart EV chargers, becoming "prosumers" who both consume and produce energy. EU directives formally support citizen energy communities, and projects are flourishing. For example, in Italy's Naples region, a solar energy community provides low-cost power to local families and cuts bills by 75% (CATF, 2024). By 2050, up to 264 million EU citizens could be prosumers, supplying ~45% of the EU's renewable electricity.

2. Electrified Lifestyles and New Services (EVs, heat pumps, etc.)

European consumers are rapidly electrifying their transport and heating, which transforms their expectations of energy providers. Electric vehicle adoption has surged, spurred by improving technology and the EU's 2035 ban on new gasoline cars. Likewise, heat pumps are being installed

at unprecedented rates, 50% above forecast, thanks to subsidies and high gas prices. These shifts blur sector boundaries, oil companies now interact directly with EV drivers, and power utilities find themselves fueling cars and heating systems.

3. Digital, Transparent, and Personalized Customer Engagement

Just as in banking or retail, energy customers expect a seamless digital experience and value-based options. Across Europe, utilities have launched user-friendly mobile platforms for billing, usage tracking, and switching plans with a few clicks. New entrants like Octopus Energy in the UK differentiate via superior digital interfaces and data-driven personalization of tariffs. Consumers also increasingly demand green energy choices. For instance, 45% of Germans have opted to purchase 100% renewable electricity, far more than in other countries.

C. Regulatory Shifts and Mandated Transitions

1. Climate Targets and Carbon Pricing Tighten

Europe's regulatory climate is uncompromisingly geared toward decarbonization. The EU 'Fit for 55' packages legally bind a 55% cut in GHG emissions by 2030 (vs 1990) and net-zero by 2050. To force change, policymakers have strengthened the EU Emissions Trading System (ETS). The carbon permit price hit a record EUR 100/ton in 2023, dramatically raising the cost of fossil-fuel power and industrial emissions (Reuters, 2023). This milestone reflects the "new normal" of carbon costs that make low-carbon investments more attractive. Moreover, the ETS is expanding to cover shipping, buildings, and road transport in the coming years.

2. Mandated Technology Shifts (coal phase-outs and ICE vehicle bans)

Governments across Europe are using direct mandates to drive the energy transition. A clear example is the EU ban on sales of new petrol and diesel cars from 2035, compelling the auto fuel mix to shift entirely to zero-emission vehicles by mid-century (European Parliament, 2022). In power generation, many EU countries have legally slated coal-fired plants for closure. For instance, France has already closed nearly all its coal plants, and Ireland shut its last coal station in 2016. Even when they have not been formally outlawed, coal and oil usage are being squeezed out by strict emissions limits and renewable energy targets. The EU's Renewables Directive now targets ~42.5–45% of energy from renewables by 2030.

Strategic role of business services in responding to industry disruptions

Current business services maturity in the European energy industry

While the maturity of business services in the energy sector is at the lower end compared to other industries, the organizations are continually evolving in sophistication. The sector is witnessing a clear shift toward more complex, knowledge-intensive activities handled in these centers, moving up the value chain beyond transactional tasks. Many energy hubs now leverage digital enablement, such as automation (RPA), advanced analytics, and AI, to streamline processes and support higher-value work. As a result, shared service teams increasingly manage critical and knowledge-rich functions (for instance, centralized compliance reporting and data analytics) in addition to traditional back-office services. Notably, some energy GCCs have developed deep domain capabilities that span core operational areas. For example, centralized teams are now handling specialized tasks like maintenance planning, asset data analysis, and sustainability data management across multiple business units. This trend underscores that energy companies' SSCs/GCCs are no longer just cost centers but strategic hubs – driving operational excellence, ensuring compliance, and accelerating digital innovation in the industry's support functions.

Examples

Shell's Kraków hub is a multi-function business services center supporting finance, HR, procurement, and supply operations across global downstream businesses (Netherlands, Polish Chamber of Commerce, n.d.).

BP operates two GBS centers in Hungary that deliver end-to-end support functions, including F&A, procurement, HR, and customer service, contributing to global standardization and digital transformation.

The sector has a preliminary presence in GBS and BPO, with **~40 SSCs and hotspots in Poland, Hungary, the UK, Spain, and Romania.**

TABLE 6.11 **Presence of Energy Sector SSCs in Europe**

Country	# SSCs	Major Hubs (#SSCs)
Poland	10	Kraków (3) Chorzów (2)
Hungary	6	Budapest (6)
United Kingdom	5	London (4)
Spain	4	Madrid (4)

Source: SSON database.

To respond effectively to the forces reshaping the energy sector, European power and O&G companies must focus on the following strategic priorities:

Focus Area 1

Digital Focus and Continuous Innovation to Remain Relevant in the Evolving Landscape of Alternative Fuels and to Enable Smart Operations

This stems from the need to embrace digitalization. It is no longer optional. Companies **must invest in digital skills** or risk falling behind more tech-savvy rivals. Energy operators must also bake resilience into operations. Companies that fail to significantly decarbonize risk losing the "license to operate," losing investor support and market access, especially in Europe's increasingly carbon-constrained economy.

Therefore, energy players should consider doing the following:

1. Launch Decarbonization Pods (CCUS & Hydrogen), Establish Smart Grid & Predictive Maintenance Labs

Launch innovation units to pilot low-carbon technologies and provide a sandbox to explore the decarbonization use-cases. Similarly, small pods can be used to digitalize grid operations and asset management through AI and IoT, allowing for the trial of advanced **smart grid** controls and **predictive maintenance** on a small scale before wider rollout.

These are most relevant to **power generation** and **grid operations** (transmission/distribution) and oil & gas **upstream** and **downstream** companies. These segments have the highest carbon footprints and asset complexity, so they gain from CCUS/hydrogen initiatives to cut emissions and from smart grid/predictive maintenance to boost reliability and efficiency.

Iberdrola, the Spanish utility, has created dedicated innovation hubs to drive decarbonization and grid modernization. **In Bilbao, Iberdrola opened a Global Smart Grids Innovation Hub with laboratories for testing smart grid prototypes and predictive maintenance solutions.** These labs allow teams to simulate full electric substations, use robots and digital twins for asset maintenance, and develop next-generation smart meters (Iberdrola Espana, 2021).

Focus Area 2

Elevating Customer Experience through AI Enablement and Mobilefirst Platform Transformation

Energy companies need to provide "energy-as-a-service" solutions to empower prosumers through easy interconnection, apps to monitor generation, and fair compensation for excess power, which will build loyalty and harness new energy resources.

Energy players should consider doing the following:

2. Adopt Analytics-Driven Insights and End-to-End Digital Customer Journeys

Customers today expect the same level of speed, personalization, and convenience from energy providers as they do from digital-native industries. Energy companies should prioritize the digitalization of customer-facing processes by reimagining how services are delivered across the entire lifecycle, from onboarding and billing to issue resolution and product upgrades. This involves replacing fragmented, legacy, and offline systems with seamlessly

integrated, mobile-first experiences. A structured transformation approach should be adopted to map key customer journeys and redesign them for digital channels, enabling intuitive, 24/7 interactions.

Firms also need to explore analytics-based insights related to customers' energy consumption that empower customers to make smarter energy decisions. By leveraging a combination of **descriptive, diagnostic,** and **predictive analytics,** energy suppliers can deliver tailored summaries of a customer's weekly energy usage, along with data-driven recommendations to reduce costs or carbon footprint. These insights can be seamlessly integrated into customer portals and mobile apps. (e.g., recommending solar panels or home batteries based on the user's profile), and even marketing content creation.

