



European  
Commission

# HIGH-LEVEL GROUP ON Business Services



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*EU for Business*

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## FOREWORD

We congratulate the High Level Group on Business Services for its work and we thank the members of the Group for their efforts, their knowledge and the dedication they have shown. The Group's Report has put the spotlight on the important role that business services play for the European economy. It demonstrates that high performing business services are essential for our economic value chains and hence European competitiveness and industrial growth. The report also shows that business services have been a net generator of jobs in the last decade. There is no doubt that business services can have a significant role in achieving the Europe 2020 objectives of jobs and growth.

We thank the High Level Group for having drawn renewed attention to the importance of business services. We have made substantial progress as regards the implementation of the Internal Market for services, as well as on the actions needed for a European Industrial Renaissance. These efforts must continue. Forthcoming work at the EU level will have to take into account the new trends and developments. The High Level Group has made a significant contribution in terms of updating our current image of business services in Europe.

As stressed by the High Level Group in this report, the distinctions used in the past between services and industry have become increasingly blurred: firms are more and more frequently adding complementary services to their goods in order to enhance the value for customers. We also see service firms carry out tasks that until recently were performed by manufacturers. Furthermore, cooperation between providers of services and goods in the value chain is intensifying. This trend is to a large extent underpinned by the digitalisation of the economy, and will most probably deepen in the coming years, resulting in much stronger networking and interconnectedness of industry and services. As policy makers, we need to provide the best framework that will allow Europe's companies, and in particular SMEs, to benefit from these transformative changes whilst continuing to contribute to jobs and growth.

We are very grateful to the High Level Group for having started this reflection on the best framework for business services in the Single Market. The policy messages and recommendations of the Group will be valuable for our future work to develop effective and efficient policies at regional, national and European level.

*Antonio Tajani*

*Michel Barnier*

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## EXECUTIVE SUMMARY

Business Services will play a central role in the reindustrialization of Europe, both through the provision of innovative and productive services to other firms, and through the servitization of manufacturing<sup>1</sup>. Already the global Business Services market is estimated to be in excess of €3.5 trillion and to have doubled in size in the last decade<sup>2</sup>. In Europe alone Business Services account for €1.5 trillion gross value added<sup>3</sup> and provide jobs for more than 20 million people, across 4 million enterprises<sup>4</sup>. If economic activity in Business Services grows to the levels achieved by some countries, then the total global market for Business Services will be €7.8 trillion within a decade.

Three factors will drive this growth: (i) continued outsourcing by firms as they seek to focus on their core competencies; (ii) the servitization of manufacturing - the tendency for manufacturing firms to sell services and solutions, rather than products and goods; and (iii) general economic trends, where levels of employment in services tend to increase relative to manufacturing and agriculture, because of increased automation and productivity. The 4<sup>th</sup> industrial revolution - with increasing numbers of devices being connected to the internet - will further reinforce and accelerate these trends, creating a significant global opportunity. A critical question for Europe is how to drive further innovation and productivity gains in services so that Europe can capture a significant share of the global market opportunity and ensure a sustainable European society.

While the future opportunities for European Business Services are significant, the High Level Group identified three factors that should concern the European Commission. First, the Business Services market is fragmented - both within Europe and in terms of support provided by the Commission. This fragmentation creates challenges for the policy and business communities. Second, we are seeing rapid growth of indigenous Business Service firms in some of the highest growth markets - e.g. growth of consultancy and software firms in China and India. It is vital that European Business Service firms gain a foothold in these rapidly growing and high potential markets and they need support in doing so. Third - we are in the midst of a 4<sup>th</sup> industrial revolution, enabled by sensors, data, analytics and the internet<sup>5</sup>. Business Service firms of the future will play a crucial role in supporting industrial firms seeking to capitalize on the “internet of things” or “web 4.0”. Past experience suggests that the United States is much

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<sup>1</sup> European Competitiveness Report (2013) “Towards Knowledge Driven Reindustrialisation”, Commission Staff Working Document SWD (2013)347.

<sup>2</sup> Herbert, R. and Paraskevas, C. (2012) The Business Services Sector: Calculating the Market Size, Lloyds Bank.

<sup>3</sup> Herbert, R. and Paraskevas, C. (2012) The Business Services Sector: Calculating the Market Size, Lloyds Bank.

<sup>4</sup> Plaisier, N., Linders, G. and Canton, E. (2012) Study on Business-Related Services, Ecorys.

<sup>5</sup> Two recent Commission publications highlight the importance of the fourth industrial revolution. The first is a communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions - “For a European Industrial Renaissance”, COM(2014) 14/2. The second a policy report - “Unlocking the ICT Growth Potential in Europe: Enabling People and Businesses”, DG Communications Networks, Content & Technology, 2013.

more successful than Europe at growing the high tech, innovative firms needed to support this crucial industrial infrastructure. Europe has to meet this challenge head on and significantly increase the pace of technological development and deployment if European Business Services firms are going to seize the global opportunity Business Services offer. Achieving this will require coordinated effort and engagement across European manufacturing and services firms.

Through its discussions and consultations the High Level Group identified a wide range of detailed policy messages and recommendations to support European Business Services. Collectively these can be encapsulated in seven key action items. The High Level Group recommends that these seven action items form a key part of the incoming Commissioners' agenda through to 2020.

1. ***Europe 2020 Strategy*** – the Commission must consider how best to support European Business Services as they seek to capture a significant proportion of the global Business Services market. A major initiative for Business Services is required. Business Services must form a core element in the 2015 revision to the EU 2020 Strategy. It is noteworthy that despite their importance Business Services do not feature explicitly in the current Europe 2020 Strategy.
2. ***Seize the International Opportunity*** – the Commission should proactively support firms, in particular SMEs as they seek to capitalize on the global opportunity for Business Services. In EU trade and investment agreements the Commission should make sure that international markets for Business Services are open and accessible to European firms.
3. ***Complete the Internal Market for Business Services*** – completing the internal market for Business Services will require the optimization of the regulatory framework and standards conditions for the sector. Specifically, the Commission needs to address issues of lack of information on procedures needed for going cross-border, excessive bureaucracy and fragmented legislation; barriers to entry (especially for SMEs) and taxation and insurance regimes that inhibit cross-border trade.
4. ***Focus of Public Procurement*** – Member States, with support from the European Commission, need to ensure implementation of the new public procurement framework, with a focus on outcomes, through life cost, value for society, quality and innovation, rather than lowest cost. Aligning the interests of providers and clients through outcome-based contracts must be encouraged. The Commission and Member States should strive to reduce procurement participation costs for SMEs for example by promoting aggregation, collaboration and standards for procurement across Europe.
5. ***Developing and Up Skilling the Workforce*** – the Commission should proactively develop a future Skills Strategy that takes account of current economic and technological trends, ensuring that today's education systems are equipping people with the skills our Business Services will need

tomorrow. Particular attention needs to be paid to up skilling today's workforce, and - in partnership with Member States - to ensuring that today's secondary level school children are developing the right skills for the workforce of the future.

