UNIT4

In Business for You

PROFESSIONAL SERVICES IN EUROPE: A BENCHMARK FOR 2022

TACKLING TALENT, TECHNOLOGY AND UNPRECEDENTED DISRUPTION

A PAC Research Study

Introduction

Europe is home to more than two million professional services organizations that form a vital part of the region's economy.

The sector is emerging from a period of massive disruption, with firms having to adapt to new ways of working, shifting client demands and evolving commercial models. This is driving lasting changes to busines structures, talent strategies and the way in which they harness technology. Transformation is no longer an option; it is essential to future growth and survival.

With this study, based on the views of business leaders at 250 firms, we check the pulse of professional services organizations as they re-build their strategies for the post-pandemic era. What are their short-term expectations for revenue and profitability development, and what do they expect to be their main growth engines? How are aspects such as average deal size, utilization rates, and the size of client bases changing over time?

But more importantly, we take a forward-looking view of their plans to tackle the challenges and issues that will reshape the sector over the next five years. How do they expect today's flexible working models to evolve, and are the days of office-based working really over? How quickly will they adapt their day-to-day operations and culture to meet targets around sustainability? And with the region's talent shortage set to become more acute in the coming years, how do they plan to attract and retain the best and brightest skills going forwards?

The study focuses on the rich ground of mid-size professional services vendors operating in Europe's major economies, spanning sectors including architecture, engineering, management consulting, and financial services. For business leaders at these firms, the analysis provides a benchmark of the financial and operational performance of your peers, and an insight into how they plan to address the key market dynamics that will shape your sector in the coming years.

Author

Nick Mayes is a Principal Analyst at PAC, and plays a key role in many areas of the leading European industry analyst firm's coverage of the global IT and professional services market. Based in the UK, he is part of the team leading PAC's research on digital transformation and sustainability.

Key findings

The sector is set for a year of solid growth, with IT and financial services firms the most confident

More than half (**56%**) of the region's professional services firms anticipate revenue growth of up to 5% in their current financial year, with a quarter expecting a rise of more than 5% (excluding inflation).

New customers will be the primary growth driver for the sector

50% of firms state that acquiring new customers will be a primary growth driver in their current fiscal year, while more than a third (**35%**) view selling more to existing clients as a major growth engine.

Europe's professional services firms are in hiring mode...

81% of professional services firms plan to grow their workforce in the current year, with **29%** looking to expand their headcount by more than 10%.

...but workforce attrition is a big problem for the sector

Almost **60%** of firms reported an attrition rate of more than 10%, with **30%** recording a level of more than 20% attrition. The challenge is most acute in the IT services and management consulting sectors.

There is a renewed focus on tracking and enhancing the employee experience

While traditional measures such as employee productivity and satisfaction are being analyzed, almost two-thirds (**64%**) now track employee wellness in order to get a more rounded view.

Ageing technology is holding the sector back....

Almost three-quarters (**71%**) of professional services firms view dependence on legacy applications as a primary barrier to driving innovation in their organization.

....But AI is seen as a potential game-changer for the professional services sector

43% of firms believe that artificial intelligence could transform a vital part of their business, while **48%** say it has the potential to transform their entire organization.

M&A integration will be an important success factor for many professional services firms

Almost **40%** of European professional services firms state that mergers and acquisitions will be a primary growth driver in the year ahead, with organizations in France and the UK set to be the most active.

Office-based working is not dead in the professional services sector

Most professional services firms expect the proportion of the workforce working remotely to remain flat at around **50%** by 2025, and only **38%** expect to reduce their office estates over the same period.

At a glance

50%
to acquire new customers

29%
to expand headcount >10%

64%
now track employee wellness

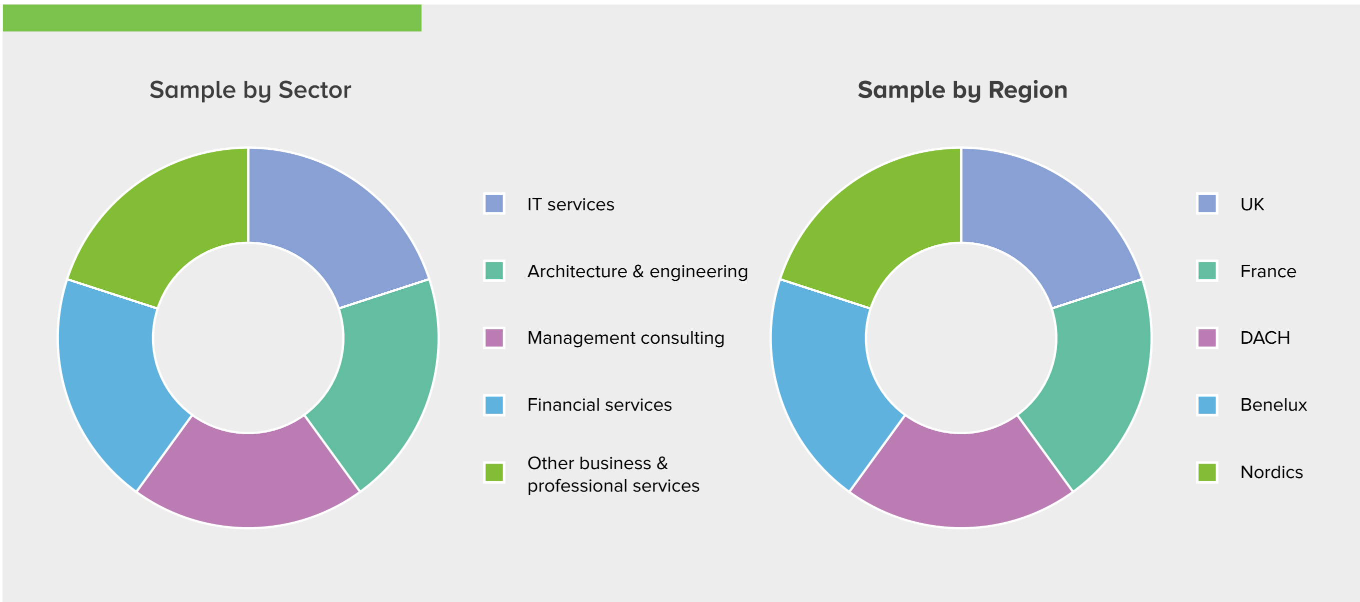
40%
state M&A will be a primary growth driver

50%
of employees will work remotely by 2025

Contents

Methodology

The findings of this study are based on a survey of senior business and technology executives at 250 large and medium-sized professional services organizations based in Europe. All of the participating organizations have between 500 to 5,000 employees and operate across six key sub-segments of the professional services industry that are highlighted below. The survey was run in the first quarter of 2022. A breakdown of the survey sample by industry and region can be found below.



Breakdown of Sample Group by Sector and Region

The financial outlook for 2022

How do your expectations for the performance of your own business compare to those of your peers? In this first section of the study, we provide an overview of the outlooks of professional services business leaders across a range of key financial indicators.

Economic conditions remain volatile across Europe, but the professional services sector looks to be on track for a year of solid growth.

PAC's survey of 250 business leaders at professional services firms across the region found that **83%** expect their top line to increase in their current fiscal year, with more than one-third **(34%)** anticipating a rise of more than 6%. Please note that all the figures included in the study exclude the increasingly significant impact of inflation.

The picture was similar across all of the six key market sub-segments, with companies in the IT services and financial services sectors the most confident about their prospects. There remains huge demand for external skills in supporting digital transformation programs as organizations leverage technology to adapt to new ways of working and changing client demands in the post-pandemic environment. PAC expects spending on IT services to exceed €222bn in Western Europe in 2022, and many mid-size firms anticipate a very strong year.

For example, UK-based agile specialist **Endava** is on track to exceed revenue growth of 40% in its current fiscal year.

IT services and financial services sectors were the most confident.

Management consulting (MC) firms were the most cautious group within the professional services sector. While the majority (66%) expect a year of revenue growth, one-third expect a dip in their current year. This may reflect the fact that the previous 12 months have been a period of significant growth for many firms in this space, as clients leverage consulting expertise to help them develop transformation strategies. As we shall see later in the survey, management consulting is also one of the areas struggling to recruit and retain sufficient levels of skilled resources, which may also impact their growth expectations.

Management consulting (MC) firms were the most cautious.

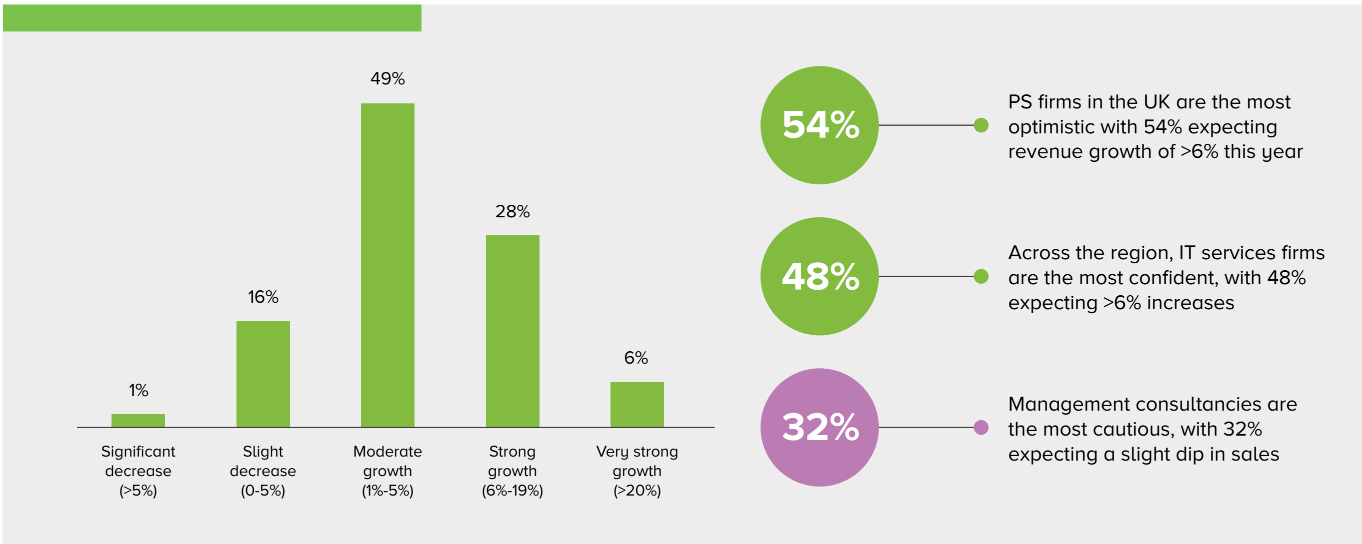


Fig 1. What is your expectation for revenue growth in your current fiscal year?

From a regional perspective, professional services firms in the UK and France are the most bullish about their prospects for the current year, with 54% in the former and 43% in the latter expecting either strong or very strong growth. Both countries have solid economic outlooks and a strong community of mid-size players in sectors including management consulting, financial services, and IT services. One of the standout growth stories in the MS sector is France's **Wavestone**, which after posting double-digit revenue growth to €400m in 2021, has set its sights on reaching a target of €750m by 2025.