3. Enhance Customer Experience with AI-Powered Virtual Agents and Support

One intervention involves implementing AI chatbots and assistants that can understand natural language and generate human-like responses to customer queries. Such AI agents can handle routine inquiries (billing questions, outage information, energy savings tips) across chat, email, or voice channels, freeing up human staff for complex issues.

These AI assistants, powered by large language models, can parse a customer's historical usage or profile and tailor their guidance. For instance, it can suggest EV-friendly plans or a green energy upgrade relevant to the customers' needs. The business value is twofold – **improved customer experience** (24/7 instant service with relevant answers) and internal efficiency through automation.

Interventions #2 and #3 are most relevant to power **distribution** (utility customer service) and oil & gas **downstream** (retail customer support). These customer-facing segments can prioritize seamless online journeys, AI virtual agents, as they see high inquiry volumes, to meet high consumer expectations, improve engagement/ service speed, and differentiate in a competitive market while freeing staff for complex issues.

Focus Area 3

Institutionalizing Compliance CoEs to Ensure Governance and Risk Resilience

This stems from the stricter regulatory environment in Europe. We also see mandates for **climate disclosure,** such as the EU's CSRD and taxonomy alignment, which require firms to transparently report and reduce their carbon footprint to avoid losing access to capital.

Energy players should consider doing the following:

4. Establish a Compliance CoE

The European energy sector is facing a rapidly evolving and increasingly intricate compliance landscape, shaped by frameworks such as the EU's **Fit for 55** climate package, **CSRD disclosure requirements,** the **Cyber Resilience Act,** and upcoming **AI governance regulations.** In this environment, a lapse in compliance approaches can lead to costly mistakes, regulatory penalties, and reputational damage.

Dedicated CoEs could navigate the growing complexity of the regulatory environment. These CoEs serve as specialized hubs consolidating expertise in regulatory affairs, ESG, cybersecurity, and audit, offering deep domain guidance to business units. The CoEs also act as internal advisory bodies that proactively monitor regulatory developments, interpret new mandates, and guide the business in implementing compliant practices. This setup reduces the risk of misinterpretation, fragmented execution, or non-compliance.

This is most relevant across **all energy segments,** but especially for **power generation** and oil & gas **upstream,** which face complex and evolving regulations (e.g., emissions and safety standards).

Schneider Electric, to strengthen regulatory oversight, ethics, and cybersecurity compliance across its global operations, **has set up a dedicated Compliance Center of Excellence.** Headquartered in France, this CoE centralizes compliance expertise and standardizes best practices for the company across geographies.

Case Example

French based multinational in power andgas–E2Eprocess optimization via GBS

Context

The company, is on a strategic mission to lead the transition to a carbon-neutral economy. With operations in over 30 countries and ~100,000 employees, the company recognized that its support functions needed transformation to achieve greater agility and efficiency while pursuing this strategy.
In 2019, the company launched an ambitious program to transform and standardize its end-to-end support processes (covering procurement, hiring, finance reporting, etc.) under the leadership of its Global Business Support unit. The objective was to simplify interactions with customers and partners, speed up internal processes, and improve performance management, thereby boosting overall competitiveness. A key challenge was resistance to change – business units often questioned the need for process changes without hard data to prove gaps or inefficiencies.

What have they done in business services?

The company's GBS drove a cross-functional transformation program, appointing global process owners and leveraging digital technology to overhaul support operations. A cornerstone of this initiative was the deployment of Celonis's **process mining and analytics tools** to create a **data-driven foundation** for improvement. By aggregating event data from systems across finance, procurement, and HR, the GBS team gained **end-to-end visibility into process flows** and performance. This allowed them to pinpoint bottlenecks, redundancies, and compliance issues with facts. **Objective data** changed the conversation with the business: GBS could now demonstrate where processes deviated from ideal and quantify the impact.

The company's GBS became an internal advisor and innovator, using analytics, **robotics/ automation,** and best-practice processes to drive **simplification and standardization** across the enterprise. These initiatives were rolled out in close partnership with business units to ensure the adoption of new, streamlined ways of working.

Impact

Operational efficiency gains: In accounts payable alone, improvements are **expected to eliminate about 26% of manual invoice touches** through automation and better process design.

Resource optimization: The enhanced processes should yield roughly **20% resource optimization** in the targeted functions.

Better stakeholder experience:
By standardizing and digitizing workflows, the company has **simplified internal and external interactions.** For instance, the GBS program has **reduced new-hire onboarding time and streamlined how business units engage with support teams,** making it easier for employees and partners to get what they need.

Strategic value enablement:
Beyond cost savings, The company's GBS has become a **strategic enabler for the company's transition to net-zero.** The frictionless, data-informed processes allow the business to be more agile and focus on innovation.

6.6 Sector Outlook & GBS Implications

As European industries undergo structural shifts, from decarbonization and digitization to talent disruption and regulatory complexity, GBS is steadily evolving from a support function hub to a strategic enabler.

The following summarizes key GBS opportunities identified across six selected verticals, based on the latest industry trends:

Efficiency Gains

Rising cost pressures and complex delivery models have escalated the need for scalable execution in sectors like automotive, telecom, and aerospace. Automotive and aerospace firms need to address fragmented operations and unlock productivity. Telecom players, facing scale inefficiencies across OCPs, need simplified and unified delivery. GBS should help by driving centralization, harmonization, and platform-led operations that deliver sustainable efficiency gains.

Savings & Agility

The ability to optimize cost while staying responsive is becoming critical, particularly across automotive, telecom, and aerospace & defense. Automotive and A&D players need leaner structures that can support agile development cycles and evolving platform needs. Telecom operators must modernize while managing flat toplines, requiring agile support at scale. GBS can help by embedding automation, simplifying workflows, and enabling delivery models that balance savings with agility.

Talent & Capability Building

A widening capability gap is emerging in sectors like automotive, telecom, pharma, and aerospace & defense, where future growth hinges on access to digital and cross-functional expertise. Automotive and aerospace players face rising demand for software, data, and systems talent as vehicle and platform technologies evolve. Telecom's AI and cloud initiatives are hindered by mid-career talent shortages, while pharma's digital trial and omnichannel needs demand hybrid digital-clinical skills that are still scarce in-house. GBS can help by anchoring future-focused talent models, building digital capabilities, deploying cross-functional squads, and institutionalizing upskilling at scale.

Innovation Enablement

Innovation velocity is becoming a key differentiator across all sectors in focus, yet execution is often hampered by operational risk or legacy constraints. In BIFS and pharma, strict regulatory boundaries and fragmented data make it hard to scale AI and GenAI pilots. Automotive and A&D firms, facing fast-moving competitors and tech transitions, lack dedicated spaces to test next-gen platforms. Telecom players need controlled environments to pilot predictive CX and analytics solutions. Energy firms exploring clean tech and AI-enabled operations require agile structures to move from pilots to scale. GBS can help all these sectors by creating structured, low-risk environments that accelerate experimentation while ensuring operational continuity.

Digital Enablement & Transformation

Enterprise-wide digital transformation is no longer optional in sectors like telecom, BIFS, energy, and automotive, but execution remains a challenge. Telecom operators are investing in cloud, programmable networks, and B2B services, but often lack unified execution models. BIFS and auto players are scaling ERP, cloud, and direct-to-consumer platforms, but with complex legacy architectures. In parallel, energy firms are embedding AI across customer and grid operations while managing cost and compliance. GBS can help by orchestrating large-scale tech programs, coordinating transformation roadmaps, and ensuring consistent digital enablement across business units.