Throughout its discussions and consultations it was clear to the High Level Group that ICT will play a key role in the development of business services and how they interact with industry in the future. The ICT development will also be crucial for how we interact and do business in the Internal Market. Therefore, it is important that relevant policies in the developing networked environment are defined at European level, instead of a fragmented development around sectoral or national borders. Therefore, the High Level Group recommends that:

6. ***Creating the Technological Infrastructure for Future Business Services*** - To fully realise the potential for an industrial renaissance through a 4th industrial revolution, enabled by the internet of things/web 4.0, the Commission should create an initiative of common European interest that brings together manufacturing and services firms across Europe to create a shared technological infrastructure that will enable much easier and more open sharing of the data and information that facilitates innovation and productivity gains in Business Services. In its pilot phase this programme should focus on creating a shared virtual services marketplace for Europe for a few key sectors.
7. ***Follow Up and Implementation*** – the Commission should establish a partnership with stakeholders, including senior industrialists, SMEs, trade unions, academics and Member States where appropriate. This partnership should support the implementation of the recommendations of the High Level Group and ensure the development of a Business Services scorecard that can be used to assess the health, success and contribution of European Business Services.

The High Level Group recognises that the Commission cannot deliver on these action items alone and calls for a stronger partnership between the Commission, Member States and the wider community of Business Services stakeholders.

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## INTRODUCTION

The High Level Group for Business Services was established following two flagship communications:

- An Industrial Policy for the Globalisation Era, COM(2010)614: “The Commission will set up a High Level Group on Business Services to examine market gaps, standards and innovation and international trade issues in industries such as logistics, facility management, marketing and advertising;”
- A Single Market Act I, COM(2010)608: “Given the importance of business services, the Commission will set up an HLG to study the shortcomings of this particular market.”

The group consisted of around 20 European experts working in the field of Business Services. Regular meetings of the High Level Group were interspersed with meetings of five Working Groups, covering: (i) innovation; (ii) instruments; (iii) internal market; (iv) internationalization and (v) skills. The Working Groups, each consisting of between 10-20 members, took evidence from a variety of experts, including officials from the Commission. Each Working Group produced its own summary report and policy recommendations (copies of these reports are included as Annexes to this report).

The High Level Group considered the Working Group reports and recommendations at a series of meetings and used these to inform debate about the structure, key policy messages and key policy recommendations that the High Level Group wished to endorse. These messages and recommendations were further refined through consultation with the wider Business Services community, including at a workshop on 16<sup>th</sup> January 2014. Following this workshop the High Level Group finalized its report and recommendations.

As will be anticipated the report that follows draws together a diverse and heterogeneous set of inputs into a single document. For the sake of the reader the document consists of three broader sections: (i) a section devoted to explaining the changing context for Business Services; (ii) a section devoted to highlight the key policy messages that the High Level Group agreed; and (iii) a section devoted to the specific recommendations.

The High Level Group would like to acknowledge the input and support received throughout the process, both from the Commission and the Working Groups. These inputs were extremely valuable in shaping the final report.

## SETTING THE SCENE

### What Are Business Services and Why Do They Matter?

Business Services involve one firm providing services to another in support of their activities. They range from professional services (such as management consultancy, accountancy and legal services) through technical services (such as design, engineering and architectural services) to operational support services (such as office leasing, labour recruitment and employment, security and industrial cleaning activities)<sup>6</sup>. Throughout the last decades, manufacturers have gradually increased their offer by providing a whole set of services linked to their products, through a phenomenon known as the servitization of manufacturing.

*Figure 1: Business Services in Europe: Number of Enterprises, Turnover and People Employed (2010)<sup>7</sup>*

	Number of enterprises (thousands)	Turnover (€ billion)	Number of people employed (thousands)
EU 27	3,907	1,518	20,695
France	430	248	2,772
Germany	392	269	4,026
Italy	700	144	2,107
Poland	207	32	862
Spain	357	107	1,800
Sweden	182	54	512
United Kingdom	432	328	3,619

The global Business Services market is estimated to exceed €3.5 trillion and to have doubled in size in the last decade<sup>8</sup>. In Europe alone Business Services account for €1.5 trillion gross value added and provide jobs for 20 million people, across more than 4 million enterprises<sup>9</sup>. Even tightly defined Business Services account for 11.7% of the EU economy<sup>10</sup>. In the US, Business Services account for 12% of the economy, while in Brazil and Russia they account for 6%, in India 2% and in China 8%<sup>11</sup>. If Business Services in these four economies grew

<sup>6</sup> Martin H. Thelle and Katrine E. Nielsen (2013) 'Barriers to Productivity Growth in Business Services', Copenhagen Economics.

<sup>7</sup> Plaisier, N., Linders, G. and Canton, E. (2012) Study on Business-Related Services, Ecorys.

<sup>8</sup> Herbert, R. and Paraskevas, C. (2012) The Business Services Sector: Calculating the Market Size, Lloyds Bank.

<sup>9</sup> Plaisier, N., Linders, G. and Canton, E. (2012) Study on Business-Related Services, Ecorys.

<sup>10</sup> European Commission (2012), DG MARKET, SWD(2012)147 final – on the result of the performance checks of the internal market for services (construction, business services and tourism).

<sup>11</sup> Herbert, R. and Paraskevas, C. (2012) The Business Services Sector: Calculating the Market Size, Lloyds Bank.

to the same level as the European and US average, the new market opportunity would be in excess of €300 billion. If globally Business Services grow to the same levels achieved by some countries (24% of the economy), the global opportunity would be an additional €4.3 trillion. A critical question for European Business Service firms is how to capture a significant share of this global market opportunity.

Even in the relatively mature European economy, Business Services have grown faster than the overall economy. Between 1999-2009, the average growth rate for Business Services was 2.38%, while the average for all sectors of the EU economy was 1.1%. In terms of employment the average growth rate for Business Services from 1999-2009 was 3.54%, while the figure for all sectors of the EU economy was only 0.77%<sup>12</sup>. A key driver of the growth in Business Services, particularly in developed economies, has been industrial outsourcing, where firms have outsourced non-core activities to the Business Service sector, allowing them to focus their efforts on their core activities. Initially outsourced activities were relatively low-skilled and routine, but increasingly firms are outsourcing ever more complex and high-skilled activities, further driving growth in Business Services.

The High Level Group believes that not only will these trends continue, but their pace will increase with the advent of the 4th industrial revolution – enabled by web 4.0 or the industrial internet. Forward-looking industrial firms are using technologies and data to enhance their productivity and efficiency, while enabling them to offer better customer service and support, and transform their product offerings. In adopting these technologies, modern firms are partnering with a wide range of Business Service firms, pooling capabilities and resources to drive significant industrial innovation and growth. The Business Services sector plays a crucial role in enabling the Industrial Sector and indeed a growing number of firms in the Industrial Sector are themselves offering Business Services.

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<sup>12</sup> European Commission (2012), DG MARKT, SWD(2012)147 final – on the result of the performance checks of the internal market for services (construction, business services and tourism).