UK and France are the most bullish about their prospects for the current year.

What do Europe's professional services firms expect to be their major growth drivers in the year ahead?

Acquiring new clients is expected to be the primary growth engine, ahead of M&A activity, selling more to existing customers and portfolio diversification. This puts the performance of the sales team in the spotlight, particularly in the IT services and financial services sectors, where **58%** and **53%** of firms respectively see this as a primary growth driver. From a regional perspective, it is those firms in the Benelux and Nordic territories that view greenfield accounts as the top driver for growth.

Firms in the Benelux and Nordic territories view greenfield accounts as the top driver for growth.

It is a widely accepted metric that it can cost at least five times as much to win business with a new client than to farm an existing account. But professional services is a mature market in Europe, and uncovering new accounts is viewed as key to growth across all sub-segments. Some **82%** of business leaders at professional services firms expect their number of accounts to increase in their current fiscal year, with IT services firms **(94%)** and financial services organizations **(87%)** again the most optimistic.

From a regional perspective, it is firms in the UK **(84%)** and the DACH region **(82%)** where confidence is highest about securing new logos, and the latter has become a key focus area for expansion for many professional services firms across the region. UK-based asset management specialist **Brown Advisory** recently opened an office in Frankfurt to target growing demand for sustainability-focused financial products, while **Horwath HTL**, one of the world's largest consultancies focused on the hotel and tourism sectors with over 50 offices worldwide, has strengthened its presence in the region through a string of local alliances.

It is firms in the UK (84%) and the DACH region (82%) where confidence is highest about securing new logos.

Professional services is one of the fastest consolidating industry sectors in Europe. It is no surprise to see that more than one-third of businesses expect it to be a primary revenue growth driver. Professional services is a people business, and the shortages of talent across many areas of the sector are forcing firms to acquire to fill in the gaps in their ranks. It is a picture we see across all sub-sectors of the market in 2022. A new European champion has been created in the FS advisory space by the merger between French credit rating agency **Qivalio** and Spanish peer **Axesor**. In the architecture and engineering space, Nordic leader **Sweco** has swooped for targets in Belgium and the UK last year. The ability to smoothly integrate acquisitions has become an important success factor in the professional services sector.

Launching new products and services is viewed as an important secondary growth driver for more than half of the companies in the study, and we are seeing many examples of professional services firms extending their reach into non-traditional areas of business. As we shall see later in the report, many professional services firms view sustainability as a commercial opportunity as their clients wrestle with the challenge of delivering on their decarbonization strategies. **EY, Atos, Capgemini** and **McKinsey** are among the growing community of MC and IT services firms that have recently launched new advisory or platform propositions and practices to help their clients on the journey to Net Zero status.

The ability to smoothly integrate acquisitions has become an important success factor in the professional services sector.

One of the dynamics that has played out in many areas of the European professional services sector over the last five years has been a shift towards smaller deal sizes. This has partly been driven by a shift away from large, big-bang business and IT transformation programs towards more iterative, agile projects that are focused on delivering faster returns on investment. However, there are signs that as client organizations rebuild and reinvent their core propositions in the aftermath of the pandemic, many are becoming more ambitious in terms of the scale of their engagement with external partners.

Many professional services firms view sustainability as a commercial opportunity.

At an overall level, **81%** of European professional services firms expect their average deal size to increase in their current fiscal year (again, excluding the impact of inflation), with a quarter of suppliers expecting growth in excess of 6%.

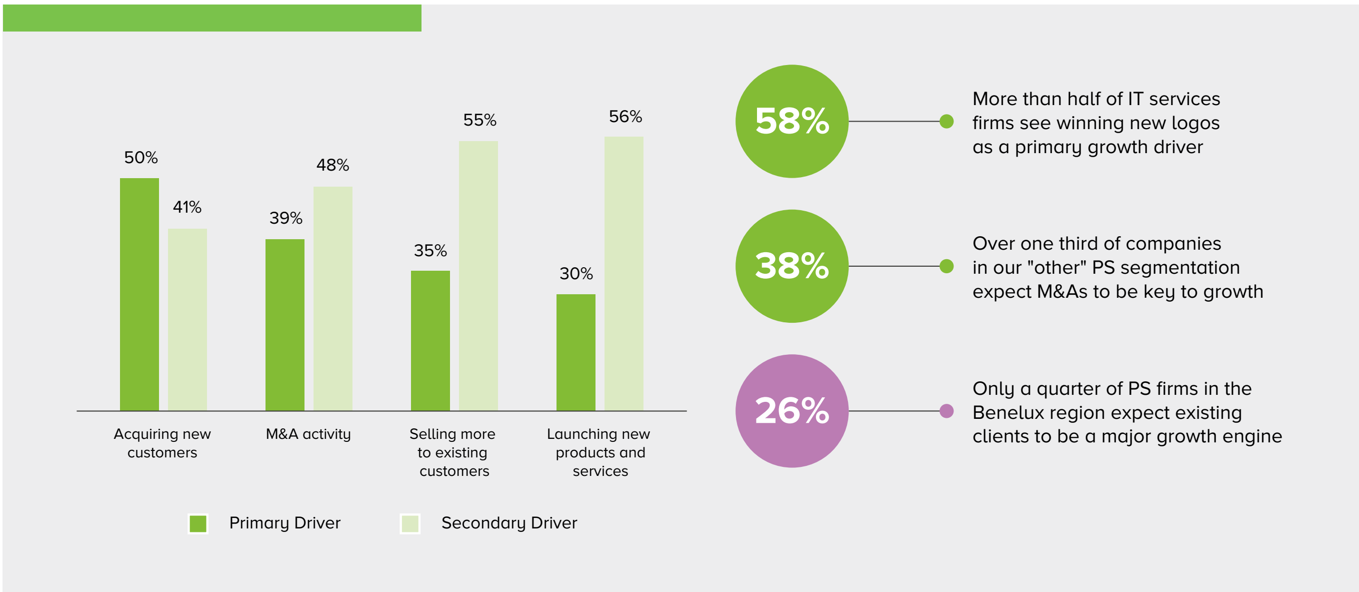


Fig 2. What do you expect to be the main growth drivers for your business in your current fiscal year?

The trend is clearest in the IT services sector, where the breadth and impact of digital transformation programs is expanding. For example, Nordic IT services vendor **Tietoevry** was recently awarded a contract worth a potential €370m to deliver digital services, including automation and artificial intelligence to modernize the city of Stockholm's application and infrastructure landscape.

Many second-tier firms that have successfully proved their value against larger, more established players are increasingly being entrusted with larger projects. For example, UK-based **Kainos**, one of the fastest-growing mid-size software services groups in Europe, recently won a contract potentially worth in excess of €45m with HM Passport Office to support digital applications and services.

Many second-tier firms that have successfully proved their value against larger, more established players are increasingly being entrusted with larger projects.

This shift to managing larger contracts will pose new challenges around cashflow management. The cost of bidding for bigger opportunities increases, while dependence on a smaller number of more substantial projects means that leadership teams have to manage the cyclical "lumpiness" of income with care. Cashflow has been an issue for many professional services firms over the last three years due to the pandemic's disruption of project cycles, but in general, the expectation is that cashflow will improve in the current fiscal year.

Expectation is that cashflow will improve in the current fiscal year.

Only **17%** of business leaders at European firms expect their cashflow position to worsen in the current fiscal year, while more than a quarter **(27%)** expect a significant improvement of >6%. IT services providers **(38%)** and financial services companies **(35%)** are the most confident of a strong or very strong upturn in their position versus last year, and from a regional perspective, firms in France **(41%)** and the UK **(34%)** are the most bullish in their outlook.

In contrast, cashflow appears to be a particular issue for management consulting firms, with more than **40%** expecting a decrease in cashflow position in the current fiscal year. This reflects the slightly more cautious outlook that we see across a number of financial indicators for a sector where many firms have enjoyed a particularly strong year over the past 12 months. Many MC firms are wrestling with higher costs in areas such as talent recruitment and contract bidding in 2022, as well as increased investment in portfolio diversification and M&A integration. This puts renewed pressure on finance leaders to maintain an even flow of cash across the business.

In contrast, cashflow appears to be a particular issue for management consulting firms.

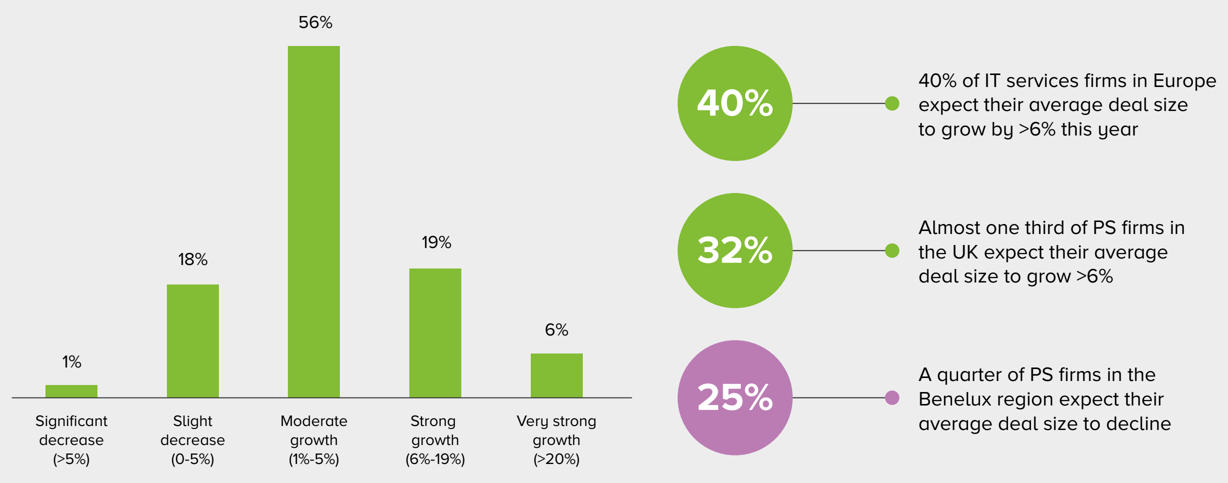


Fig 3. What is your expectation for growth in your average deal size in your current fiscal year?

While the experience of the last three years has disrupted revenue and cashflow cycles, many professional services firms have reaped some benefits at the bottom-line level.

Reduced travel expenses and cutbacks on office space and related running costs have boosted profitability for a lot of organizations. But as homeworking volumes reduce and face-to-face client engagement ramps up once again, do professional services firms expect this to have a significant impact on their profits?

The picture across the sector as a whole is largely positive, with only **19%** expecting a decline in operating profitability during the current fiscal year. Impressively, more than half of IT services vendors **(54%)** expect a strong or very strong rise in profitability despite an increase in staff costs as talent shortages drive up salaries. IT services companies are confident in their ability to pass some of this onto their customers through higher charges. Recent research into IT services pricing from *PAC* has found that day rates for application-related cloud transformation specialists will rise by more than 5% this year in both the DACH region and the UK.