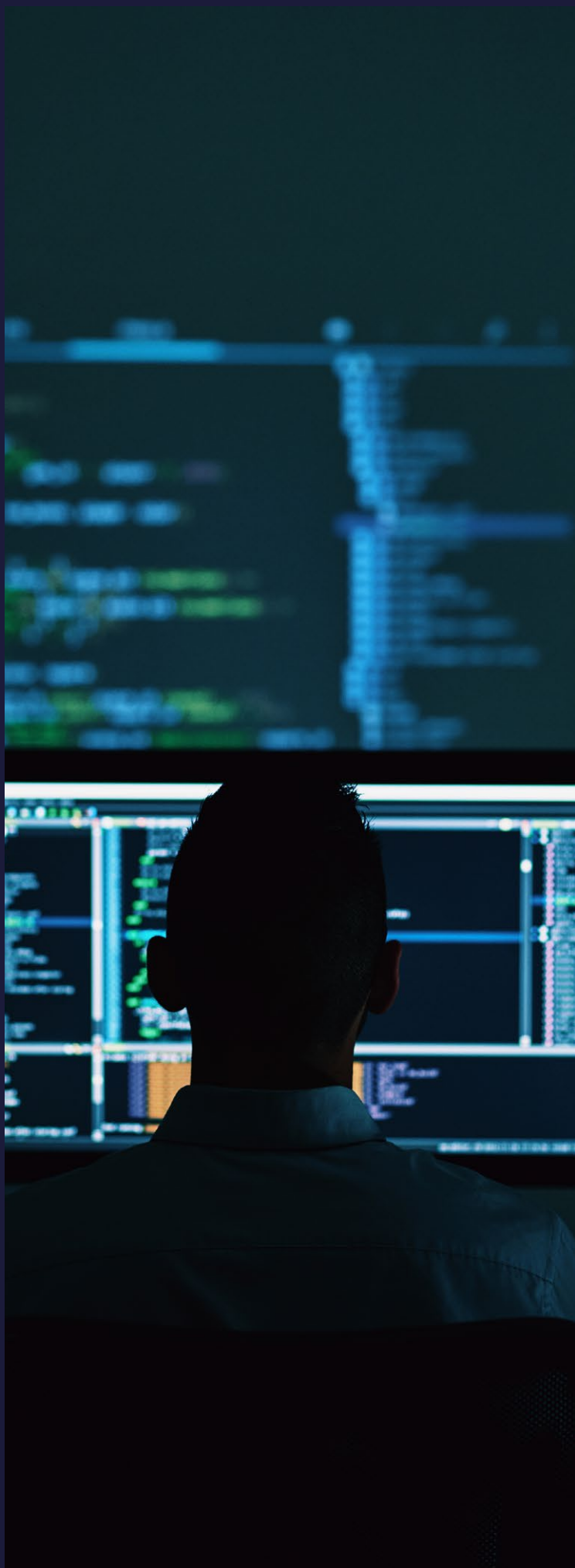
Resilience with Governance & Risk Management

Regulatory complexity and rising risk exposure are pushing governance to the forefront, especially in pharma, BIFS, telecom, energy, and aerospace & defense. Pharma companies managing decentralized trials, RWE pipelines, and data privacy compliance face growing operational risk. BIFS and telecom players must respond to increasingly dense and overlapping mandates across regions. Energy

firms face an evolving mix of carbon reporting, cybersecurity, and ESG compliance requirements. A&D firms operating across sovereign partners must navigate complex export controls and national security mandates. GBS can help by embedding risk controls, coordinating regulatory response, and strengthening resilience through structured execution.

Strategic Value Creation

GBS is increasingly seen not only as a support platform but as a contributor to front-line enablement, particularly in sectors like BIFS, pharma, and energy. In BIFS, mature GBS setups support ESG reporting, customer analytics, and even product development under growing competitive pressure. Pharma organizations are embedding GBS in omnichannel execution and analytics to drive differentiation in global commercial operations. Energy players are building customer-facing capabilities such as personalized usage insights and digital engagement into their core go-to-market models. GBS can help by aligning operational delivery with enterprise strategy and accelerating initiatives that unlock long-term strategic value.



7

SUMMARY & CALL FOR ACTION

> **You don't build resilience by duplicating everything; you build it by sharing the right capabilities at scale.**

Kristalina Georgieva
Managing Director, IMF

Europe's competitiveness no longer hinges solely on transforming individual industries; it depends on integrating **horizontal capabilities across vertical value chains.** Talent, Technology, and Transformation-the "3Ts" – are indispensable drivers of productivity and resilience, but only when delivered in a coordinated and integrated **manner.** This is where the business services industry plays a pivotal role. It functions as a platform for orchestrating these horizontal levers, embedding data, AI, compliance, and automation into the day-to-day operations of vertical industries. As such, business services are not peripheral to Europe's industrial and overall economic future; they are its operational foundation.

Three factors make this horizontal-to-vertical integration both urgent and uniquely suited to the business services industry. First, **no sectoral transformation is possible without strong shared capabilities,** whether it is customer insight in the banking sector, clinical compliance in the pharmaceutical industry, or real-time supply chain planning in the automotive industry. These horizontal functions are best delivered through shared service ecosystems that cut across organizational silos. Second, Europe's internal diversity, with its varied regulatory regimes, languages, and cost structures, requires business models that can boost and **standardize innovation while simultaneously localizing execution.** Third, transformation is now continuous: it requires **platform thinking,** not just project management. This is exactly what GBS 3.0 enables: scalable, integrated, cross-border service architectures embedded within industrial operations.

This horizontal-to-vertical model aligns directly with the vision articulated in the 2024 Draghi Report, which calls for a competitiveness strategy built on "cross-sector capabilities" and "joint industrial platforms." Draghi's message is clear: Europe must coordinate not only fiscal and industrial policy but also the **mechanisms through which transformation happens. Business services, particularly in their evolved, multifunctional GBS form and its subsequent evolutions, GBS 3.0 and GenBS, as extensively explained in Chapter 2 and discussed in Chapters 3-6, are these mechanisms. Their ability to embed transformation capabilities within verticals makes them the engines driving the competitiveness for Europe's future economy.**

ABSL

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Europe's business services transformation must be viewed as an integrated agenda. As we have seen in the present report:

Chapter 2	showed key figures and drafted potential business transformation paths,
Chapter 3	showed the complex regional dimension and dynamism of the European business services industry, pointing to the complementary roles of both Western and CEE regions,
Chapter 4	underscored the need for a next-generation talent ecosystem,
Chapter 5	emphasized technological sovereignty, digital fluency, and the need to innovate on the global technology frontier as key aspects of the global competitiveness of Europe,
Chapter 6	showed how the competitiveness of the key vertical is increasingly co-dependent on integration with the business services industry.

The current chapter (Chapter 7) brings these dimensions together **to form a shared transformation vision, one that places Europe's business services industry leadership at the heart of its future competitiveness.** What follows are the **ABSL 2025 Action Plan** and potential scenarios for the sector in Europe.

7.1
The Strategic Role of Business Services in Europe's Competitiveness Agenda

In the context of structural challenges facing Europe, ranging from lagging productivity to accelerating technological competition and geopolitical fragmentation, the business services sector emerges as a powerful enabler of transformation across industries. With over 38 million professionals engaged in diverse operational, digital, and knowledge-intensive processes, the sector contributes more than **EUR 3.47 trillion in Gross Value Added (GVA)** or **22.6% of the EU's total** economic output.

Business services serve as the connective tissue of the **European Value-Added Chain (EVAC).** They support the shift to **digital-first, sustainable, and resilient production ecosystems** by embedding capabilities like AI, cybersecurity, compliance automation, customer intelligence, and data analytics directly into vertical operations. From banking to automotive and from pharma to energy, business services act as transformation multipliers rather than support functions.