## A 2020 Vision for European Business Services

The High Level Group's 2020 vision is that *Europe should:*

- *drive an industrial renaissance through thriving Business Services that deliver **innovation, growth and high quality employment...***
- *using a **combination of technology and skills...***
- *to **create solutions that are of value to business service firms themselves, as well as their clients, customers and society as a whole.***

*Key to achieving this vision is Business Services being provided within:*

- *a **supportive regulatory and standards framework...***
- *including an **integrated Internal Market...***
- *which enables them to exploit their full potential to **capture a significant proportion of the global market opportunity...***
- *and therefore **drive economic transformation in a sustainable European Society.***

This vision includes five key elements:

1. ***Business Services deliver innovation and growth and create high quality employment.***  
There is clear evidence that there is a significant global market opportunity for Business Services. Properly supported Business Services can enhance the EU's position in global markets, delivering innovation, growth, productivity enhancement and high quality employment – all elements that Europe desperately needs given recent experience.
2. ***Innovative Business Services are enabled by both technology and skills.***  
Business Services are becoming increasingly dependent on technology – technology that enables innovation and the creation of new services. Think, for example, of the impact that Facebook and LinkedIn have had on the recruitment and employment industry. These technological innovations also require new interactions between people and technology - often creating demand for highly skilled people and offering opportunities for high quality employment.
3. ***Business Services create solutions that are of value to business services firms themselves, as well as their clients, customers and society as a whole.*** Increasingly Business Services are focusing on outcomes – delivering

the outcomes clients, customers and society want. In doing so incentives are aligned across organizational boundaries encouraging different firms to work together for a common good.

4. ***Business Services have the potential to drive economic and industrial development and support economic transformation for a competitive economy and a sustainable European Society.*** The High Level Group saw many examples where Business Services illustrated their potential to transform industries. The University of Bari, for example, has developed an app that allows fishermen to report their catches while still at sea, using a mobile phone. The catches are priced and sold to local supermarkets and restaurants before the fishermen return to port. Through this technology incomes have increased by 25% and time-to-market reduced by 70%.
5. ***Achieving this vision requires a supportive regulatory and standards framework, including an integrated Internal Market.*** A key enabler in the development of thriving business services is a well-functioning Internal Market. Companies that decide to go cross-border are more productive and less likely to exit the market. That is why the European Institutions, the national authorities and the service providers must continue their efforts to remove obstacles and create the right supportive regulatory and standards framework for free movement of services throughout the European Union.

### **What Holds European Business Services Back from Achieving this Vision?**

While developments in Business Services are exciting and the global opportunities significant, the High Level Group identified three major risks for Europe. First, the Business Services industrial and policy communities are fragmented. This fragmentation means it is difficult for Business Service firms to make their voice heard in Brussels and fragmentation within the Commission means that multiple Directorates have an interest in Business Services. Second, local and indigenous Business Service firms are growing rapidly in some of the markets where there is greatest growth potential for Business Services. Take India, for example, where we are seeing rapid growth of firms like Tata Consulting, Infosys and Wipro. Clearly growth of indigenous Business Services firms is to be expected, but Europe must move quickly to support European Business Service firms as they seek to take advantage of emerging market opportunities. Third, many of the developments to support the industrial internet – a key enabling technology for Business Services in the future – are occurring in the United States and China. Again Europe must move quickly to address these challenges if we are not to be left behind by technological giants such as Amazon, Apple, Facebook and Google.

Pace is key to capitalising on the opportunities offered by Business Services. To ensure that European Business Service firms can react quickly enough to this changing landscape the High Level Group identified six specific issues that have to be addressed.

1. ***Reducing administrative burdens in the Internal Market***  
Shortcomings in the Internal Market – excessive bureaucracy and fragmented legislation; barriers to entry (especially for SMEs) and taxation and insurance regimes that inhibit cross-border trade - all slow down the pace at which European Business Services firms can react. A key issue is the growth of administrative burdens.
2. ***Capitalising on the 4<sup>th</sup> industrial revolution***  
It is clear that we are in the midst of a new industrial revolution – a revolution enabled by data and information collected on products and services via networks of sensors and digital technologies. Europe has to make significant investments in both digital infrastructure and underpinning research and development to capitalise on this industrial revolution.
3. ***Changing the focus of public procurement***  
Public procurement is still too focused on lowest cost tenders, rather than outcomes, through life cost, value for society, quality and innovation. This focus limits innovation and the development and validation of creative solutions. In the future procurement should pay much more attention to the outcomes required.
4. ***Addressing skills shortages and employment challenges***  
There are skills shortages and employment challenges – both today and in the long-term. Business Services are becoming increasingly technologically dependent. The rate of technology development means that significant up-skilling is required, especially in those service industries that have traditionally been low skilled and labour intensive.
5. ***Internationalising Business Services***  
Business Services are international in orientation and yet still too little trade is cross-border. There are framework barriers – both legislative and regulatory - as well as issues associated with the free movement of people which all have to be addressed.
6. ***Giving Business Services a voice through partnership and representation***  
To realize the High Level Group's 2020 vision for Business Services it is essential that the incoming Commission prioritises and resolves these issues through action, as well as coordinated dialogue and discussion with all representatives of European Business Services. Currently Business Services are too fragmented, both within the Commission and across European industry.

Some of the regulatory obstacles hampering the integration of the Internal Market have been addressed by the implementation of the Services Directive. The Services Directive covers services accounting for more than 45% of EU GDP, with Business Services being the biggest sector covered in terms of contribution to the GDP. The measures that Member States have adopted to implement the Directive are estimated to bring an additional 0.8% of EU GDP over the period of

10 years from the implementation. Moreover, if Member States were to abolish almost all the remaining restrictions, the total economic gain would be more than three times bigger (about 2.6% of GDP<sup>13</sup>).

The Commission itself recognizes this issue. The European Commission Communication (COM (2010)301) *An Integrated Industrial Policy for the Globalisation Era*, states that “whilst the implementation of the Services Directive has removed administrative barriers to cross-border service provision, there are still other areas where barriers remain and where the functioning of the internal market for services needs to be improved”. Within Europe there is evidence that services markets remain strongly fragmented along national lines. Estimates suggest that between 6% and 20% of the services provided in the European Union have a cross-border dimension<sup>14</sup>. Comparable data for the US suggests that cross-state trade in services is between 27-32%<sup>15</sup>. It is clear that further efforts are required to deliver an Integrated Market for Business Services.

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<sup>13</sup> The economic impact of the Services Directive: A first assessment following implementation, European Commission, Economic Papers 456 | June 2012 by Josefa Monteagudo, Aleksander Rutkowski and Dimitri Lorenzani

<sup>14</sup> This 20% figure comes from “A new strategy for the single market at the service of Europe's economy and society” – Report to the President of the European Commission José Manuel Barroso by Mario Monti, Point 2.6. The 6% figure for cross-border trade is based on new analysis by Professor Peter Smith of the University of Leuven.

<sup>15</sup> Based on data from Washington State analysed and provided by Professors William Beyers, John Bryson and Geoffrey Hewings.

## Technology is Changing the Nature of Business Services

The challenges facing Business Services are compounded by some significant economic and societal shifts. A key driver of these shifts is technology. So while many Business Services have traditionally been labour intensive, in the future we will see more Business Services firms that are either technology dependent or at least technology enabled. A good illustration of this is provided by the construction sector, with the introduction of BIM – Building Information Models.