Only 19% expecting a decline in operating profitability during the current fiscal year.

Once again, it is management consulting firms that have the least optimistic outlook, with more than one-third **(36%)** anticipating a decline in profitability in the current year. Why is this? The gradual transition away from remote working will certainly increase costs, but that is also the case in the other sub-segments of the professional services market. It highlights how management consulting firms find it harder to create business models that reduce the dependence on traditional time and materials propositions while leveraging the kinds of economies of scale (e.g., global sourcing/offshoring) that we see in other areas of the professional services space. It also underlines the need for greater operational control in an industry that is highly susceptible to changing economic conditions.

Management consulting firms find it harder to create business models that reduce the dependence on traditional time and materials propositions.

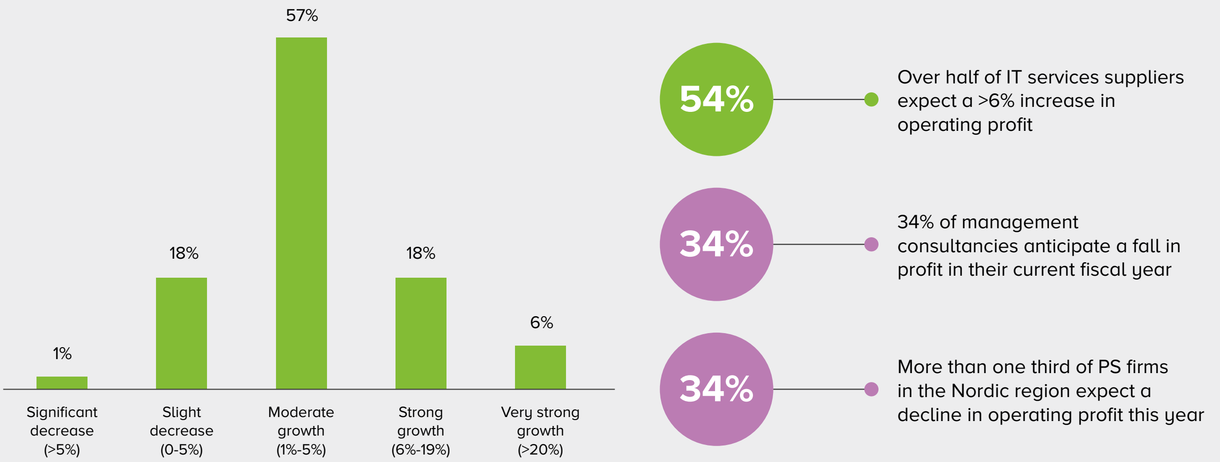


Fig 4. What is your expectation for growth in operating profit in your current fiscal year?

Key Takeaways

The findings in this section of the study paint a largely optimistic outlook for the year ahead. The vast majority of professional services firms expect a healthy improvement in revenue, profitability and cash flow, with IT and financial services companies the most confident.

The performance of the sales team in effectively and efficiently targeting new logos will be crucial to this growth, while the ability to smoothly integrate new acquisitions into the organization's systems, structure and culture will also be a critical success factor in a rapidly consolidating sector.

Deal sizes are increasing and coupled with rising salary and working costs. professional services firms will have to work hard to deliver on their positive expectations for profitability and cashflow. The more cautious outlook from management consulting firms underlines how crucial effective planning and control will be to the success of professional services organizations against a volatile economic backdrop.

Operational performance & challenges

In the second section, we look at how European professional services firms stack up against key operational metrics. How does your organization compare to your peer group in terms of headcount expansion, utilization, and project efficiency? And is your customer satisfaction rating ahead of or behind the rest of the market?

Talent recruitment and management will be a critical success factor for Europe's professional services firms in 2022.

As we saw in the previous section of the report, the majority of firms in the sector expect top-line growth in the current fiscal year, so it is no surprise that the large majority **(81%)** plan to expand their headcount.

More than a quarter **(29%)** of firms plan to expand their headcount by more than 10% over the course of the current year, with firms in France, the Nordic region, and the UK being the most aggressive. In terms of subsectors, the IT services and management consulting sectors look set to be the most active, with more than 30% of firms in each market looking to grow their ranks by over 10%.

The outlier in the professional services sector is financial services, where one-fifth **(21%)** of firms expect a reduction in headcount over the course of the current year. Financial services is a highly mature sector and many traditional firms are having to make major adjustments to their core propositions and skillsets in order to adapt to changing client behaviour. Swiss banking giant **UBS** is in the process of cutting 700 jobs from its wealth and investment divisions as part of an effort to reduce costs and digitize the group's offering.

But all other areas of the professional services market are in heavy recruitment mode. This is driven by a need to keep pace with client demand and fill in existing skills gaps as well as support the launch of new offerings. This is a huge challenge, given the talent shortage across many areas. According to the **IW Economic Institute** in Cologne, Germany currently has a shortage of 340,000 experts in engineering and technology positions, which is expected to increase in the coming years.

For mid-size professional services firms, the task of attracting and retaining talent is made all the more difficult because the sector's biggest brands are also looking to add huge numbers to their rosters. EY UK is currently looking to add 1,300 new employees to its UK operation to support the launch of a new division focused on supporting its clients' decarbonization journeys, called **EY Carbon**. While mid-size firms may struggle to match their larger peers in terms of salary and benefits packages, they can be more creative in other areas. Danish IT services firm **Retio** and eco-advisory firm **Nordic Sustainability** are among the growing number of professional services firms that have implemented a four-day working week.

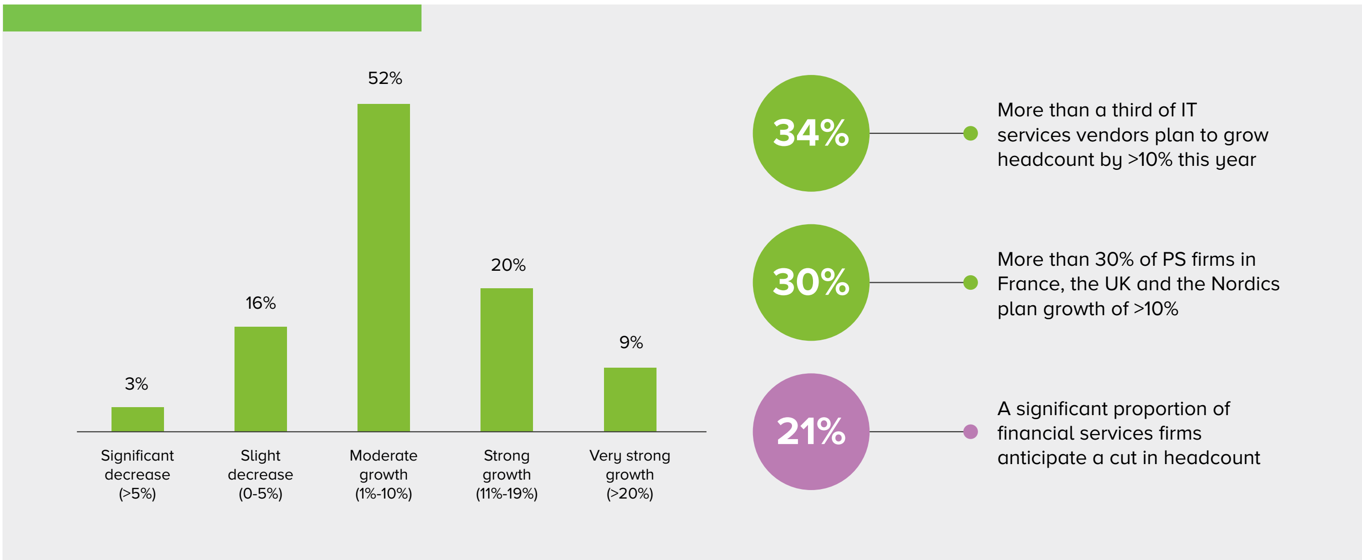


Fig 5. What is your expectation for the expansion of your workforce in the current fiscal year?

It is also worth noting that professional services firms in Europe face a new source of competition in the recruitment market with the rise of talent management platforms that help to connect freelance consultants and IT workers to specific clients and projects. For example, Paris-based **Weem** was launched by former consultants at BCG, Peat Marwick and Kurt Salmon to provide a platform to match skilled, freelance consultants with specific client projects. It currently has more than 1,000 consultants on its books, having doubled in size in the space of one year. Another European freelance consultant provider, **Malt**, has secured €80m in funding to support the expansion of its community of 250,000 freelancers. It expects to reach revenue of €1bn in 2024.

While many professional services firms are struggling to recruit the numbers that they need to meet demand, many are still failing to get the most out of their existing teams.

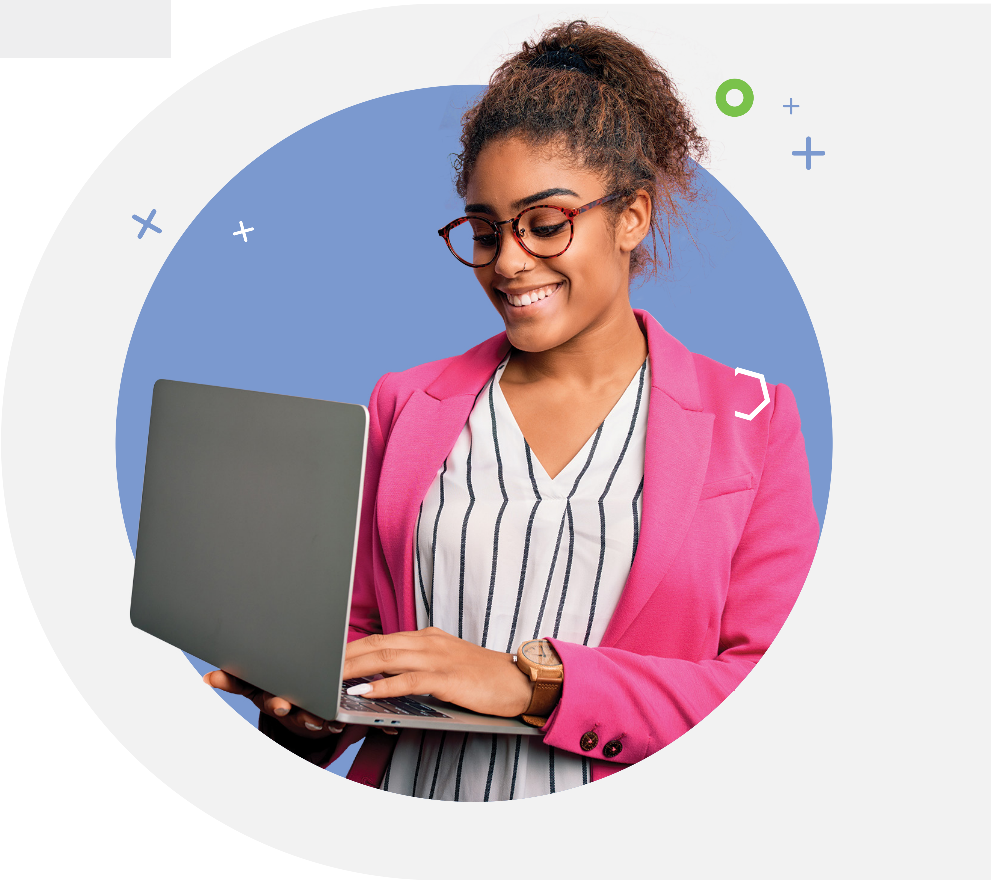
Staff utilization fell off a cliff in the early phases of the pandemic, but the survey found that many firms in Europe continue to operate at a sub-optimal level. While the majority of firms **(59%)** reached a utilization level in excess of 80% in their most recent fiscal year (including **76%** of firms in the DACH region), there was a tail of **19%** that failed to reach the 70% mark, and the problem was even more severe in some corners of the sector.