The **2024 Draghi Report** reinforces this framing. It stresses that **Europe's future prosperity hinges on revitalizing productivity and unlocking new industrial engines** through innovation and the development of skills. Draghi explicitly calls for closing the innovation gap, harnessing cross-sector capabilities, and creating a joint plan for competitiveness that spans not only high-tech sectors but also the operational core of the European economy. **Business services are at the heart of this plan.**

7.2 Transforming Key Verticals' Competitiveness through Business Services and Innovating on the Global Technology Frontier

The transformation of Europe's industrial base increasingly depends on its ability to leverage sophisticated, digitally enabled business services. Across key verticals from financial services and automotive to pharmaceuticals and energy, the role of the business services industry has already expanded well beyond traditional back-office support. Business services are becoming embedded in the core transformation of business models. These include, for instance, driving automation of regulatory processes, scaling data capabilities and AI, orchestrating global supply chains, and innovating or accelerating time-to-market for complex products.

Sectoral deep dives, as detailed in Chapter 6 of the present report, highlight the pivotal role of advanced services in specific transformation pathways. In the BIFS sector, regulatory technology solutions and AI-enabled compliance have enabled institutions to meet evolving standards such as CSRD and DORA, while reducing manual workload. In the automotive vertical, shared service hubs across CEE are central to software-defined vehicle production and aftersales analytics. In pharmaceuticals, GBS centers now provide high-value clinical data services and trial support across multiple EU jurisdictions, contributing directly to R&D efficiency. Furthermore, Chapter 5 shows the intersection of the technology domain with the same selected key verticals.

However, this transformation is uneven across the continent. While leading locations have developed multi-functional, industry-aligned centers, many regions remain fragmented, locked in legacy outsourcing or siloed captives. Without targeted EU-level coordination, particularly around talent mobility, digital infrastructure, and innovation incentives, **Europe risks missing out on the full productivity, innovation, resilience, and competitiveness benefits that service-led transformation can deliver.**

Ultimately, raising the maturity of business services across all member states can directly enhance the global competitiveness of Europe's key verticals. The capability to rapidly reconfigure operations, integrate digital technologies, and align with new policy demands (e.g., green and digital transitions) is no longer optional. Business services have become a strategic lever-and one that must be recognized, scaled, and governed accordingly.

Specifically, analyses of six key industrial verticals – BIFS, Automotive, Pharma and Life Sciences, Energy, Aerospace & Defense, and Telecom – demonstrate that modern GBS 3.0 and future GenBS are no longer about cost efficiency alone. Instead, it is a **strategic engine of competitiveness,** enabling European companies, among others, to:

Integrate AI into R&D pipelines and regulatory workflows (e.g., Pharma, BIFS),

Support digital twin and supply chain simulation at scale (e.g., Automotive, Aerospace),

Orchestrate ESG compliance and emissions tracking (e.g., Energy, Telecom),

Build AI-augmented customer and infrastructure platforms (e.g., BIFS, Telco).

Chapter 7 highlights how the structural shifts reshaping European industries—decarbonization, digitalization, talent scarcity, and regulatory complexity—are redefining the role of GBS. Once viewed as back-office hubs, GBS centers are now strategic enablers, driving efficiency, agility, capability building, and innovation across key verticals. Automotive, aerospace, and telecom sectors require scalable execution models

to offset cost pressures and fragmented operations. At the same time, BIFS, pharma, and energy players rely on GBS to navigate digital transformation, compliance burdens, and customer-facing innovation.

Across all six verticals, GBS emerges as a platform for value creation: centralizing and harmonizing processes to deliver efficiency; embedding automation and agile workflows to balance cost savings with flexibility; addressing widening capability gaps through digital talent orchestration; and creating structured environments for safe experimentation with AI and next-gen technologies. At the same time, GBS's strengthen enterprise resilience by coordinating governance and regulatory responses, while increasingly contributing to strategic growth agendas—supporting business transformation, customer analytics, and digital engagement. **In sum, GBS is evolving into a critical lever for Europe's competitiveness, aligning operational excellence with transformation and long-term strategic value.**

The shift from **service support to strategic enablement** aligns with Draghi's vision of European competitiveness: one in which cross-cutting capabilities are deployed at scale to "translate innovation into commercialization" and "coordinate across fiscal, trade, and industrial policy instruments."

Business services, as reframed by the ABSL European 2024 Report, are not merely operational enablers but **economic multipliers.** Their embeddedness in every stage of value creation makes them **essential infrastructure for the transformation of key European verticals to boost overall competitiveness.**

It very much seems that going forward, Europe's competitiveness strategy must:

Embed business services into sectoral and regional industrial policies, treating them as core enablers of transformation.

Support investment in shared service excellence, data sovereignty, and automation hubs across the EU and neighboring regions.

Incentivize vertical-horizontal integration through pan-European programs targeting industrial-business services synergies.

Accelerate adoption of AI and frontier technologies within business services to drive innovation, scalability, and cross-sector transformation.

Develop governance and regulatory frameworks that ensure responsible use of digital platforms, data, and AI, while safeguarding resilience and trust across borders.

Invest in talent ecosystems and skills-based mobility that connect industrial demand with next-generation digital, analytical, and compliance capabilities.

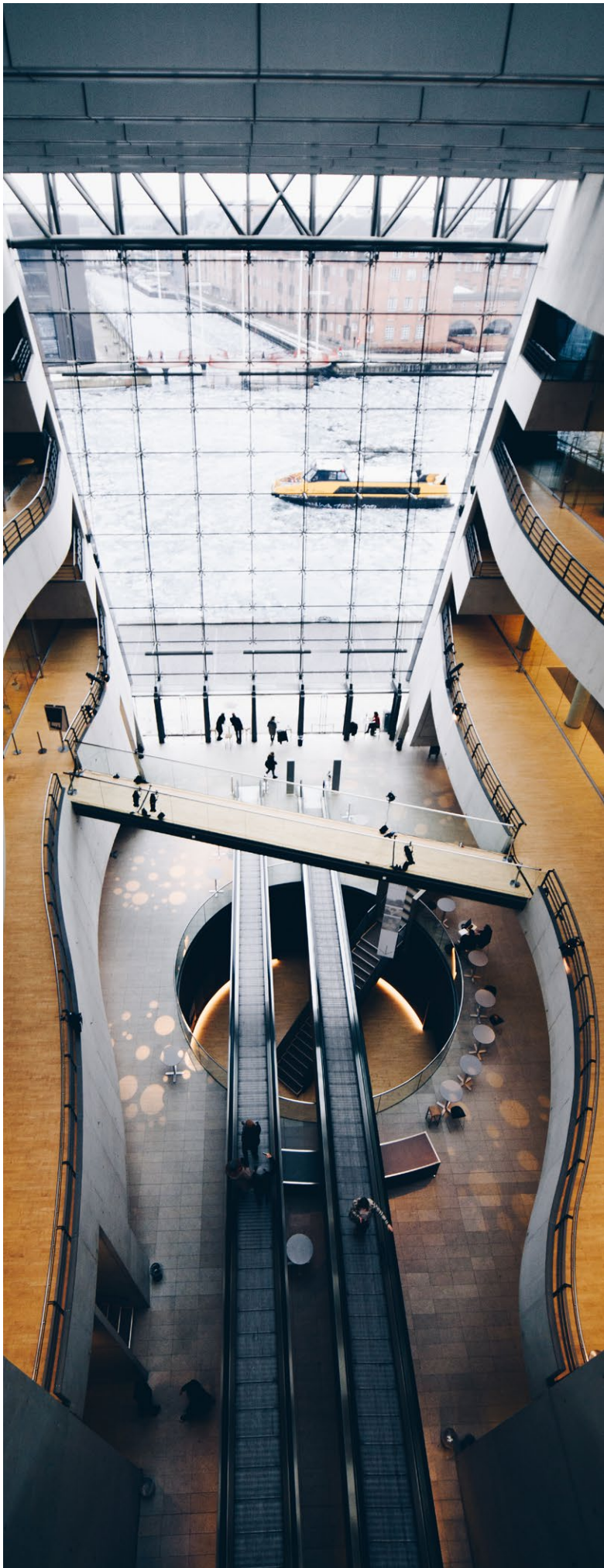
Enable technology orchestration platforms that harmonize ERP, cloud, and AI solutions across industries, reducing fragmentation and fostering interoperability to deliver value at speed and scale.