### *Building Information Modelling: The Intelligent Building*

BIM (Building Information Modelling) is being used to replace the traditional as-built information (drawings and specifications) with digital building information models that are easy to update and that hold data on the performance of the building over the occupancy phase. BIM improves coordination and integrity of information to reflect accurately the physical attributes of the building and to record changes. It provides a baseline for facility management, including the management of change. BIM provides the history of a building to be used in business decisions and to be linked to the planning systems. Through a building's life the technology can be used to monitor and manage the client's property portfolio. An important point to note here, however, is that it is not just technology that plays a central role in enabling innovations such as BIM. Standards, for example, are central to the rollout of BIM, ensuring interoperability of models. The transformational effect of BIM would be much less without standards to make it work and so a crucial issue for Europe is to ask where the appropriate standards need to be applied at a European level to enable and embed technological innovations that will drive productivity and growth.

Not only is technology changing the nature of some Business Services, but it also opens up opportunities for innovation – including new business models. In the construction sector, for example, equipment manufacturers such as Caterpillar, Komatsu and Volvo use track and trace technologies to monitor the location of assets, making predictions about maintenance services required and improving the efficiency of their customer's operations. The range of data available today has given rise to the phenomenon of Big Data – a significant increase in the volume, variety and velocity of data. Use of sensors and remote monitoring technologies open up new opportunities for firms to innovate and enhance their efficiency. Take computer-based ordering systems in restaurants, where waiters use hand held devices to transmit orders directly to the kitchen as they take them, or online check-in services for air travel, where passengers check-in on their mobile phones. These innovations are all enabled by technology, drive efficiency and productivity, but require Business Services to design, deliver and support them. The High Level Group believes that the pace and impact of these innovations will increase, especially as the industrial internet and web 4.0 take hold.



### *Pitti Immagine - Reinventing the Trade Fair*

Pitti Immagine is an Italian company, based in Florence, devoted to promoting the fashion industry worldwide through trade fairs; its scope has been recently expanded to food and fragrance as well. The company has renewed the concept of trade fair as a development platform for knowledge sharing and relationships building among exhibitors, buyers and general public. Pitti traditionally acted as a system integrator, involving many external partners: IT system providers, catering, fitters, logistic operators, communication agencies and designers. Stakeholders and Florence's institutions, such as the Municipality, the Regional body, tourism and transportations services take part in Pitti's eco-system. In the last few years, starting from a deep collaboration with its own selected exhibitors and visitors, Pitti has developed innovative services, working as a resource integrator which activates different partners based on the trade fair typology. An example is the new virtual exhibition, where the entire 'physical fair' (booths, exhibited products, seminars, etc.) is digitalized and made accessible worldwide a couple of weeks after the event's end.

An important implication of the increased use of technology in Business Services is the need for up-skilling, especially of the current workforce. The High Level Group was concerned that while much attention is placed on new entrants to the workforce – looking at secondary and tertiary education - many mid-career people working in Business Services face challenges because of the pace of technology development. The Commission therefore needs to pay attention to lifelong skills development for those already in employment. This is particular acute in those Business Services characterized by low-quality jobs and low levels of skills. To take advantage of the productivity and innovation gains that can come from technology, these organisations need significant support in up-skilling the current workforce.

### *Store Valtellina - Exploiting the Cloud for Internationalisation*

Store Valtellina is helping traditional manufacturing and service sectors, particularly SMEs, internationalise and increase their competitiveness via e-Business cloud platforms and accompanying. The business enables districts (territorial, industrial or "virtual") and networks of Italian businesses to promote their products and services internationally. Over 70 food producers of varying sizes (the smallest has a turnover below 100k€, the largest over 70m€) are using Store Valtellina as a fully integrated promotion, marketing and logistics tool for export.

## **The Context for Business Services is Changing**

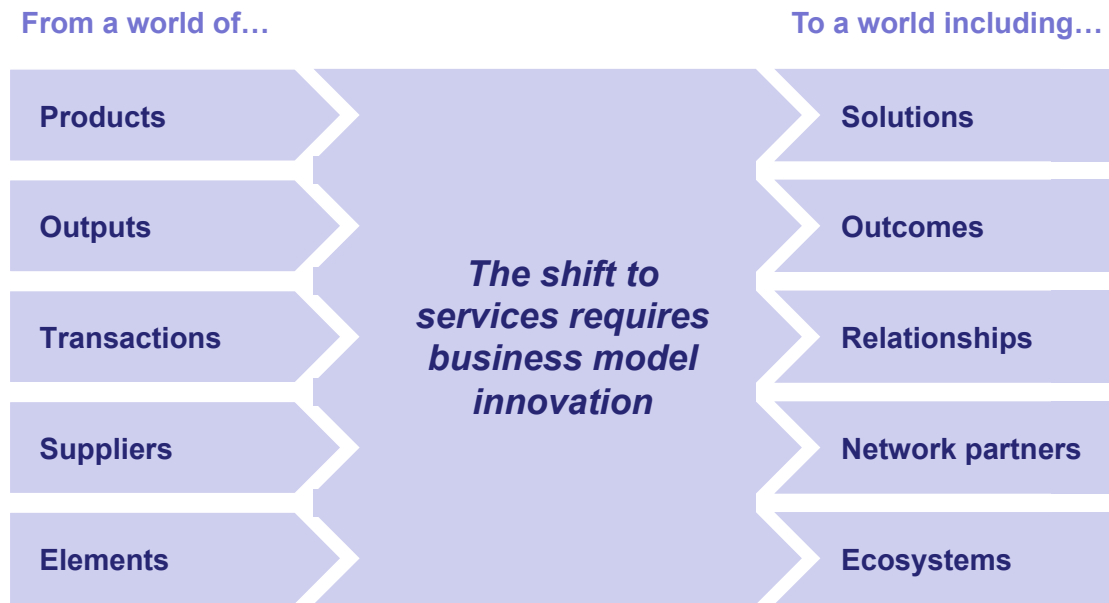
It is not only technology that is driving change in Business Services. There are broader contextual changes in the economic and political environment that are affecting the nature and range of Business Services offered. Initiatives with a significant impact on Business Services have recently been proposed by the Commission (i.e. posting of workers) or have already been adopted by the Council and European Parliament (professional qualifications, public procurement, new multi-annual financial framework – COSME, Horizon 2020, etc). The EU is currently reviewing rules on VAT exemptions, with potential implications for Business Services. Beyond these changes there are other factors to consider, including: (i) the changing nature of innovation: (ii) the changing

structure of partnerships; and (iii) increasing levels of cross-organisational collaboration.

The rise of open innovation as a recognized phenomenon, coupled with ideas of customer engagement – co-creation and co-evolution – mean that the landscape for innovation is radically different today. Interestingly, many Business Services are now being delivered by networks of firms that come together to pool their capabilities. Take, for example, the defence industry. BAE Systems has contracts to service and support ships. As part of these contracts BAE Systems is also responsible for the entire estate at the dockyard. BAE Systems has to maintain the facilities (workshops and repair bays); provide accommodation for sailors and their families; deliver catering and leisure services, as well as maintaining the ships. BAE Systems does not want to do all of this itself. So it outsources elements of the contract to its partners, e.g. Aramark (catering) and Babcock (facilities management). These three organisations have to pool their capability to deliver the service required by the client. As the complexity of services increases – particularly the technological complexity – it is likely we will see increasing numbers of networks of firms collaborating to deliver business services. Interestingly these firms can often be of significantly different sizes, bringing additional complexity to the relationship.