Staff utilization fell off a cliff in the early phases of the pandemic, but the survey found that many firms in Europe continue to operate at a sub-optimal level.

In the Benelux region, **16%** of professional services firms fell below the 50% utilization mark, while **22%** of participants from the financial services sector and **12%** of firms from the “other” services category fell below the same level. While many firms are wary of cutting headcount at a time when skilled resources are so scarce, a crowded bench can have severe repercussions on profitability targets.

Resource management has become an increasingly complex issue for professional services firms. Organizations are increasingly leveraging a more diverse blend of resources, supplementing permanent teams with sub-contractors, freelancers, and partner ecosystems. In the era of increased remote working, they are also looking beyond traditional regional boundaries to fill in the skills gaps. Offshoring or global sourcing is now increasingly driven by the need to find talent rather than the benefits of labour arbitrage.

Resource management has become an increasingly complex issue for professional services firms.



As we shall see later in the study, a dependence on aging technology is a problem for many in the sector, and resource management is one area where mid-size firms, in particular, continue to wrestle with legacy systems. Many firms continue to manage resources and projects using spreadsheets, the case for investment in more robust applications is increasingly attractive. For a consulting firm with 100 professionals running 20 projects at any one time, the permutations in terms of matching the best resources to the right job at the right time are huge.

Resource management is one area where mid-size firms, in particular, continue to wrestle with legacy systems.

These utilization challenges may also be having an impact on the ability of professional services firms to deliver their projects on time.

According to the survey, just over a half **(51%)** of professional services firms delivered more than three-quarters of their projects on time, with companies in the DACH **(56%)** and Nordic regions **(52%)** the best in class. From a sub-sector point of view, management consulting firms **(55%)** and architecture and engineering companies **(50%)** had the highest success rates, but there were some concerning shortcomings in other areas.

Just over a half (51%) of professional services firms delivered more than three-quarters of their projects on time.

Almost one-fifth of professional services firms in the “other” category **(18%)** and **14%** of architecture and engineering firms admitted that less than half of their projects were delivered on time. From a regional view, **19%** of organizations in France and 15% in the Benelux region failed to deliver half their workload to schedule. At an overall level, **11%** of the surveyed firms said that less than half their projects were delivered on time. This is a significant proportion and will, in the longer term, prove to be a challenge for the **86%** of professional services firms that are counting on repeat business with existing clients to be a driver for revenue growth in the year ahead.

What are the root causes of this issue? As we have seen, resourcing challenges play a part for many companies, although it is noticeable that those companies that suffer the most in this regard – namely IT services providers and management consultancies – are among the best performers in delivering on schedule.

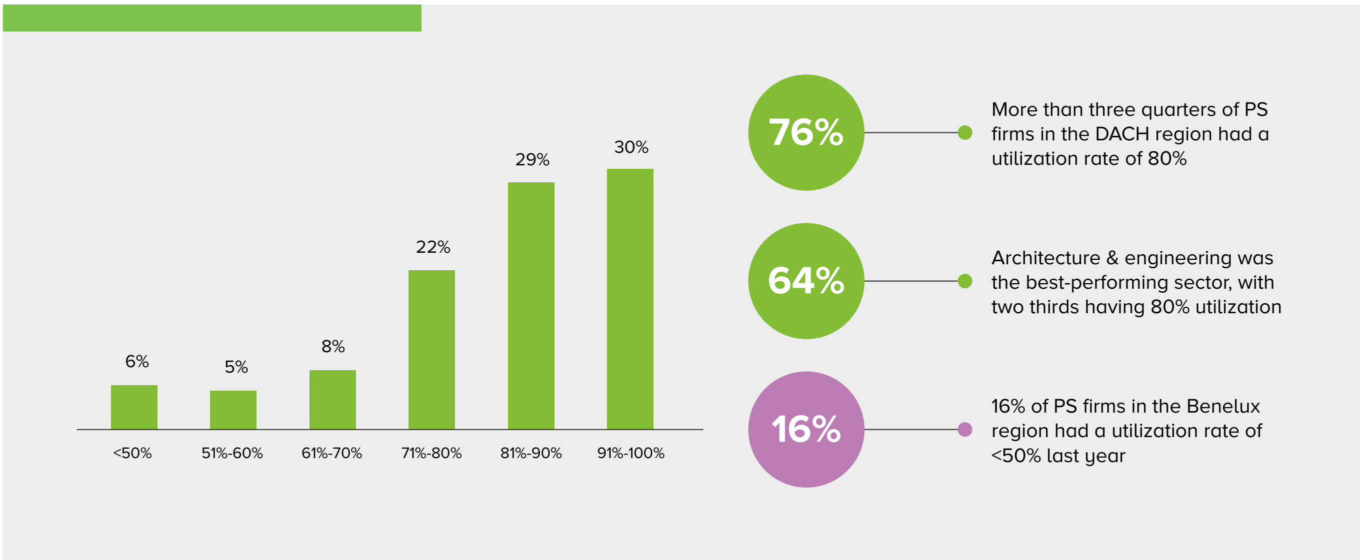


Fig 6. What was your staff utilization rate in your most recent fiscal year?

Again, these findings may expose a shortcoming in the way that professional services companies use technology to effectively manage project deadlines. Project management is becoming an increasingly strategic area as firms look to improve bottom-line performance and maximize resources by moving from responsive, time and materials projects to building repeatable fixed price propositions. This can only be achieved through a thorough understanding of utilization, activity, and financial performance.

Project management is becoming an increasingly strategic area.

In many organizations, there is a critical gap between their project management system and their approach to resource management. Without an integrated resource management system, project managers will struggle to identify and source the appropriate resources as requirements change, forcing them to work on gut instinct. There has been an acceleration in the number of professional services firms investing in a more robust platform to manage resources and projects in a more integrated manner, including French engineering and IT services provider **Alten** and accountancy firm **RSM**.

Are these challenges relating to utilization and project delivery having any impact on the customer experience? One of the key metrics that professional services firms in Europe are now using to measure customer sentiment is the Net Promoter Score, with **95%** of the firms having a clear view of their current rating.

One of the key metrics that professional services firms in Europe are now using to measure customer sentiment is the Net Promoter Score.

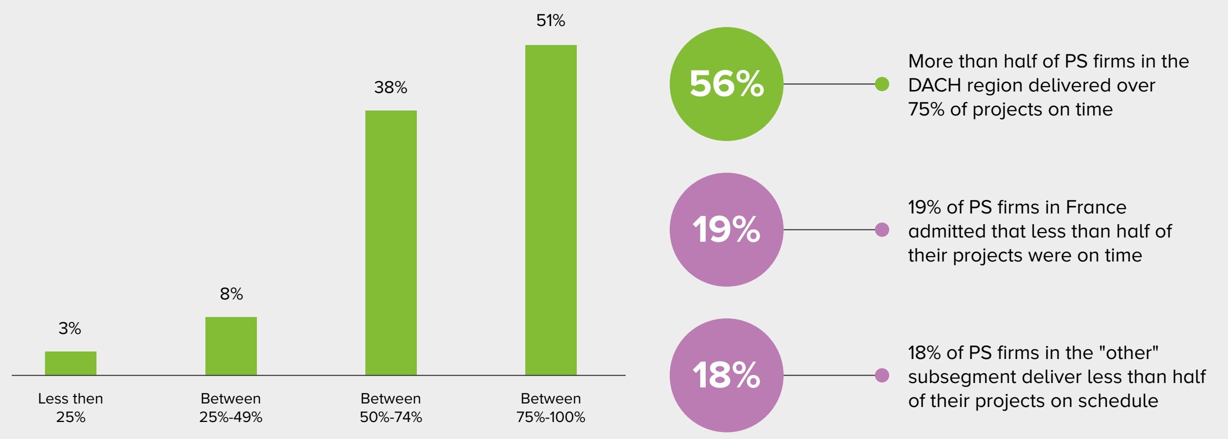


Fig 7. What proportion of your projects were delivered on time in your most recent fiscal year?

The scores paint a mixed picture of customer satisfaction in the performance of their suppliers.

On the positive side, **69%** of firms state that their NPS score exceeds 50, which is a very healthy rating for any sector. Consulting firm Bain, which developed the NPS system, rates any score over 50 as "excellent" with a level above 80 as "world class." Only **1%** admit to having a negative score, although they attributed this to their score being based on a very small number of customer ratings.

The best performers were to be found in the management consulting sector, where a highly impressive **82%** claimed a score in excess of 50%, including **14%** with a level in the "world class" bracket. Architecture and engineering firms followed in second place, with just under three-quarters **(74%)** topping the 50% score, and from a regional perspective, the winners were in France and the Benelux regions, where **76%** of professional services firms achieved a score of 50 or higher.

However, there is considerable room for improvement in financial services and "other" professional services firms, where **34%** and **29%** of organizations, respectively, scored below 50. From a regional perspective, organizations in the UK and DACH region have the most ground to make up, with more than 30% of companies in both markets falling below the 50 mark. NPS only provides a partial view of the satisfaction rating of the overall client base, but the majority of firms are looking to drive a considerable improvement in their rating. The study found that **52%** of organizations are looking to improve their score by at least 10% in the current financial year, with the already highly-rated IT services and management consulting firms looking to drive the biggest gains.