Ultimately, by operationalizing the potential of business services within its industrial backbone, Europe can not only bridge its productivity gap with global peers but transform its internal diversity into a platform for sustainable leadership on the global stage.

Unlocking Innovation in Verticals through GBS Transformation

Unlocking innovation in Europe's strategic verticals increasingly depends on the transformation of business services from isolated functional support to integrated platforms for capability development and innovation, adding greater value. The ABSL's business transformation cube concept (ABSL, 2023) positions service organizations along a maturity curve from transactional efficiency to speeding up innovation by embedding advanced analytics, AI-driven decision support, and agile delivery structures into sector-specific operations and specific functions. In pharmaceuticals, BSG-enabled services facilitate faster clinical trial data processing and cross-border regulatory submissions, accelerating new drug approvals. In BIFS, they integrate compliance automation with product innovation, enabling banks, for instance, to adapt to sustainable finance requirements while launching new services at speed and scale.

By repositioning business services as active innovation partners rather than passive process executors, the BSG model supports Europe's industrial transformation goals, shortens overall innovation cycles, and enhances competitiveness in a rapidly shifting global economy (Bustinza et al., 2017; Lafuente et al., 2019; Mazzucato, 2018; Porter, 2003; Schot & Steinmueller, 2018). Future reports should address specific operational model guidelines for GenBS innovation.



7.3
GenBS and the Future Architecture of Europe's Business Services Ecosystem

As Europe moves toward a more networked and knowledge-intensive service economy, the transformation of the business services industry itself demands action. **While service centers are often the most visible nodes of this ecosystem, they employ only one-sixth of the total workforce engaged in business service delivery across the continent. The remaining five in six, which include embedded teams**

in corporates, professional services firms, remote freelancers, and platform-based micro-providers, are equally vital to Europe's service-based transformation. Their potential has to be more productively utilized. As ABSL, we need to push and help in building these platforms.

The transition from classic GBS models to GBS 3.0 towards GenBS reflects a broader shift in expectations. No longer is the primary goal cost efficiency through consolidation. Instead, the focus is on intelligent orchestration of diverse capabilities, end-to-end digital process design, industry-aligned knowledge services, and continuous reinvention through AI, data, and cloud ecosystems. **Modern GBSs have the capabilities of core business transformers.**

This evolution also forces a rethinking of talent strategy. GenBS models depend on cross-domain fluency, data-driven problem-solving, and soft skills that enable coordination across diverse organizational contexts. Please refer to Chapter 4 of the present report. Europe must address uneven talent readiness and prevent GenBS from becoming an elite phenomenon concentrated in select metro regions. The ability to tap into the broader service workforce – including SMEs and digital professionals operating outside of formal GBS environments – is essential for inclusivity and scale.

Building on Mercer's analysis in Chapter 4, a **comprehensive talent strategy for GenBS** must include the development of AI-literate leadership pipelines, EU-coordinated credentialing for high-demand digital skills, and pan-European mobility programs targeting critical sectoral shortages. Furthermore, the adoption of internal talent marketplaces and workforce orchestration tools is key to enabling agile reskilling within organizations. Without action, gaps in digital expertise, regulatory literacy, and change leadership will remain a systemic constraint on Europe's competitiveness.

While business service centers remain critical hubs of operational excellence, innovation, and scale, the broader non-center ecosystem is an equally vital component of Europe's transformation capacity. Rather than a dichotomy, **the relationship between centers and non-center functions creates an integrated ecosystem.** Centers provide structure, compliance, and repeatability; non-centers offer flexibility, agility, greater possibility for trial and error, frequently deep domain expertise, and finally, proximity to business lines. **The GenBS paradigm will thrive on orchestrating this interplay where cooperation, not competition, is the dominant logic.** In practice, **hybrid operating models that integrate centers with distributed service layers could emerge as best practice,** enabling companies to adapt faster, innovate locally, and scale globally for the common good. **Co-opetition is the way forward.**

From a competitiveness standpoint, **Europe's success in GBS transformation will determine whether its business services ecosystem becomes a source of strategic autonomy or vulnerability.** If well-governed, GenBS can provide a resilient, AI-augmented layer for European companies to absorb shocks, scale innovation, and comply with evolving regulations. If neglected, fragmentation and skills mismatches, excessive regulations and bureaucracy, could erode value and widen gaps across member states.

Policy frameworks must evolve to reflect this new reality. Investment in digital public goods (e.g., shared AI infrastructure, data sandboxes), smart regulation, pan-European credentialing for GenBS-relevant skills, and funding mechanisms for transition support are all critical. **The GBS transformation offers an opportunity to align business services with Europe's broader economic vision.** Moreover, in the ABSL opinion, it must be treated as such.

Failure to act decisively also carries significant risk. As noted in Chapter 5, Europe faces mounting challenges: delayed AI integration, fragmentation in digital infrastructure governance, vendor lock-in from non-EU platforms, and weak data-to-decision scaling. **Without urgent policy alignment and investment in strategic digital capabilities, the window for catching up with global leaders may close by the end of the decade.**