This changing context brings issues of organisational structure and governance, as well as intellectual property rights and contracting, especially because new business services are changing the nature of firm interactions. One of the consequences of technologically supported or enabled business services is that new organizational forms are being created. Rarely do all of the capabilities required to deliver the solutions exist in a single firm. Hence we see networks of firms coming together to pool their capabilities and collectively design and deliver the services. Often these networks form around specific contracts and it is not unusual to find members of the networks collaborating on some contracts and competing for others. The EU corporate law framework must be able to accommodate this reality, otherwise European firms will fall behind their global competitors. A related issue is the length of the contract – we see more examples of long-term, relationship based service contracts. Contracting cannot simply be on the basis of lowest initial cost, but must be based on a through life cost approach. Figure 2 draws together these changes into single framework illustrating the changing context for Business Services.

Figure 2: The Changing Context for Business Services<sup>16</sup>



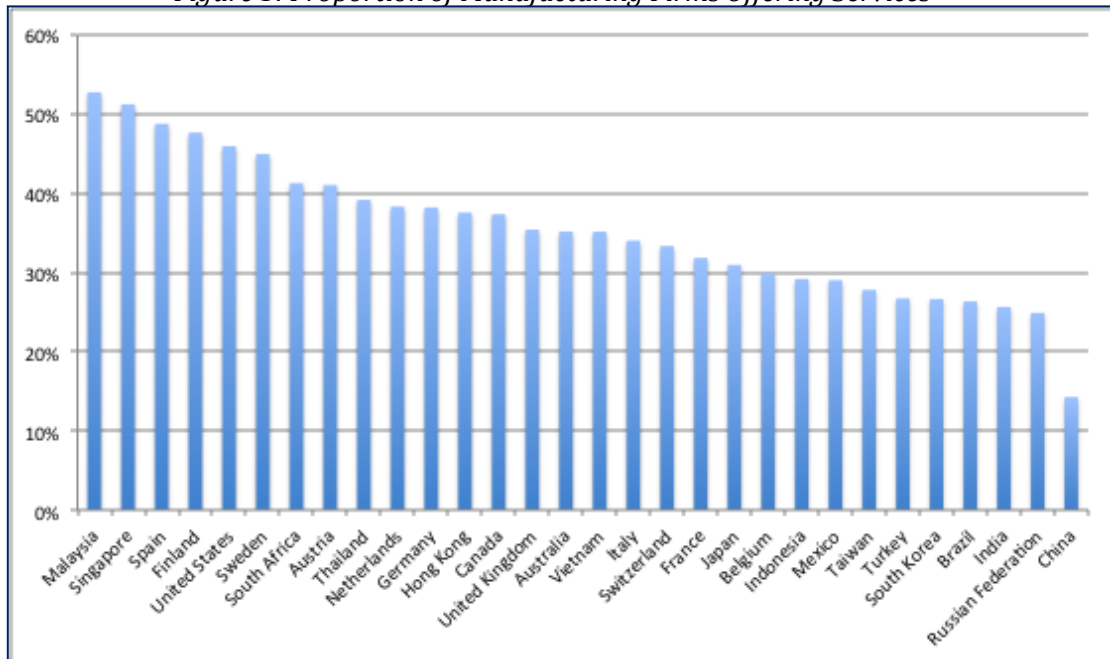
### The Changing Context Creates Opportunities for Transformation

As the previous Expert Panel on Service Innovation recognized, this changing context for Business Services creates opportunities for transformation in the public and private sectors<sup>17</sup>. Business Services have a key role to play in this transformation and indeed many traditional Business Services firms are providing the services required to make these innovations possible. Additionally, the High Level Group recognised that the changing context means new firms are entering the market and offering new forms of Business Service. This is particularly the case in manufacturing where increasing numbers of manufacturing firms are servitizing – offering services as well as their core products. Figure 3 illustrates the point. It presents data on the proportion of firms with manufacturing SIC codes that offer services as well as products, broken down by country. Globally the data suggest at least one third of manufacturing firms also offer services, often business services.

<sup>16</sup> Neely, A.D.; Benedittini, O. and Visnjic, I. (2011) “The Servitization of Manufacturing: Further Evidence”, 18th European Operations Management Association Conference, Cambridge.

<sup>17</sup> Mayo, A. (2011) “Meeting the Challenges of Europe 2020: The Transformative Power of Service Innovation”, European Commission.

Figure 3: Proportion of Manufacturing Firms Offering Services<sup>18</sup>



This transformation of product-based companies to service-based companies can be seen in many different sectors. In education, for example, traditional publishing business now offer educational solutions – developing online learning and testing materials and supporting recruitment and retention of students on behalf of schools and universities. In the pharmaceutical sector, traditional big pharma firms are reinventing themselves as healthcare solutions providers – expanding their role from development, manufacture and distribution of medicines, to providing health, lifestyle, dietary and exercise advice to try and prevent medical conditions occurring.

*A Revolution in Education: The Emergence of MOOCs*

The emergence of MOOCs – Massive Open Online Courses – for example, has the potential to revolutionise the way education is delivered. Online courses, with 1000s of students, provide opportunities to monitor the ways in which students consume learning materials. If a high percentage of students all re-watch the same piece of video three times, it might suggest that a specific piece of learning material is not clear and needs to be improved (Otherwise why would everyone rewind the video and watch the same piece of material repeatedly). This is but one example of how systemic service innovation has the potential to transform the design and delivery of services. These innovations will drive efficiencies, as well as better outcomes and they can be seen in many walks of life.

M-Pesa is a great example of how innovative services can be created in international markets, especially when they are not constrained by legacy infrastructure. M-Pesa is a service supported by Safaricom and allows people to transfer money using mobile phone credits. The service allows people working in towns to transfer money to relatives in rural communities using their mobile

<sup>18</sup> Analysis completed by Andy Neely using data from the CapitalIQ database.

phones. Traditional banking infrastructure simply does not exist in these rural communities, so rather than creating a traditional infrastructure, the phone operators have found a novel way of delivering the service using the phone infrastructure. Supporting transformative innovations like this is a significant opportunity for European Business Service firms, especially when those firms can take existing technologies and platforms and extend them to other services areas (see Mindark case for an example of this).

*Mindark – Leveraging Service Platforms to Create New Value*

The Swedish online computer gaming company Mindark is one that has managed to extend its business platform to other service areas. Mindark has developed and is running a virtual world - Entropia Universe, where the players are able to visit places and conduct joint or individual missions. The game also has a virtual economy where the currency can be converted to real money. The technical platform has now generated the opportunity to use the game for educational purposes, including European youth unemployment programs, where the platform is used to upgrade skills. Mindark is evolving its business away from being simply an online gaming company to a professional business service provider, expanding its growth potential and engagement with both the public and private education sectors.

The final transformation theme lies in issues of environmental performance and sustainability. Here the High Level Group saw examples where firms were seeking to innovate their business model to reduce the environmental impact, as well as deliver outcomes required by their clients. A key issue is aligning the interests of provider and client through smart procurement. For example, Rolls Royce now offers power-by-the-hour. Rather than selling aero engines, the business will sell the thrust the engine delivers. The advantage of this for the client is that the incentives and interests of Rolls-Royce and the client are now aligned. The client wants engines that work and are as effective as possible. Rolls-Royce only receives payment when its engines are working, so they produce efficient, reliable engines that don't break down.