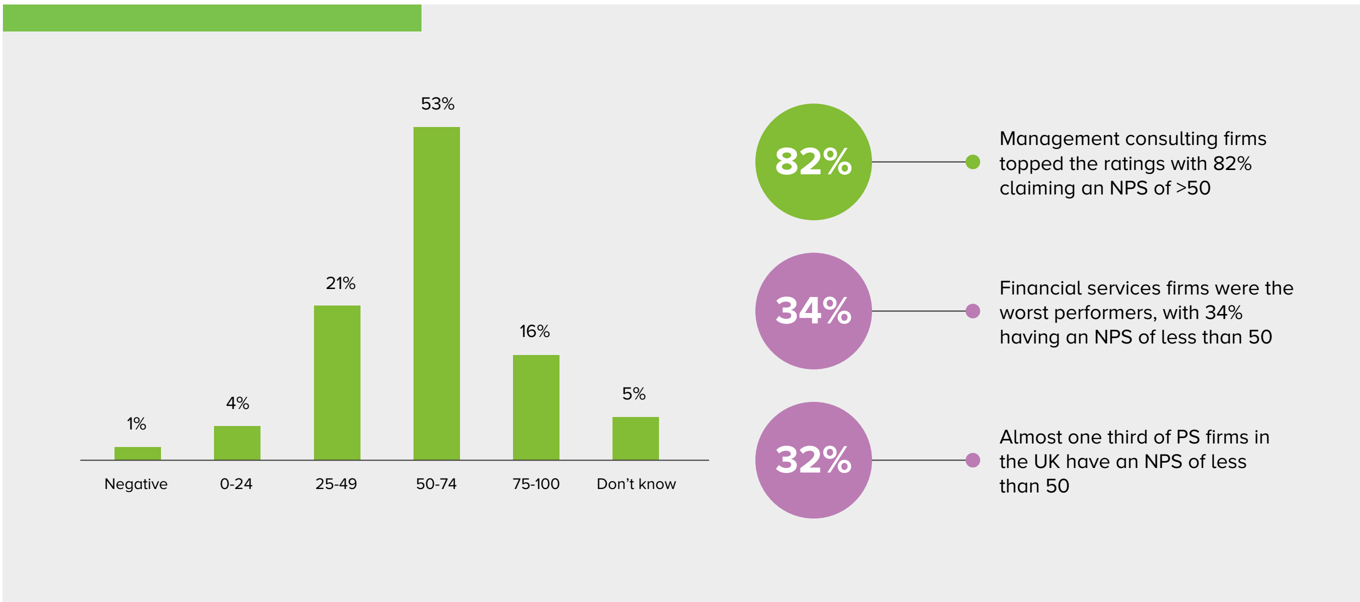


Fig 8. What is your current Net Promoter Score?

Key Takeaways

As the NPS ratings suggest, Europe's professional services firms are rated highly by their customers, but there is clear room for improvement in some of the critical aspects of day-to-day operations.

Most professional services firms plan to recruit aggressively in the year ahead, but in the face of competition from larger firms and new challengers, mid-size organizations must think outside of the box to attract the best talent. Implementing new working models and targeting previously untapped areas of the workforce are increasingly common tactics.

But while many firms are looking to add new skills into their ranks, they could be doing a lot more with their existing teams. Utilization rates are far from optimal in many areas of the professional services market, while a worrying number of firms are failing to keep on top of project delivery deadlines. Both issues highlight a need for a more robust approach to resource and project planning and day-to-day management.

The employee experience

In this section, we look at the increasingly important aspect of the employee experience. At a time of resource constraints, providing your workforce with a compelling experience that harnesses their maximum potential is vital. What steps are your peers taking to tackle this issue, and how are they measuring their success?

How successful are Europe's professional services firms in retaining their best talent during the age of the "Great Resignation"?

The study looked at the staff attrition rate – the percentage of employees out of the headcount that leave the business. The results suggest that while the majority of firms are staying on top of the situation, there is a high level of leavers passing through the exit door at many others.

The greatest stability can be found in the architecture and engineering sector, where **80%** of firms have an attrition rate of less than 20% and an impressive **52%** have a level of less than 10%. Financial services firms **(72%)** and other professional services firms **(84%)** are also keeping the level below the 20% mark. From a regional perspective, the DACH region is the leader by a distance, with 90% of professional services firms reporting attrition of less than 20% - including 60% with less than 10%.

There will always be a healthy level of natural attrition which helps to refresh the skills base, and large professional services such as **PwC, Capgemini**, and **Accenture** typically operate at a level of between 10% to 15%. However, some groups participating in the study are struggling to stay in control, and logically, it is those that operate in the most competitive labor markets. Some **44%** of IT services firms, and **42%** of management consultancies have an attrition rate of more than 30%, which is more than double the level we see in the more stable architecture and engineering space.

Mid-size firms can feel the impact of high attrition much more severely than their larger counterparts. A high proportion of revenue and client relationships can be driven by a relatively small number of individuals. It is not unknown for whole leadership teams or even practices at professional services firms to leave *en masse* for a competitor or to start up their own venture. Therefore, it is essential that organizations have processes in place to share knowledge and background on client history in order to mitigate the risk of departures.

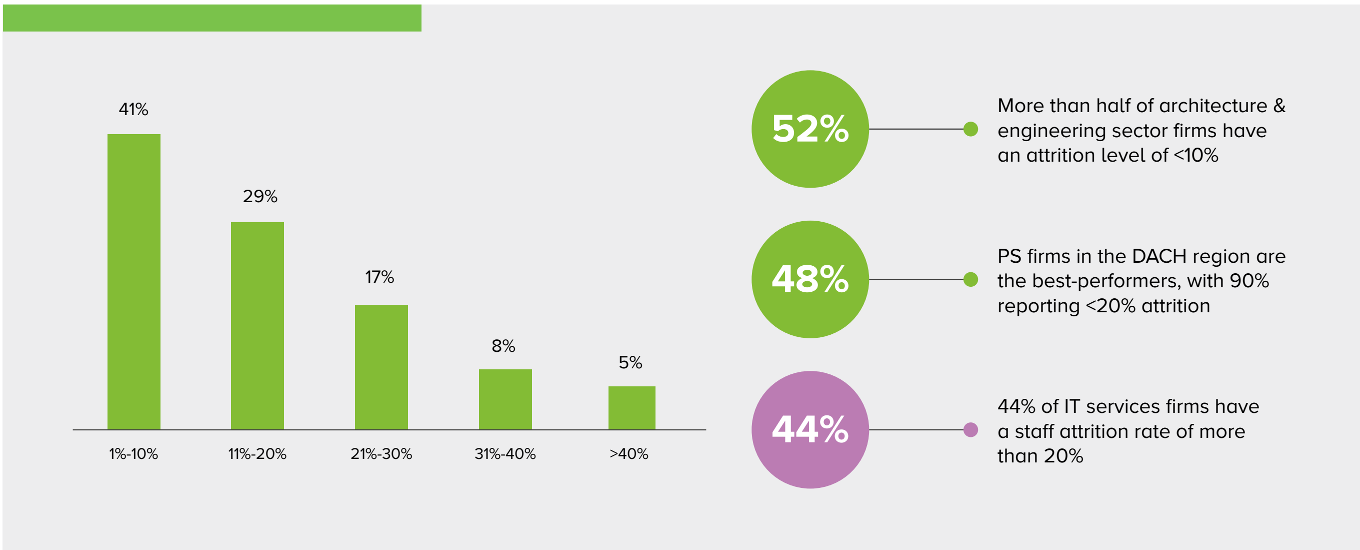


Fig 9. What was your staff attrition rate in your most recent fiscal year?

But what other steps can professional services firms take in order to ensure that their workforce is happy and engaged and identify any potential issues before they become factors that push their colleagues towards the door?

The concept of the "employee experience" has become a hot topic in the sector over the last decade, but it has also evolved as a concept. The study found that the majority of professional services companies are taking a well-rounded view of the day-to-day experience of their employees, tracking measures ranging from basic productivity through to health and wellness and customer feedback. Organizations in the Nordic region are ahead of the curve, with 84% tracking employee satisfaction and more than three quarters **(78%)** monitoring employee wellness.

The study found that the majority of professional services companies are taking a well-rounded view of the day-to-day experience of their employees, tracking measures ranging from basic productivity through to health and wellness and customer feedback.

The architecture and engineering sector is the laggard, with less than half of the participating firms tracking aspects such as employee wellness and engagement. But it makes sense that those sectors that face the biggest battle for talent, such as IT services and management consulting, are those that are investing more time and effort into staying connected to their workforce.

There are some examples of real innovation in the ways that Europe's mid-size professional services firms are looking to enhance the employee experience. UK professional services firm **Delta Capital** has looked to keep those staff that continue to work from home socially connected to their colleagues by running "Close the Week" sessions on a Friday afternoon where staff take turns to host and DJ a virtual get-together using Zoom and Spotify.

There are some examples of real innovation in the ways that Europe's mid-size professional services firms are looking to enhance the employee experience.

We have already touched on the topic of flexible working, and the potential benefits that this can have on employee wellness are significant. Accountancy firm **Grant Thornton** recently ran an internal poll across 2,200 employees, which found that 91% believed that a shift to a hybrid working model supported their wellbeing, while 93% stated that it had improved their productivity.

Interestingly, a growing proportion of professional services firms are working towards building a 360-degree view of employee performance and satisfaction by introducing aspects such as an employee net promoter score **(31%)** and assessing feedback from customers **(41%).** On this first point, many professional services business leaders have been prompted into action by the success of job review sites such as Glassdoor, where employees share their views on the positive and negative aspects of their past and current positions. It is much better to view this feedback through an internal lens to identify and tackle issues before they reach the public domain. And with a growing number of firms now weighing up customer feedback as part of the employee assessment process (including **54%** of management consultancies), it underlines how important it is that projects are delivered on time and to the required standard.

Firms are now weighing up customer feedback as part of the employee assessment process.

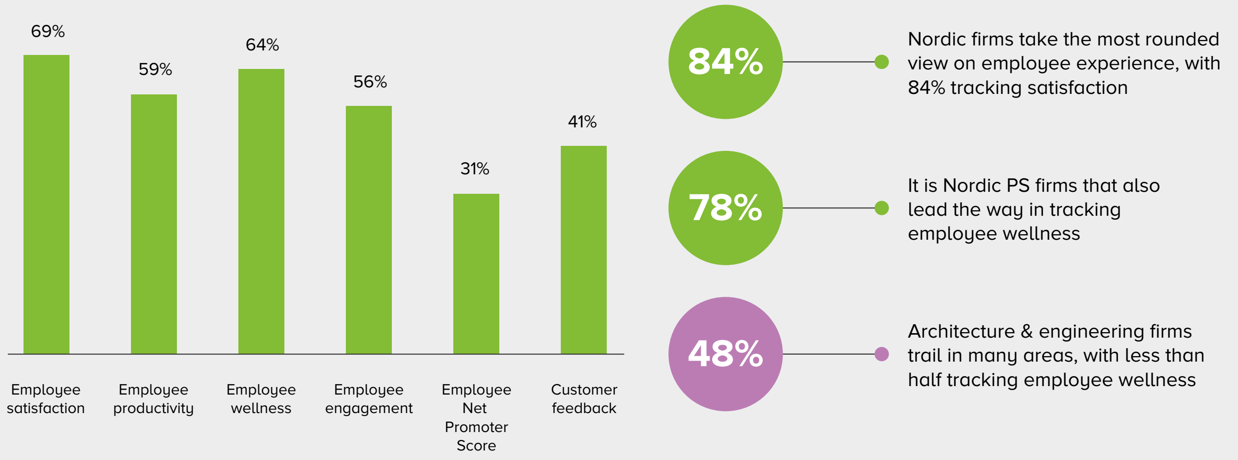


Fig 10. What steps are you taking to track your employee experience?

Another major decision facing professional services business leaders in 2022 is how they will adapt working practices as the pandemic abates?

Hybrid working has clearly become standard practice for the sector. While remote or flexible working practices were commonplace in many areas of professional services prior to the pandemic, the disruption of the last three years has forced those regions and sub-sectors that were behind the curve to shift to more agile models.