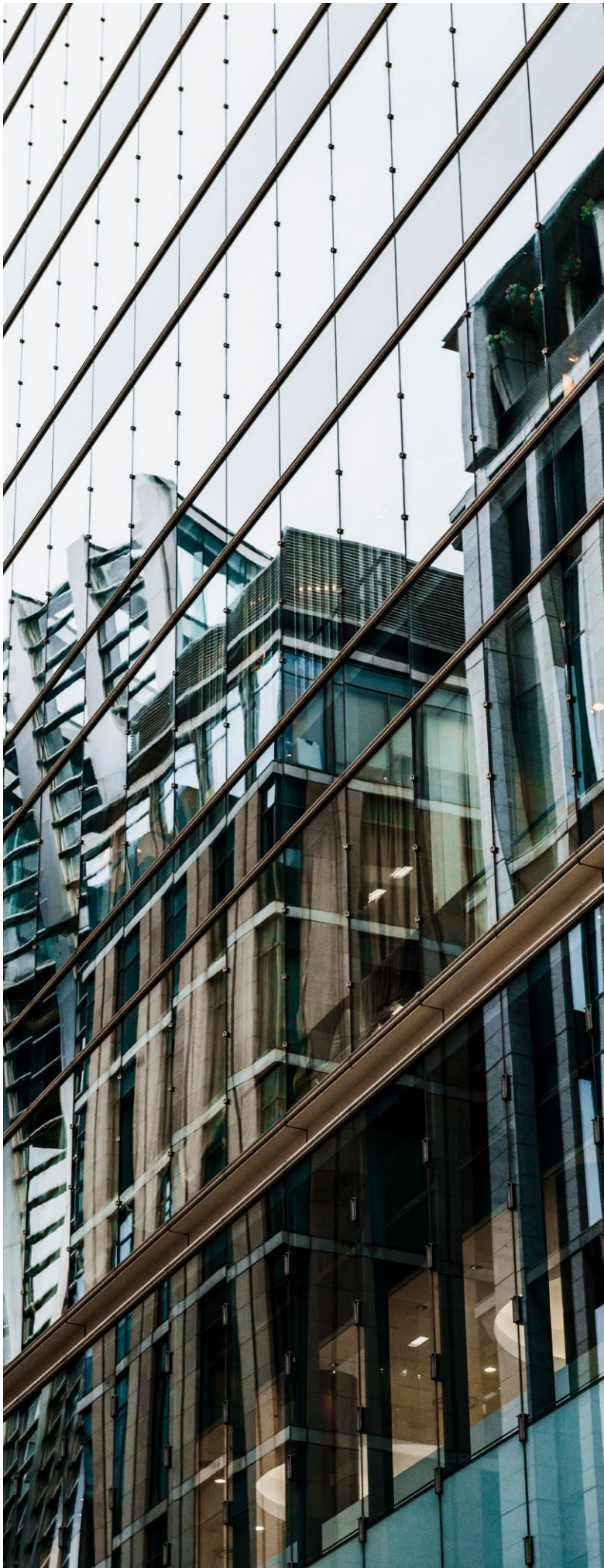
At the same time, the business services industry itself cannot remain passive. Insiders must proactively champion AI adoption, build interoperable data platforms, strengthen governance practices, and invest in talent development at scale. By acting as early movers, piloting cross-sector AI use cases, creating trusted digital ecosystems, and embedding compliance and resilience by design, business services can demonstrate proof of concept and accelerate Europe's ability to transform policy ambition into operational reality. As we noted in Chapter 4, **the business services industry players have to contribute to nurturing and developing the talent pool – the core of our competitive advantage.**

Taken together, these priorities provide a framework for moving from fragmented efforts to a cohesive European transformation strategy. Business services should serve not just as implementation platforms, but as anticipatory and adaptive engines that drive long-term competitiveness and strategic autonomy.

7.4 ABSL 2025 Action Plan: Operationalizing Competitiveness through Vertical Integration

Following the recommendations of the **ABSL 2024 Report** and aligning with the **Draghi Report's competitiveness agenda,** this year's plan emphasizes the need to **integrate business services more deeply into Europe's key industrial verticals.**

Business services, especially in their most advanced and evolved forms, such as GBS 3.0 and emerging GenBS, must be recognized not only as economic contributors but also as **strategic drivers of vertical transformation and horizontal capability.** We must, however, remember that centers are only part of the broader business services industry, with a dominant portion of talent in the non-center-based segment.



Strategic Objectives

TABLE 7.1 **Strategic Objectives for European Business Services Industry**

	Strategic Priority	2024 Focus	2025 Update – Vertical Integration
1.	**Secure Europe's global leadership in business services**	Ensure favorable conditions and value for money	Embed GBS/center-based and broader business services capabilities into strategic verticals (e.g., BIFS, automotive, pharma, energy, telecom, A&D) to accelerate innovation diffusion and sectoral transformation. Help in the establishment of the European super-star global players in the business services industry.
2.	**Close the innovation-productivity gap**	Promote AI and digital adoption across the sector	Scale AI, analytics, and process automation via GBS/GenBS hubs embedded in core industrial operations.
3.	**Address talent shortages and reskill at scale**	Build a pipeline for digital and white-collar talent	Launch vertical-specific reskilling tracks and AI-enabled internal mobility systems within the business services industry.
4.	**Orchestrate cross-border delivery resilience**	Support geographic diversification and risk mitigation	Establish sector-specific resilience hubs (e.g., for energy transition, pharma compliance, and defense digital logistics) across the EU and nearshore locations.
5.	**Lead the sustainability and green transition agenda**	Ensure ESG readiness in business service structures	Operationalize sustainability delivery layers within business services platforms, including energy decarbonization tracking, green finance ops, and pharmaceutical ESG compliance.
6.	**Improve policy and regulatory alignment**	Harmonize regulations, talent flows, and tax regimes	Develop EU-wide alignment frameworks that integrate business services delivery into industrial policy and innovation ecosystems.

Source: ABSL BI.

Delivering on these strategic initiatives will require a new level of cross-industry collaboration, coordination, and trust. As an independent, unbiased ed, and not-for-profit organization, ABSL is uniquely positioned to serve as a neutral integrator-facilitating dialogue, aligning priorities, and catalyzing joint action across sectors and regions.

Operational Priorities for Policymakers and Business Services Partners (2025-2027)

Mainstream vertical-horizontal integration into the EU's industrial strategy

1. Integrate business services into Industrial Alliances, the Net-Zero Industry Act, and AI innovation missions.
2. Co-develop vertical transformation roadmaps with embedded business services levers, aligned with sectoral challenges (identified in Chapter 6).

Create sector-linked innovation funding and delivery models

1. Launch joint funding mechanisms for GBS 3.0/GenBS-based vertical hubs (e.g., automotive and mobility innovation labs, digital therapeutics centers).
2. Invest in multilingual AI ops, cybersecurity, and cloud resilience as foundational infrastructure for industrial transformation.

Develop EU-wide vertical talent transformation programs

1. Support role-based learning pathways (e.g., ESG controllers in banking, regulatory engineers in aerospace, data translators in pharma).
2. Invest in multilingual AI ops, cybersecurity, and cloud resilience as foundational infrastructure for industrial transformation.
3. Extend talent development support to SMEs by enabling their participation in shared training platforms, subsidized upskilling programs, and regional talent ecosystems coordinated by business services hubs.

Incentivize sustainability-driven service orchestration

1. Extend CSRD recognition to business services-led ESG reporting services.
2. Create EU green taxonomy compliance incentives for vertically aligned service centers.

Establish a Europe-wide GBS 3.0 / GenBS Observatory

1. Monitor vertical-specific maturity, productivity, and innovation impact of embedded business services.
2. Enhance Eurostat, CEDEFOP, and OECD coordination to improve classification and visibility of the business services industry's role in competitiveness.

Support the emergence of European super-star global players in business services

1. Identifying and scaling high-performing centers through EU recognition, benchmarking, and funding instruments.
2. Creating "European Champions" programs aligned with EU Industrial Alliances and Innovation Missions.
3. Facilitating cross-border mergers, acquisitions, and joint ventures to achieve scale and scope.
4. Supporting international expansion via diplomatic, regulatory, and trade support (e.g., through EU delegations or EIB instruments).

This updated Action Plan reflects a decisive shift from fragmented, sectoral silos toward a model of systemic, cross-vertical integration. Business services are no longer ancillary functions operating at the margins of industrial strategy; they are becoming core drivers of Europe's economic and technological transformation. When powered by AI-driven decision systems, orchestrated talent architectures, and resilient cross-border delivery platforms, the **business services industry serves as both an accelerator and a stabilizer of vertical competitiveness.**

Its integration into sector-specific strategies, whether in financial services, energy, pharma, automotive, defense, or telecom, is not a matter of operational convenience, **but a structural imperative. The ability to embed GBS 3.0 and GenBS capabilities across these industries will define whether Europe merely adapts to global competition or actively reshapes the frontier of productivity, resilience, and sustainable growth.** The aim is not to be a mere follower but a true trend-setter.

Aligning business services with vertical ambitions is, therefore, not optional; it is foundational.