In consumer markets we see similar innovations. Car sharing firms, such as ZipCar, for example, don't transfer ownership of the asset – the car – to consumers. Instead they retain ownership and charge for the right to use the asset. The consequence is lower production of assets – we simply don't need as many cars if we share them more freely. And ZipCar want reliable cars that last as long as possible – to reduce their capital outlay. So the alignment of interests across the value chain reduces resource consumption and promotes sustainability. Clearly there is also a business case for this innovation, but a potential spin off benefit is the environmental impact.

### *Enhancing Environmental Performance Through New Business Models*

Relevant environmental impact has also a new business model in Energy Efficiency proposed by Cofely (GDFSUEZ Group) to his customers; a great example is the Catania University experience that ensures a 20 years saving scheme for the electricity costs (a cut of 15% of energy expenses) and important reduction on carbon emissions (2,700 tons/year of CO<sub>2</sub>). The saving is driven by the investments in Energy Efficiency financed 100% by Cofely (Photovoltaic systems, new generation lamps for offices and outdoors, new state of the art Building Automation Systems, etc). The customer pays an indexed fee every year (energy supply and maintenance) to repay Cofely's investment and services.

With the squeeze on public sector spending across Europe public sector procurers should think carefully about what they are commissioning and seek to contract for performance outcomes and solutions, rather than the provision of more straightforward product and services based on lowest price commissioning. A good example is provided by the UK's recent procurement for Digital Courtrooms. It is clear that paper-based courtrooms are expensive, inefficient and wasteful. The UK has decided to explore the feasibility of Digital Courtrooms. Under guidance from the Ministry of Justice, high-level outcomes were specified and a group of 12 SMEs invited to participate in a workshop to explore solutions that could deliver the outcomes required. Users, including judges and lawyers, were involved in the process, as were other key stakeholders. Following this open discussion, two of the consortia invited to pitch their proposed solutions have been awarded pilot contracts to test their ideas.

A crucial issue when considering how to achieve these benefits is to think (and indeed design) at the system level. Cities, for example, are a good illustration. Too often cities consist of independently operating sub-systems. The road transportation system does not connect with the rail infrastructure. Businesses operate independently of social and educational establishments. To create smart Business Services we need to pro-actively think, design and co-ordinate at the system level. Additional work on service system design would be extremely valuable as many of our current approaches to design operate at the individual product and service process level. The system level should include concept models around governance, funding and performance and common understanding of terminology and interoperability.

Stepping back from the detailed examples, it is important to reiterate the key point. Namely that Business Services are not limited to traditional services, but instead are being offered by an ever-greater number of firms. Hence when we consider policy for Business Services we have to think broadly about the firms included in our deliberations.

## So What Are the Implications for Policy?

In the previous sections we have discussed the changing nature of and context for Business Services. The report now turns to the specific policy messages and associated recommendations of the High Level Group. Through our consultations and discussions the High Level Group has identified nine key policy messages, with associated recommendations. These include:

### 1. **Business Services have a significant role to play in economic growth, the creation of employment and the transformation of public, private and third sector activities**

The data suggest that there is a significant global opportunity in Business Services and that the sector is growing faster than other sectors of the economy and there is evidence that, unlike other sectors such as manufacturing, Business Services can grow both employment and productivity simultaneously<sup>19</sup>. The High Level Group saw numerous examples of innovative business services driving transformation in the public, private and third sectors. A key potential driver is the procurement process – clearly there are calls to simplify public sector procurement, but additionally the shift to outcome-based contracts, where clients procure on the basis of the outcomes required, has the potential to drive innovation and align the interests of providers and clients. Outcome-based contracting is being used by various Government Agencies – for example, commissioning for health outcomes, rather than health treatment; commissioning for education outcomes, rather than education inputs.

In essence modern Business Service firms help transform their client's operations. Through the innovative use of technology and data, Business Service firms have the potential to stimulate productivity and employment growth.

### 2. **To foster growth and innovation in Business Services further effort has to be put into the completion of the Internal Market**

Expanding the activities outside its home state is one of the most significant business decisions a company can make. For companies based in Europe this is usually done by going to other neighbouring Member States (especially in border regions). In a majority of cases, the risk of going abroad is rewarded. A study from the University of Nottingham found that UK firms that export services are typically more productive (both total factor productivity and labour productivity), pay higher wages, have greater employment levels and are less

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<sup>19</sup> Sako, M. (2006) Outsourcing and Offshoring: Implications for Productivity of Business Services, Oxford Review of Economic Policy, 22, 4, pp. 499-512.

likely to exit the industry<sup>20</sup>. Furthermore, the extent of these advantages increases as the volume of export sales made by a firm increases. Similar findings were observed for Germany, Ireland<sup>21</sup> and Slovenia<sup>22</sup>.

Yet, despite all these benefits, data suggests that between 6-20% of the services provided in the EU have a cross-border dimension. Some obstacles are inherent for a diverse European Union that encompasses 28 Member States (significant differences in culture, 24 different languages). But there is significant scope for strengthening the Internal Market through addressing the lack of information about business environment in other Member States and removing unnecessary regulatory and non-regulatory barriers.

The High Level Group identified the bureaucracy and administrative burdens that exist within the internal market as significant issues affecting the capacity of companies to act cross-border. For example, issues of double taxation, taxation cooperation in general, cross-border insurance and the lack of a European Private Company Statute make the internal market less effective for Business Services. A recent study published by the European Commission highlighted the difficulties encountered by the legal profession in complying with different insurance requirements and actually obtaining such insurance from the insurance providers in case of cross-border activities<sup>23</sup>. The ELIOS project developed with the support of the European Parliament currently aims to facilitate access to insurance across borders by building contractors, especially the self-employed and small firms. The existence of different national standards on the same topic could potentially create barriers in the internal market and so when appropriate we should look to European standards. The lack of information, as well as of electronic forms and procedures means that companies waste resources trying to acquire knowledge and establish themselves on other markets. The High Level Group received some evidence that there is an excessive focus on the Internal Market for goods compared to services, but recognized that the fragmented nature of the Internal Market affected both goods and services.

### **3. There is significant opportunity for employment and growth of Business Services, particularly amongst SMEs**

It is clear Europe needs new economic activity – both economic growth and the creation of jobs. As already mentioned Business Services offer an important opportunity for this growth. First, because we know that Business Services are

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<sup>20</sup> Richard Kneller, Richard Upward, Peter Wright (2010) 'A study of the impact of exporting on service traders', Leverhulme Centre for Research on Globalisation and Economic Policy, School of Economics, University of Nottingham.

<sup>21</sup> Petersa, Riley, Siedschlag, Vahter, McQuinn 'Innovation and Productivity in Services: Evidence from Germany, Ireland and the United Kingdom', (SERVICEGAP).

<sup>22</sup> Tanja Grublješič, Jože Damijan (2011) 'Differences in Export Behavior of Services and Manufacturing Firms in Slovenia', Katholieke Universiteit Leuven, LICOS Centre for Institutions and Economic Performance (SERVICEGAP).