For example, one-third of professional services firms in Germany **(32%)** and **40%** of organizations in France currently have more than half of their headcount spending the majority of their time working remotely. This is still behind the level we saw in more fluid labour markets such as the Benelux region **(57%)** and the UK (**56%**), but still represents a major shift from the level that these territories were at a few years ago.

Flexible working models are here to stay, and while there has been a significant return to office-based working as restrictions are lifted, many professional services firms acknowledge that they need to offer a choice. Engineering and architecture firm **Arup** has introduced a flexible model it calls *"Work Unbound"* which lets its employees decide how and where they work. The model allows staff to choose which of the seven days they work, meaning staff could opt to work over the weekend, and they are also able to select their place of work for up to three days of each week.

Flexible working models are here to stay, and many professional services firms acknowledge that they need to offer a choice.

But many professional services business leaders are trying to understand the impact that remote and flexible working is having on key aspects such as productivity and business culture. For mid-size firms, in particular, there is a trade-off between offering roles and work styles that are attractive enough to appeal to new talent and bring out the best from existing colleagues while fostering a sense of engagement, creativity, and connectivity between teams and individuals that will ease attrition levels. With that in mind, what sort of balance do professional services firms expect to strike in the years ahead?

Looking forwards, the biggest swing back towards office-based working will play out in the management consulting sector. Business leaders in this sub-segment expect to move from a current level of **50%**, having at least half their employees spending the majority of their time working in an office environment, to more than three quarters **(76%)** by 2025. Many European consulting firms are investing in new collaborative workspaces to provide employees with an environment where they can co-create and innovate with clients and partners.

For example, French consulting firm **SIA Partners** has opened a new office that is designed specifically as a location for employees to work with customers and tech companies to create new services and offerings based on quantum computing. It is a pattern that is evident in other areas of the professional services sector as well. Architecture firm **Arcadis** recently opened a new office in London after an internal survey found that 40% of their workforce wanted to visit an office between one to three days a week in order to be part of a work community and to socialize. The new location incorporates dedicated social and wellbeing areas and a diverse set of workspaces, including touchdown areas, call rooms, and private meeting zones.

Many European consulting firms are investing in new collaborative workspaces to provide employees with an environment where they can co-create and innovate with clients and partners.

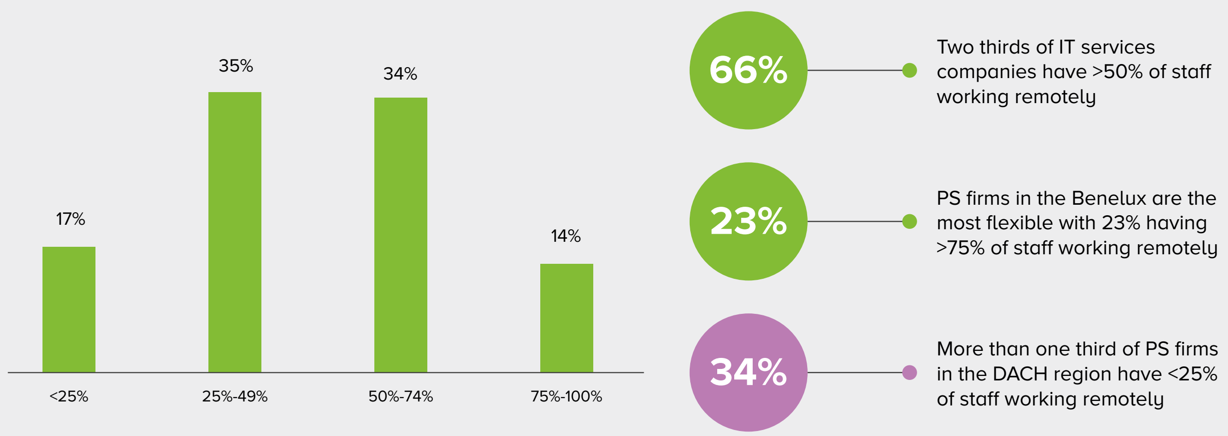


Fig 11. What proportion of your workforce is currently working remotely?

From a regional perspective, the biggest swing back to office-based working will be in France, where more than three quarters **(77%)** of professional services firms expect to have at least half their workers back in the office for the majority of the time by 2025. In contrast, the return will be much more gradual in the UK, where only **52%** of firms expecting to have the bulk of the team back at a fixed desk.

Interestingly, the IT services sector plans to retain the highest proportion of employees working remotely in the coming years. Half of the business leaders in this segment expect to have **50%** of their workforce working remotely in 2025, which reflects the need for a flexible HR strategy in a market where talent is likely to remain scarce for some time to come.

But what impact will the wider swing back to office-based working in the sector have on infrastructure strategies? Many professional services firms have been able to reduce their cost base in recent years by paring back and consolidating their office infrastructure, and the findings of the study suggest that many organizations will look to do "more with less" in the future, with more than a third **(38%)** expecting to reduce the size of their office estate by 2025. Another factor influencing this move is the growing importance of sustainability as both a boardroom priority and a regulatory requirement, and a growing number of professional services firms are exploring ways in which they can drive energy efficiency in their physical infrastructure.

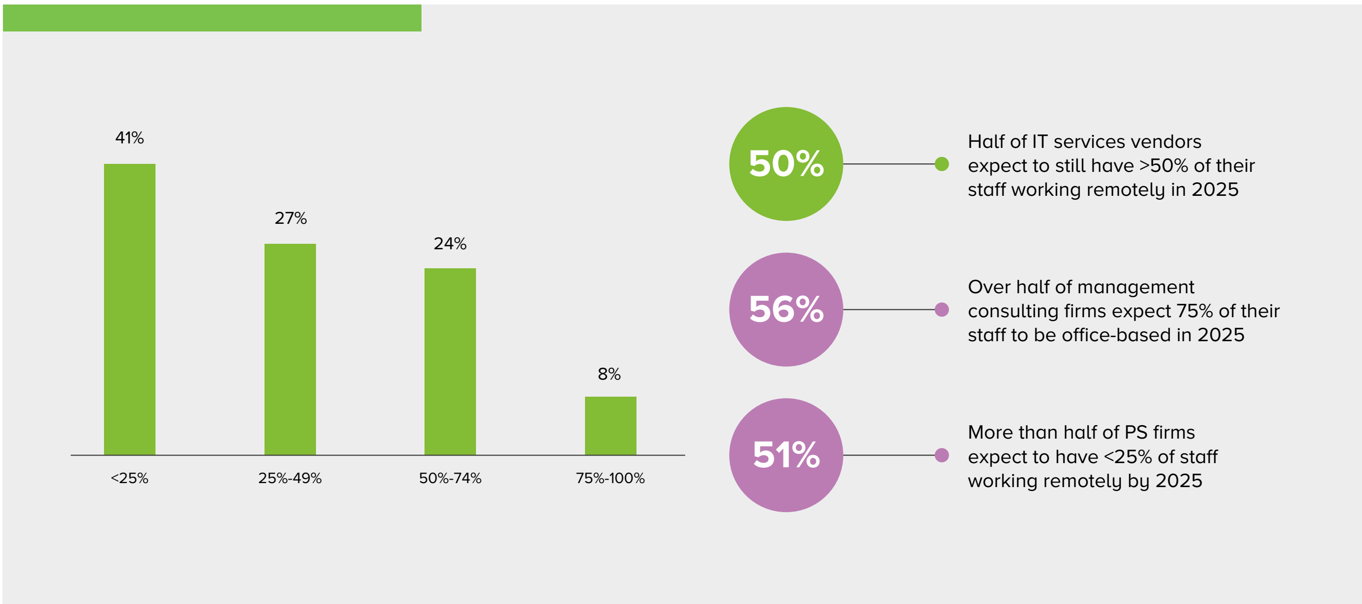


Fig 12. What proportion of your workforce do you expect to be working remotely in 2025?

Key Takeaways

The professional services sector has a major problem with hanging on to its best talent. High attrition is a reality for many companies in 2022, with skilled experts in consulting and technology increasing the cadence at which they move to new positions. But there are plenty of ways in which business leaders can tackle this problem, and it is encouraging to see that many are now taking a much more rounded approach to measuring and improving the employee experience, which should help to pinpoint potential problems before they turn into a reason for departure.

The study suggests that most professional services firms are looking to strike a more even balance between office-based and remote working over the next few years. This will enable organizations to differentiate and drive talent acquisition and retention by creating more compelling work environments and rebuilding the social and cultural elements of their business.

But the clear picture is that hybrid working is here to stay, even in those regions or areas of the industry that hadn't fully embraced it before. Successful firms will be those that can deliver a seamless experience for professionals that enables them to maximize their productivity and potential, regardless of location.

Sustainability & innovation

In this section, we explore two of the most significant topics facing professional services business leaders in 2022: how to harness innovation in your business and how to deliver on your decarbonization ambitions. Is your company progressing at the same pace as the competition in these two key areas?

The topic of sustainability will profoundly impact Europe's professional services sector. In the shadow of the COP26 climate summit, businesses are racing to map their journeys toward achieving Net Zero carbon emissions. It is not just the growing interest that industry regulators are taking in monitoring the progress that organizations are making on decarbonization, but investors, customers, and employees are increasingly demanding action.

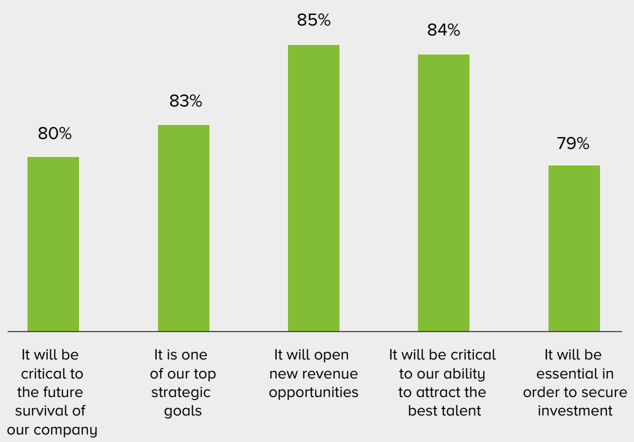
These factors are reflected in the findings of the study, with **80%** of business leaders (including **90%** of IT services executives) agreeing that decarbonization will be critical to the future survival of their organization. It is felt to be an existential issue by professional services firms in the Benelux region **(91%)** and the UK **(88%)** in particular.

There are clear signs across the sector that this is not just an issue to which professional services leaders are paying lip service, but they are also backing up with decisive steps.

PwC UK expects business trips by the firm to be reduced by about two-thirds compared with pre-pandemic levels. **KPMG** and **Deloitte** use online tools to show consultants the potential carbon impact of their travel plans before they book, and some firms have banned employees from booking flights between locations where a train link is available.

It is not just the biggest firms implementing these sorts of measures to reduce their carbon footprint. Netherlands-based IT services firm **Ordina** is aiming to switch to a fully electric car fleet, having reached a level of 20% in its most recent financial year. This has helped the company to reduce its $CO2$ emissions per full-time employee by 52% over the last two years.