7.5 Anticipating the Future of Europe's Business Services Industry

The coming decade will be decisive for the evolution of Europe's business services landscape. As technological shifts accelerate, geopolitical dynamics grow more complex, and demographic transitions reshape talent markets, the sector must navigate a path through deep uncertainty and rising global competition.

Europe has the potential to lead – but it must act with urgency and coherence. The widespread scaling of AI and GenBS models, the creation of a digitally fluent and mobile talent base, and the deepening of cross-border service integration will determine whether the sector becomes a strategic enabler of Europe's competitiveness.

The ABSL Transformation Cube (ABSL, 2023) provides a framework to understand this journey. The transition from Classic GBS to GBS 3.0 and ultimately to GenBS is not a linear path. It is subject to market forces, institutional choices, and the capacity of firms and ecosystems to adapt.

As we have already stated several times in the present report, **the transformation will have ramifications for the broader business services industry ecosystem as well.**

The following three scenarios explore how Europe's business services industry may evolve by 2030 under different trajectories and what is at stake for Europe's broader economic and industrial transformation. The path taken will largely depend on the actions and strategy execution pursued by the European business services industry.

Three Possible Scenarios for Europe's Business Services Industry by 2030

As Europe enters a decade marked by technological, geopolitical, and demographic shifts, accompanied by greater uncertainty and unpredictability, the evolution of its **business services industry will be critical to the continent's broader economic resilience and competitiveness.**

The next five years will define whether the sector fulfils its potential as a strategic enabler of European transformation or risks stagnating amid growing global competition.

The journey from **Classic GBS** to **GBS 3.0** and ultimately to **GenBS** is not guaranteed. It will be shaped by how successfully Europe scales **AI-driven platforms,** builds a **future-ready talent pool,** and fosters an environment that enables true **cross-border services integration to deliver high-quality services at speed and scale.**

Drawing on the ABSL Business Transformation Cube and based on current trends and institutional signals, we outline three plausible futures. **Each describes a different path for the sector's structure, maturity, and employment landscape by 2030, with key significance of the actions taken by internal and external stakeholders.**

We want to stress here that a **certain dimension of Europe's strategic vulnerability lies in its very diversity.** Namely, **the bitter fact that what often appears a blessing is at times equally a curse.** Unless confronted with an existential threat such as the Russia-Ukraine conflict, **Europe's individual states are notoriously difficult to unite under one direction, one strategy, or one course of action. This institutional and political fragmentation risks producing a paralysis of synchronized strategy, direction, and execution.** Its role in the scenarios outlined below is decisive. In Scenario 1, diversity can be harnessed as a reservoir of resilience, fostering experimentation and cross-pollination; in Scenario 2, lack of cohesion becomes a brake on scaling GenBS and on achieving a continental competitive model. Last but not least, in Scenario 3, the inability to align responses accelerates erosion, as national strategies diverge and external actors exploit Europe's fragmentation.

AI & Platform Leadership (Positive Scenario)

In this scenario, Europe capitalizes on a unique convergence of trends. Bold EU-level coordination on industrial and digital policy, widespread regulatory clarity on AI and data governance, with elimination of key bottlenecks, and a sustained effort to modernize education and talent pathways.

Business services centers transition decisively from GBS 3.0 to GenBS platforms, where advanced AI, data ecosystems, and cognitive automation are not simply pilots but embedded in core operations. **Cross-border talent mobility is unlocked,** allowing companies to orchestrate pan-European talent portfolios aligned with industry needs. **A new wave of industrial-services integration emerges.** Business services centers are no longer peripheral units but have become capability platforms for Europe's key strategic sectors.

By 2030, the Transformation Cube reflects a sector deeply transformed:

~50-60% of centers operate at full GenBS maturity, offering AI-powered services integrated with enterprise value chains.

~30-35% operate at GBS 3.0 – often in mid-sized firms or regulated environments where transformation is gradual.

~10-15% remain Classic GBS, largely in commodity services or legacy contracts.

The sector also becomes more **geographically balanced:**

Established Western European hubs (e.g., Dublin, London, Amsterdam, Munich, Zurich) reposition themselves as multi-vertical platform hubs, leading in e.g., ESG assurance, compliance automation, and AI governance.

Large CEE hubs (e.g., Warsaw, Bucharest, and Budapest) deepen their GenBS specialization.

Emerging hubs in Southern Europe (Portugal, Spain) and secondary CEE cities capture growing shares of GenAI-enabled services.

A growing ecosystem of SME-based business services providers outside major centers supports local innovation, domain-specific expertise, and sector-tailored digitalization—particularly in manufacturing, logistics, and healthcare.

Talent ecosystems become more pan-European, enabled by common certification frameworks and interoperable common regulatory regimes.

Employment trajectory:

Center-based FTEs in EU-27 (2030):

~5.8-6.0 million (vs ~5.0m in 2023)

Broad modern business services FTEs (2030):

~36.5-37.5 million (vs ~32.5m in 2023)

Implications

Europe strengthens its position as **a global hub for advanced, knowledge-based business services.**

The industry evolves into a **strategic pillar of European competitiveness and autonomy, generating high-quality employment, driving productivity and innovation in core industries, and reducing dependence on external platforms. Risks are moderate,** largely contingent on sustaining political and institutional momentum.

Steady Progress, Fragmented Scaling (Base Case)

This scenario reflects a more gradual and uneven evolution of Europe's business services landscape. A likely outcome if current dynamics persist.

Policy progress continues but remains **fragmented.** While some member states lead in creating AI-ready environments and talent pipelines, others lag due to fiscal constraints or political divergence. **Cross-border talent mobility improves,** but national barriers and tax inconsistencies still limit full integration. **GBS 3.0 adoption becomes the dominant operating model, with GenBS scaling only in select verticals and large players.**

AI pilots abound, but many fail to scale beyond functional silos. Smaller firms struggle to navigate regulatory complexity and lack the resources to embed GenAI in services.

The shift from Classic GBS to GBS 3.0 continues, but full GenBS maturity is concentrated in a minority of centers.

By 2030, the Transformation Cube reveals a layered structure:

~30–35% of centers achieve GenBS maturity, primarily in BIFS, Pharma, Telecom, and segments of Energy.

~50–55% operate at GBS 3.0, often with siloed or partial AI integration.

~15–20% remain Classic GBS, focused on cost-based delivery.

Geographic patterns also remain polarized:

Established hubs in Western and CEE (e.g., London, Paris, Dublin, Amsterdam, Zurich, Warsaw, Bucharest) consolidate their leadership in GenBS adoption, especially in advanced analytics and multilingual operations, benefiting from scale, infrastructure, and mature ecosystems.

Emerging hubs (e.g., Porto, Malaga, Vilnius, Brno, Thessaloniki) show promise but struggle to attract or retain digital talent due to limited reskilling pipelines, brain drain, or slow alignment of local policy frameworks.

New or nascent delivery locations, particularly in the Western Balkans, Baltics, and parts of Southern Europe, achieve only partial integration into global service chains, often specializing in lower-value or support functions.

The broader ecosystem of SMEs and non-center business services providers remains underutilized, lacking access to shared AI infrastructure, certifications, and funding needed to contribute meaningfully to vertical transformation.

Employment trajectory:

Center-based FTEs in EU-27 (2030):

~4.9-5.2 million

KIBS FTEs (2030):

~12.5-13.0 million

Broad modern business services FTEs (2030):

~34.0-35.0 million

Fragmentation & Talent Crisis (Negative Scenario)

In this adverse scenario, Europe struggles to overcome structural barriers to business services transformation, which adversely impacts overall competitiveness.