<sup>23</sup> Claessens, S.J. van Haeften, M.C., Philipsen, N.J., Buischool, B.J., Schneider, H.E., Schoenmaekers, S.L., Grijpstra, D.H. and Hellwig, D.J. (2012) 'Evaluation of the Legal Framework for the Free Movement of Lawyers', Maastricht University and Panteia.



growing faster than other sectors of the economy. Second, because of the significant international opportunities that lie in Business Services.

We also know that many Business Services firms are small (over 99% employ less than 50 people). While there are some large Business Services firms, there is a missing middle. This missing middle hampers growth and productivity and limits the total economic impact of Business Services. Hence we need to find ways of encouraging SMEs to grow and improve their performance by innovating, adopting best practices and building collaborative relationships with their customers and with large prime contractors, who may be willing to subcontract elements of Business Services.

To do this we need to create the environment for Business Services to flourish. This requires action on several fronts. Standards, which codify best practice, provide one means of improving performance of Business Services, encouraging learning, innovation and growth. It is worth recognizing that growth in Business Services comes at two levels – the high-tech, high value end and the labour intensive end. However, the real value for the European economy in the long-run will lie at the high-tech, high value end. In some countries, Governments and industries are collaboratively driving the innovative potential of Business Services. For example, Finland runs the FUTIS (Future of Industrial Services) programme. With a €40 million budget and a five year programme, FUTIS brings together 19 companies (all technology-intensive industrial firms), the Finnish Government and 9 research groups to explore the future of industrial services in the metal and engineering industries.

#### **4. Business Services are internationalising within and beyond Europe**

Production of both goods and services has become increasingly fragmented and geographically dispersed. This can be explained by the growth of global value chains, which have a considerable impact on both growth and employment in various countries. The specialisation of production in different countries is also affecting developments in the labour market. A new, more accurate way of measuring trade shows that services' share of exports is significantly greater than had previously been believed, especially when one also considers services provided by manufacturing firms. This information can be found in a new database that became available in 2012, developed with the aid of the EU, the WTO and the OECD. The database, entitled the "World Input Output Database" (WIOD), charts the flows of value added between countries and provides us with a unique opportunity to acquire a more accurate picture of foreign trade and investment<sup>24</sup>.

It is clear from these data that Business Services are a significant focus for economic development across the globe. To support internationalisation of European Business Services the EU must complete key international trade

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<sup>24</sup> More detail on WIOD can be found at <http://www.oecd.org/industry/ind/measuringtradeinvalue-addedanoecd-wtojointinitiative.htm>

negotiations, including the current round of European-US negotiations. A key theme that emerged during the High Level Group's discussions was the importance of having credibility and the confidence of new clients when delivering Business Services. Especially if clients are outsourcing activities and/or contracting for outcomes or capability, they want to be reassured that the provider has the capability to deliver. Support from the Commission in making the right international connections, as well as developing the ability to demonstrate service capability is essential if we are to see strong international growth of Business Services.

One way the Commission and Member States can enable companies to go global is to ensure access of European companies to procurement in third countries. Many third countries are reluctant to open their procurement markets to international competition or to open those markets further than they have already done. All in all, more than half of the world's procurement market is currently closed due to protectionist measures and this share is only growing. As a result, only €10 billion of EU exports (0.08% of EU GDP) currently find their way in global procurement markets, whereas an estimated €12 billion of further EU exports remain unrealised due to restrictions<sup>25</sup>.

A second way the Commission and Member States can support internationalisation is through careful and deliberate public procurement. Enabling groups to commission adventurous and innovative Business Services will support European firms developing and demonstrating their capability to deliver Business Services. A key pre-requisite in many export markets is having a clearly demonstrated capability that potential international clients can see. Through careful procurement the public sector can support firms as they seek to develop these demonstrators. The export position of European firms can be further strengthened through standards set collaboratively with key industrial parties. Standards provide accepted and clearly defined approaches and mechanisms, thereby re-enforcing client confidence in the provider's capability.

## **5. The traditional perspective on Business Services needs to be broadened**

Traditionally Business Services have been viewed rather narrowly in terms of industries, focusing on professional knowledge intensive and general support services. Indeed the Ecorys study – a precursor to the High Level Group – focused on four sectors: (i) advertising and market research; (ii) design; (iii) facility management; and (iv) technical consulting<sup>26</sup>. While the recently published London Economics study defined Business Services in terms of

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<sup>25</sup> Proposal for a Regulation of the European Parliament and of the Council on the access of third-country goods and services to the Union's internal market in public procurement and procedures supporting negotiations on access of Union goods and services to the public procurement markets of third countries.

<sup>26</sup> Plaisier, N., Linders, G. and Canton, E. (2012) Study on Business-Related Services, Ecorys.

architectural and engineering activities<sup>27</sup>. The reality is that this sector-based approach is too narrow, partly because the boundaries between sectors are breaking down, and partly because it misses other services and solutions provided by businesses. In fact the changing nature of the economy means that a wide variety of organisations are now involved in providing Business Services, so the definition of Business Services needs to be broadened to recognize that an increasingly wide range of firms are providing services and solutions to other organisations. A better definition of Business Services for today's economy would be "the entire range of services provided by any organisation to other public, private or third sectors organisations".

As discussed earlier in the report there are two particularly important trends that underlie the change in the structure of the economy: (i) outsourcing (where organisations outsource activities that are seen as non-core to their own operations); and (ii) the servitization of manufacturing (where manufacturing firms offer services associated with their traditional product offerings).

Outsourcing delivered the first growth wave in Business Services. Initially firms outsourced relatively low skilled, non-core activities. Over time, however, firms have been outsourcing ever more complex and highly skilled work – hence the rapid growth of Business Services<sup>28</sup>. This trend has been accompanied by offshoring – transferring work to overseas (often lower labour cost) locations and more recently a growing interest in on-shoring – transferring work back to European countries. Figure 2 illustrates the range of services in the Human Resources area that can be outsourced. In essence the pattern has been to shift left on the curve, outsourcing over time, ever more complex services<sup>29</sup>.