Professional services firms also believe that their decarbonization strategies will also shape their potential in the recruitment market. Some **84%** of leaders believe that it will be critical to their ability to attract the best talent, including **90%** of participants from the architecture and engineering, and IT services sectors. **Boston Consulting Group** is aiming to appeal to more sustainability-conscious workers by taking steps to reduce the carbon footprint of new recruits in Europe during the training process, which would previously involve a degree of international air travel. It has set a target of reducing emissions per new recruit by 50% by 2025.



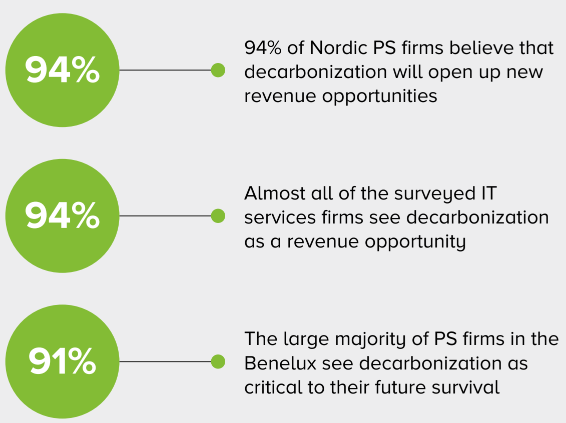


Fig 13. To what extent do you agree or strongly agree with the following statements on decarbonization?

One of the most encouraging findings from the study is that decarbonization is viewed by many professional services firms as an opportunity rather than an obligation, with **85%** stating that it will open up new revenue opportunities.

Many firms from across the professional services sector are already starting to realize top-line gains, with French IT services vendor **Atos** aiming to double the size of the decarbonization business it gained through the purchase of specialist advisory firm EcoAct, over the course of the current year. Atos recently launched a new product offering called the Digital Decarbonization Platform, which allows enterprises to simplify and automate the collection, calculation, reporting, data analysis, and visualization of emissions across the value chain.

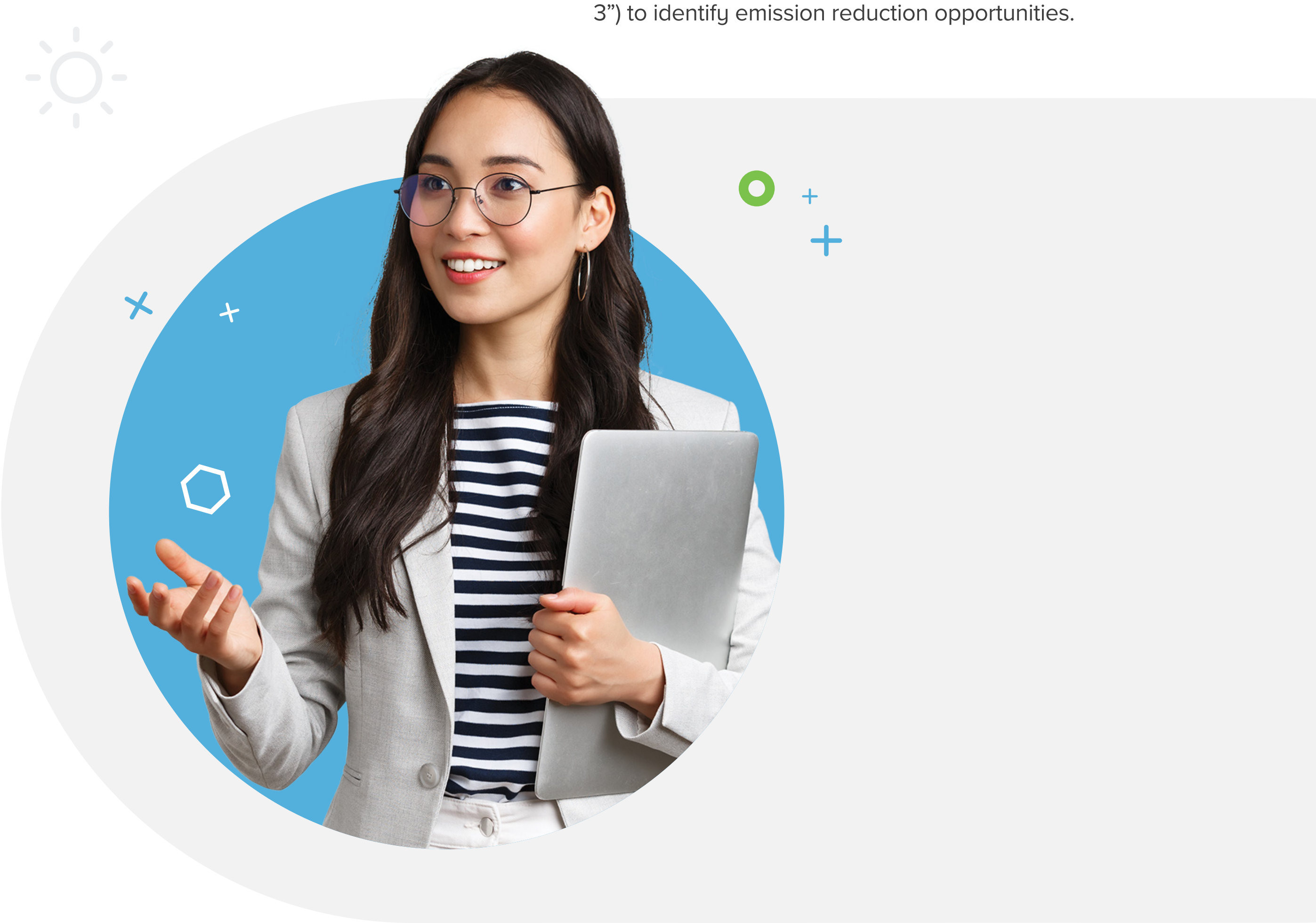
It is not just in the technology services space where professional services firms sense an opportunity. **EY** is investing £100m into a new, climate-focused consultancy business called **EY Carbon**, which will see the firm hire 1,300 new UK employees. In the financial services sector, Netherlands-based **Robeco** is among the many asset advisory firms that have launched a division dedicated to sustainable investment. The more that decarbonization is framed as an opportunity, the faster the pace at which organizations will move.

This is a key point as professional services firms are being ambitious in their targets for achieving Net Zero carbon status. According to the study, all but **14%** of the surveyed organizations had committed to hitting the mark, with two-thirds **(66%)** aiming to do so by 2030. Management consulting firms are leading the charge, with **70%** looking to become Net Zero by 2030, and in terms of a regional breakdown, almost three-quarters of businesses in the Benelux **(74%)** and Nordic regions are shooting for a similar target.

Professional services firms are being ambitious in their targets for achieving Net Zero carbon status.

It has been the sector's largest organizations that have attracted headlines for their bold commitments to carbon reduction, but as the findings of the study show, mid-sized firms are also clear in their plans.

Danish technology services supplier **KMD** has committed to achieving Net Zero status by 2030 and is investing DK10m of capital expenditure annually to develop technology solutions to support climate action across the group as well as for its clients. UK-based IT services vendor **Endava** recently set out its *"We Care"* sustainability strategy, which will see it undertake an extended analysis of its footprint across its entire partner network and supply chain ("Scope 3") to identify emission reduction opportunities.



A lot needs to be done if professional services firms are to meet these deadlines for reducing emissions. For many, a key investment will be a technology platform that can help them collate and centralize data on emissions from across the group. This will enable them to understand their starting point and provide updates on progress to regulators and other stakeholders over time.

For many, a key investment will be a technology platform that can help them collate and centralize data on emissions from across the group.

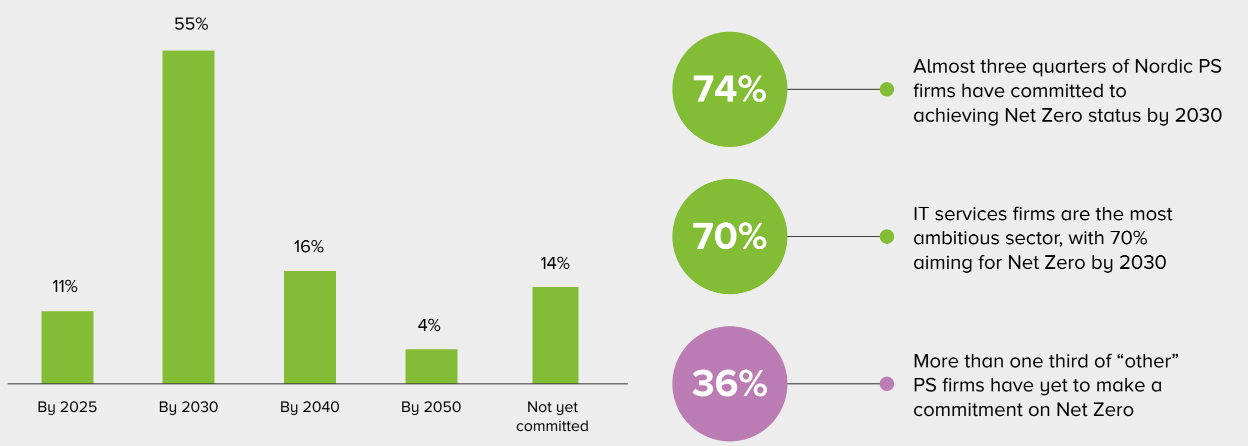


Fig 14. What is your organization's commitment to achieving Net Zero carbon status?

Decarbonization is one area in which professional services firms will look to harness the potential of technology.

But as the survey uncovered, tech is proving to be as much a barrier to achieving their ambitions as helping them. More than **70%** of participants stated that a dependence on legacy applications is holding back innovation in their organization, including **88%** of companies in the UK and **80%** in the DACH region. From a sector perspective, the issue is felt most acutely in the architecture and engineering (86%) and the financial services (83%) sectors.

More than 70% of participants stated that a dependence on legacy applications is holding back innovation in their organization.

The disruption of the last few years has exposed the limitations of aging systems and DIY spreadsheet-based approaches. Project teams have not been able to gain the level of accurate operational insight into employee performance or availability in order to respond and plan against unprecedented troughs and spikes in demand. Without this insight at their fingertips, it is very difficult to be able to create new services or offerings that are in tune with customer demand or internal capabilities. A lack of insight into critical performance data was also flagged as a blocker to innovation by **62%** of European professional services firms.

Indeed, two of the three biggest barriers to innovation highlighted by the study are technology issues. A lack of integration between key applications was cited by **71%** of participants in the study, and again, it was highlighted as a particular problem for firms in the architecture and engineering space. One of the challenges for digital and technology leaders at professional services organizations is that they are often working with highly fragmented software landscapes that have been built up through years of M&A activity and practice-specific tech projects. Fortunately, the increasing maturity of standardized, cloud-based enterprise application platforms means that solutions are now available that don't require lengthy integration or transformation programs.

Two of the three biggest barriers to innovation highlighted by the study are technology issues.