Regulatory fragmentation persists, with divergent interpretations of AI, data, and platform rules. **Investment in advanced skills stagnates,** leading to a growing mismatch between market needs and available talent. **Wage inflation in core CEE hubs further erodes cost competitiveness, to some extent weakened by rising productivity, but talent mobility constraints prevent adequate substitution from other regions. Political uncertainties and protectionist tendencies further dampen cross-border collaboration.**

In this environment, scaling GenBS models becomes prohibitively difficult outside a narrow band of large enterprises and key national champions. **The majority of centers operate below their full GenBS potential, and a significant share of the sector remains trapped in Classic GBS or low-value GBS 3.0 delivery. This stagnation is further compounded by an aggressive and poorly controlled shift toward a GCC strategy,** which, without proper safeguards, risks reducing European business services to commoditized delivery nodes, weakening intellectual property protection, sidelining SME contributions, and undermining Europe's long-term competitiveness in strategic verticals.

Europe maintains a strong business services sector but increasingly competes in the mid-value segment of the global market. Without deeper EU-wide policy coherence and sustained investment in digital talent pipelines, the region risks losing momentum in the race for AI-driven services leadership. Progress continues, but it is uneven and often reactive.

Risks are significant. Centred on persistent talent mismatches, regulatory fragmentation, and growing geopolitical uncertainty. Additionally, **Europe begins to make controlled progress toward a Global Capability Center (GCC) strategy,** positioning itself as a delivery base for global service operations. While this may provide short-term economic gains and alignment with multinational delivery models, it also carries structural risks. **If not executed with safeguards, the shift could dilute innovation capacity, expose European firms to IP leakage, and undermine the competitiveness of SMEs and the broader business services ecosystem.**

This uneven path leaves Europe vulnerable to strategic drift-falling short of shaping global standards in business services and instead adapting to models defined elsewhere.

In this setup, by 2030, the Transformation Cube reflects stagnation:

~15-20% of centers achieve GenBS maturity, concentrated in global leaders and key capitals.

~40-55% operate at GBS 3.0, unable to overcome talent and capability constraints.

~25-35% remain Classic GBS, often dependent on low-margin or declining process delivery.

Geographically, **sector polarization deepens:**

Core established hubs both in Western Europe and CEE (e.g., Zurich, London, Dublin, Amsterdam, Warsaw) become isolated islands of competitiveness, sustaining GenBS capabilities primarily through multinational investment and legacy infrastructure.

Secondary hubs and peripheral regions suffer from stalled transformation, limited access to AI infrastructure, and widening skills gaps, leading to declining investment and operational downsizing.

Talent outflows to North America and Asia accelerate, driven by more attractive innovation ecosystems and career opportunities abroad, further weakening Europe's capacity for endogenous service-led transformation.

Europe's overall position as a global business services hub erodes, as both clients and talent increasingly gravitate toward more dynamic, better-integrated ecosystems or frameworks outside the EU.

Employment trajectory:

Center-based FTEs in EU-27 (2030):

~4.0-4.3 million

Broad modern business services FTEs (2030):

~32.0-32.5 million (no net growth or worse)

Europe risks entering a **strategic dependency cycle,** with core services increasingly provided by non-European platforms and providers. **An aggressive push toward GCC models – if not anchored in clear safeguards – accelerates the erosion of European intellectual capital, weakens SME participation, and concentrates value capture outside the EU.** Job quality deteriorates in many regions, and the sector's contribution to EU strategic autonomy sharply declines. If left unaddressed, the consequences could be **severe not just by 2030, but well beyond, requiring extraordinary political, institutional, and industry-wide coordination to reverse course.**

This outcome directly **reflects the Draghi Report's warning that Europe cannot afford a future where it excels in knowledge creation but loses its sovereignty in scaling and commercialization, and is overdependent on other global players like the US.** Scenario 3 represents precisely the "dangerous path" Draghi cautions against.

8

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9

ATTACHMENTS AND RELATED DOCUMENTS

TABLE 9.1 | **ABSL Classification of activities**

ABSL Sector	Description	NACE Examples
Aerospace & Defense	Military vehicles, aerospace machinery, defense systems, and space transport.	**C254** **C303** **C30** **H512**
Automotive	Manufacture and trade of vehicles, trailers, parts, and related services.	**C291-C293** **G451-G454** **N771**
BIFS	Banking, insurance, pensions, investment services, and leasing.	**K641-K653** **N772-N774**
Chemicals	Basic and specialty chemicals, soaps, detergents, coatings, and related chemical products.	**C201-C206**
Construction	Building construction, civil engineering, and finishing works.	**F411-F439**
Consumer Durables	Furniture, toys, musical instruments, and household goods.	**C310** **C322-C324**
Education	Primary to tertiary education and training support services.	**P851-P856**
Electrical Goods	Batteries, motors, wiring, household appliances, and electric equipment.	**C271-C279**
Energy	Extraction, production, and distribution of oil, gas, electricity, and related services.	**B061** **B091** **C191** **C192** **D351**
FMCG	Manufacturing of food, beverages, and tobacco for fast-moving consumer markets.	**C101-C110** **C120**
Forestry & Paper	Wood products, pulp, paper, and paperboard manufacturing.	**C161-C172**

Health Care	Hospitals, medical and dental practices, and human health services.	**Q861-Q869** **M750**
HORECA	Hotels, restaurants, catering, food and beverage services.	**I551-I563** **N791-N799**
Industrial Goods	Machinery and equipment for industrial use, including general and special-purpose machinery.	**C281-C289** **C329** **C331**
Instruments	Optical, medical, testing, and measuring instruments and devices.	**C265-C268**
IT / ICT	Electronics, software, telecoms, and IT services and platforms.	**C261-C264** **J620-J639** **S951**
Materials	Glass, plastics, ceramics, cement, and non-metallic mineral products.	**C221-C245**
Media	Software publishing, digital content, and media-related services.	**J582** **J591-J592**
Media & Entertainment	Publishing, broadcasting, motion picture, music, sports, recreation, and creative industries.	**J581-J602** **R900-R932**
Metals & Metal Products	Primary and fabricated metal products, including steel, alloys, tools, and components.	**C241-C259**
Mobility	Rail, marine, and other transport equipment, excluding aerospace and defense.	**C301** **C302** **C309**
Pharma & Life Sciences	Pharmaceutical and biotech products, medical instruments, diagnostics, and healthcare technology.	**C211-C212** **C325** **C266**
Professional Services	Legal, accounting, consulting, design, HR, security, translation, and marketing services.	**M691-M749** **N801-N829**
R&D	Research in sciences, engineering, social sciences, and innovation development.	**M721-M722**
Real Estate	Real estate activities, including leasing, development, and maintenance.	**L681-L683** **N811-N812**
Retail	Specialized and non-specialized retail, including e-commerce and store-based models.	**G471-G479**
Social Care	Residential and non-residential care for elderly, disabled, and other support activities.	**Q871-Q889**
Telecom	Wired, wireless, satellite, and other telecommunications services.	**J611-J619**
Textiles & Luxury Goods	Apparel, leather, footwear, textiles, and fashion accessories.	**C131-C152** **C321**
Transports & Logistics	Land, water, air transport, warehousing, courier services, and transport support.	**H491-H532**
Utilities	Water, waste, sewerage, and air conditioning services.	**D353** **E360-E390**
Wholesale Distribution	Wholesale trading and distribution of food, equipment, and industrial goods.	**G461-G469**
Other	Services not attributable to a sector, e.g., personal services, repair.	**S952-S960**

Source: Own ABSL BI elaboration. Based on the NACE rev. 2 classification of activities.

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