As we have seen earlier in the study, resourcing is a major challenge for the professional services sector, and capacity constraints was identified as the joint-top factor that is holding back innovation. One of the skillsets that professional services firms are increasingly trying to bring into the fold is data science and analytics specialists. These experts can help them harness the potential of artificial intelligence (AI) and machine learning (ML) technology and approaches in their own business and in the work that they do with clients.

Professional services organizations will need to create central teams of AI experts to develop the use of the technology within ethical frameworks and proliferate use cases across the organization efficiently. These functions will also include specialist AI trainers responsible for developing the algorithms' effectiveness and applying them across both internal and external data sets. In the architect and engineering space, we will also see the emergence of virtual reality experts' dedicated teams, applying technology to optimize design and collaboration processes.

According to the study, **48%** of European firms believe that AI/ML could transform their organization, led by 58% of IT services organizations and 57% of financial services firms. Management consulting organizations were the most cautious **(30%)**, and from a regional perspective, companies in the UK **(60%)** and the Benelux region **(53%)** are the most excited about its potential.

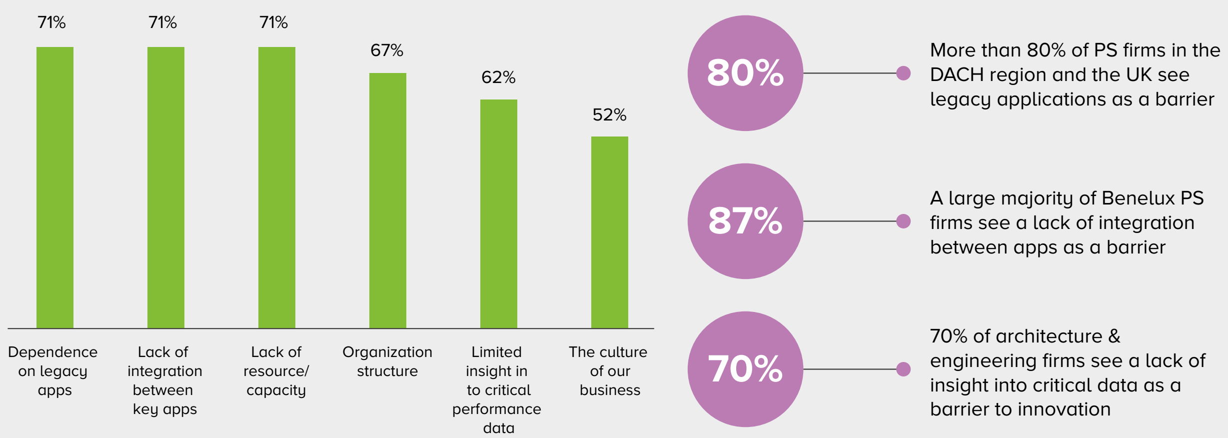


Fig 15. What are the biggest barriers to driving innovation in your organization?

The professional services sector has not been at the forefront of AI/ML technology adoption, but the number of use cases has exploded in recent years, particularly as the impact of the pandemic forced new thinking around how traditional processes could be automated or enhanced.

We are already starting to see AI/ML being used in specific areas of operations, and **43%** of professional services organizations (including **58%** of architecture and engineering firms) stated that it could transform a key part of their business. From a regional perspective, business leaders in the UK **(52%)** and the DACH region **(50%)** are the most bullish about its potential.

One of the most mature use cases is for virtual assistants that now support workers across all aspects of the professional services sector. Applications for the technology have emerged in areas tackling repetitive, administrative tasks. As the technology becomes more intelligent, with increasingly powerful AI algorithms able to mine larger, more accurate data sets, it will be applied to areas such as optimizing scheduling of client calls and visits, and the monitoring of mental and physical health and wellbeing, in conjunction with wearable devices.

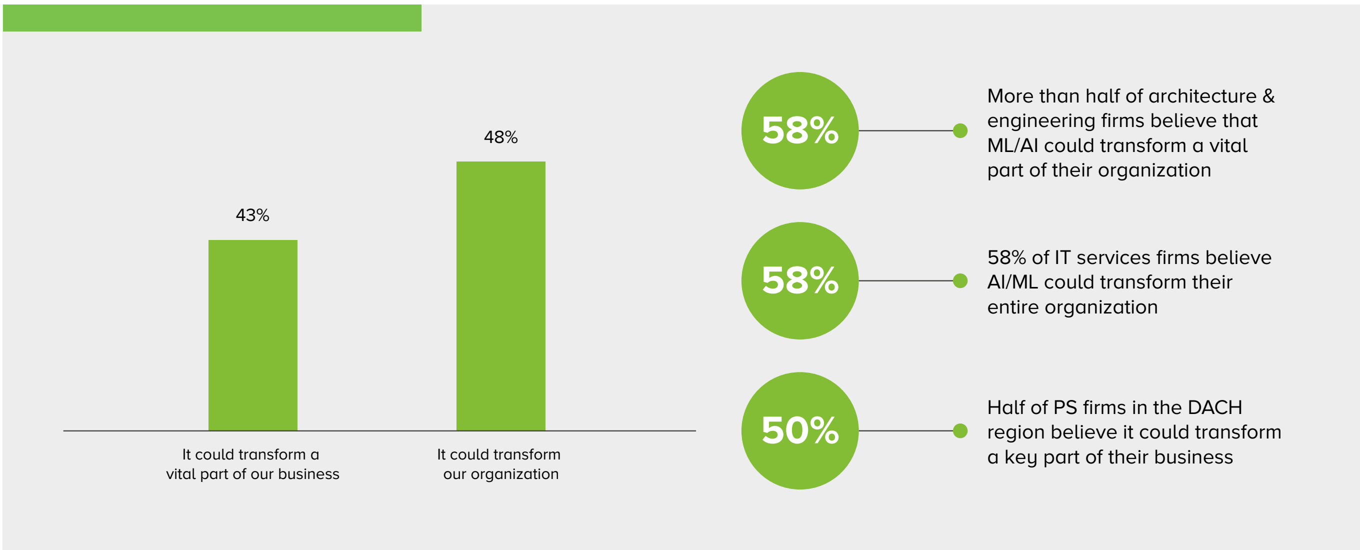


Fig 16. What benefits do you believe the increased use of AI/ML in automation can bring to your business?

Key Takeaways

The importance of sustainability is recognized at the very highest level within Europe's professional services firms. The pace at which they are looking to move forward on decarbonization is encouraging, and while many see it as an important factor in attracting both talent and investment, the fact that so many view the topic as a commercial opportunity is what will help the sector move beyond "greenwashing" to deliver meaningful change.

Technology will play an important role in enabling decarbonization, from discouraging unnecessary travel through the provision of a compelling virtual meeting environment to the collection and analysis of data to track progress on emissions reduction.

The majority of businesses acknowledge that they have work to do to put in place a platform that can help them harness the escalating flow of data across the organization and overcome traditional barriers posed by old and fragmented systems. This must be an important focus area, not just for IT or digital executives, but at a boardroom level, if professional services firms are to deliver on their growth and transformation ambitions.

Conclusions & recommendations

This study serves as a timely check point for an industry that is undergoing perhaps its biggest ever period of transformation.

The views of the senior executives shared in this report set out an optimistic picture of the European professional services market. However, there are some clear operational challenges that need to be addressed as organizations rebuild following three years of disruption.

With demand looking strong, the vast majority of business leaders are looking to expand their workforce in the coming year. However, attracting talent is far from easy at a time of acute skills shortages in many areas, and mid-size firms in sectors such as management consulting and IT services are having to get creative to build capacity.

Talent retention is another challenge, with attrition levels worryingly high in some areas of the market. It is encouraging that business leaders have put the employee experience in the spotlight and are using a variety of measures to build a rounded view of performance and satisfaction. The insight gained through these processes needs to be acted upon to ensure that colleagues remain engaged and harness their full potential.

It is encouraging that business leaders have put the employee experience in the spotlight.

Resource and project management are two other areas where there is significant room for improvement. Some companies are hampered by low staff utilization levels, which means that they could be getting a lot more out of their existing teams with better operation control. And on the project management side, too many companies are failing to deliver projects to schedule, which for mid-size firms looking to turn one-off initiatives into long-term relationships, will become a major obstacle.

Resource and project management are two other areas where there is significant room for improvement.

Technology will play an increasingly important role in tightening operational resilience and has huge potential to enhance both resource and project management by taking a more joined-up, premeditative approach to planning schedules, matching the best resources to the right jobs, and helping to avoid burnout for currently over-stretched talent. The growing adoption of intelligent automation will help to free up the workforce to focus on the most compelling work while providing business leaders with the insight they need to make the right calls at speed.

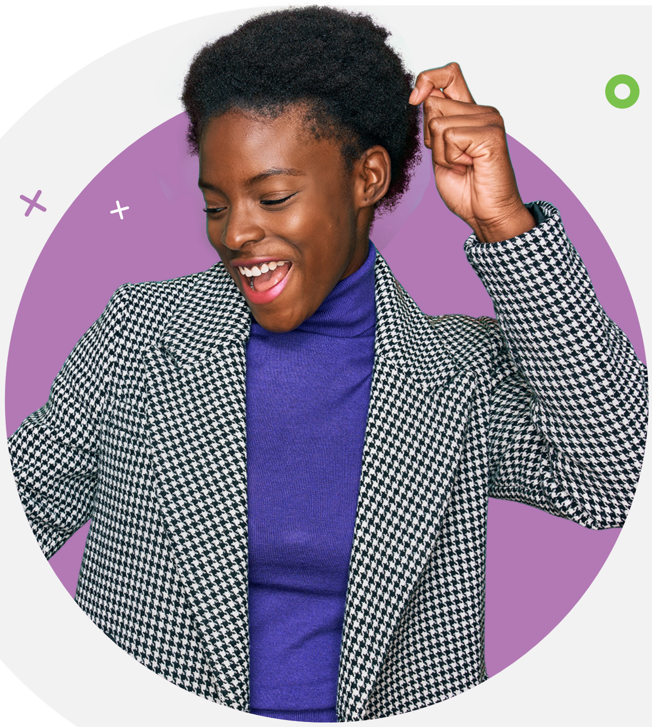
The growing adoption of intelligent automation will help to free up the workforce to focus on the most compelling work.

This is a challenge for many today, with the majority of firms identifying fragmented legacy systems as one of the biggest barriers to driving innovation in their business today. It is often said that data has become the lifeblood of a modern, digital business, and only by creating a clear, end-to-end view of operational performance will executives have the platform for responding to fluctuating market conditions and launching new products and services that are in tune with current and future customer demand.

We are already seeing a steady return to office-based working, and over the medium-term, most firms are saying that they will look to strike a more balanced approach to work styles. But don't take this as a sign that Europe's professional services industry is just going to revert back to pre-pandemic ways of working.

A growing number of businesses are not just automating, but transforming key parts of their business through the use of artificial intelligence. Coupled with the urgency with which the issue of decarbonization is being tackled, these factors will ensure that the pace of change will only accelerate in the years ahead.

A growing number of businesses are not just automating, but transforming key parts of their business.



For more information go to:

unit4.com

UNIT4
In business for people

In business for people