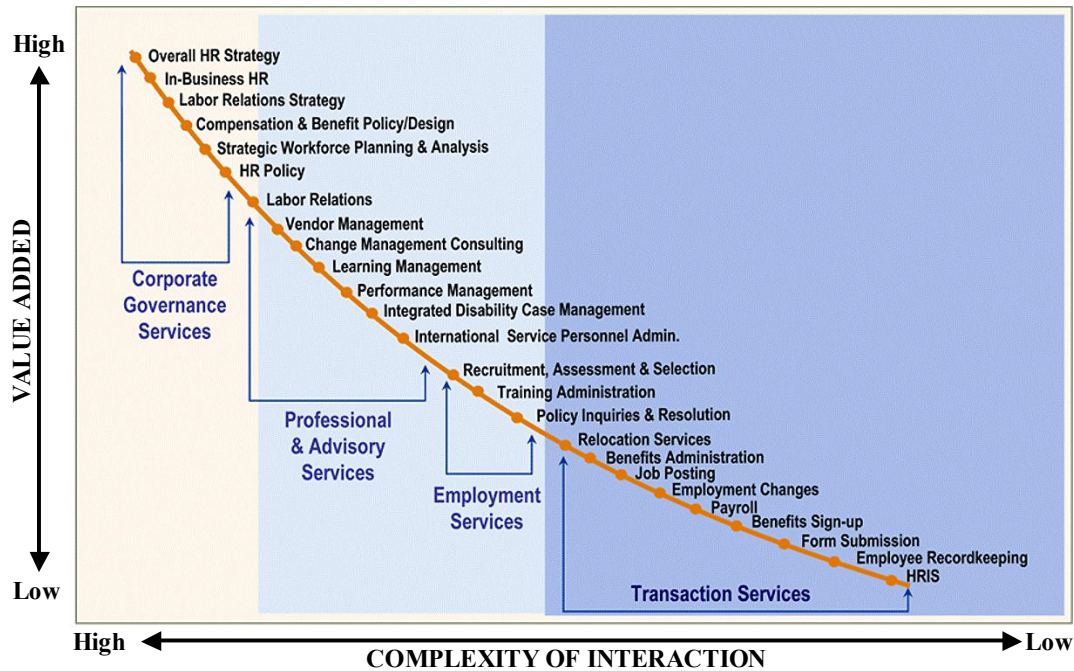
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<sup>27</sup> London Economics and PwC (2013) Study on "The Cost of Non-Europe: The Untapped Potential of the European Single Market".

<sup>28</sup> Sako, M. and Gospel, H. (2010) The Unbundling of Corporate Functions: The Evolution of Shared Services and Outsourcing in Human Resource Management, *Industrial and Corporate Change*, 19, 5 pp. 1367-1396.

<sup>29</sup> Sako, M. (2006) Outsourcing and Offshoring: Implications for Productivity of Business Services, *Oxford Review of Economic Policy*, 22, 4, pp. 499-512.

Figure 2: Human Resource Outsourcing Curve<sup>30</sup>



The second phenomenon – the servitization of manufacturing - involves manufacturing firms supplementing their traditional products with services and solutions. Rolls-Royce and BAE Systems, for example, now generate over 50% of their revenues from services and solutions – services and solutions they provide to other businesses. In its most extreme form – the servitization of manufacturing – offers opportunities to revolutionize the manufacturing sector. Some have even gone as far as no longer selling products, but instead just delivering the solutions or outcomes their products enable and their customer’s value.

*Servitization Case Study: Caterpillar Inc*

Caterpillar is a \$65 billion equipment and power systems manufacturer. With a network of over 190 dealers around the world, Caterpillar provides through-life support services for all of its equipment and power systems. Remote monitoring technologies are used to track the state of assets and make predictions about service and support requirements. In essence Caterpillar and its dealers use real time data to help optimize the performance of their client’s businesses, by minimizing equipment downtime and operating costs. A key trend the business is seeing is clients requesting long-term partnerships with Caterpillar and the dealers, where Caterpillar and the dealers take on and manage risk that the client used to carry.

<sup>30</sup> Original source [www.tpi.net](http://www.tpi.net) quoted in Sako, M. (2006) Outsourcing and Offshoring: Implications for Productivity of Business Services, Oxford Review of Economic Policy, 22, 4, pp. 499-512.

## **6. Skills are central to the design, development and delivery of Business Services because often Business Services are people dependent**

While technology is playing an important role in Business Services, it is important to recognize that many services are still people dependent. Clearly growth in Business Services creates opportunities for employment – particularly valuable if firms focus on high-value, high-quality employment. One of the drivers to create high-quality employment is the increasing use of technology. And as Business Services become more technologically dependent and require greater levels of human-technology interaction there are significant requirements for up-skilling. In a European context specifically, labour mobility is also important to enable the internationalisation of Business Services. Greater mutual recognition of qualifications would facilitate this.

## **7. Technology is a key enabler of Business Service innovation and data is fast becoming the critical asset**

A significant driver of innovation in Business Services is technology, and in particular, the internet of things – the tendency for more and more devices to be connected to the internet. A useful way of thinking about the internet of things is provided by IBM's smarter planet initiative. This describes the world in terms of 3i's – the world is becoming more instrumented, inter-connected and intelligent. There are ever-greater numbers of sensors and data collection devices – these make the world more instrumented. These instrumented devices are connected together through the internet of things – hence the world is becoming more interconnected. If we link the data that is generated then potentially we can make smarter and more intelligent decisions.

Core to this way of thinking is the ability to access and then analyse data – both of which require the right organizational skills and infrastructure. ISS and Interserve provide good examples of the smarter planet in operation.

### *ISS and Interserve: Using Data to Track Resources and People*

ISS is one of the worlds largest Facilities Management companies. Founded in Copenhagen in 1901, ISS now employs 530,000 people, operates in over 50 countries and had revenues of around DKK 79 billion in 2013. ISS defines its core mission as helping its customers improve the performance of their businesses. Amongst other things, ISS is proud to claim that it runs all activities in many hospitals, other than clinical procedures. One of ISS' clients is McLaren Group. ISS provides facilities services management at its client's production and technology centres. McLaren's work is specialist and technical, and ISS services need to adapt accordingly. A system providing real time data on the movements of ISS employees in the client's premises supports the services. A 'heat map' image uses green, amber and red to assess employees' progress against targets.

Interserve – an international support services and construction company - has developed an IT solution to match mobile engineers with work requests and enable resource scheduling in real-time. Each engineer has a handheld device (PDA). The system calculates the priority of work, recommending an engineer to attend who has the right skill and is located within the right distance. Interserve's National Service Centre sends work orders directly to the engineer's PDA. The engineer is then able to access relevant information on the PDA screen and update his/her progress in real time. The solution has resulted in considerable efficiency savings and corresponding reductions in service response times.

With the rapid development of the internet of things and associated explosion in data, data is rapidly becoming the critical asset for many organisations. This data is being used for multiple purposes. For example, many business service companies provide solutions in the areas of community infrastructures, energy production and consumption, housing and workplace design. These companies are directly linked to the urgent challenges of sustainability and greening – a new rapidly growing area of expertise. Developments in the energy sector illustrate the need for new types of service innovations. Based on smart grids, new sensor and monitoring technologies are created and they in turn favour the emergence of new consumer concepts: smart homes, smart suburbs and sustainable urban living. New services are needed, not only for measurements, calculations and impact assessments, but also for consultancy and for optimisation of the systems that use various energy sources and delivery mechanisms, e.g. Aramark and Pinnacle PSG.

Aramark provides catering and facilities management for BP. With the two companies working together, recycling rates at the site have more than doubled. Composting is used actively and the amount of waste has been reduced as a result of, among other things, innovative packaging techniques. These solutions have resulted in considerable savings for the client company.

Pinnacle PSG provides housing management and facilities management services on behalf of local authorities, housing providers and education establishments. It is committed to improving the performance of frontline services at reduced costs whilst creating sustainable benefits for the local communities. Pinnacle PSG's teams work with residents, students, community groups, and charities to develop initiatives that protect the environment, create life opportunities, and tackle important issues affecting communities. In consultation with residents, students and environmental advisory groups, the company has designed, constructed and helped to maintain a number of green spaces in urban areas. Local schools have used these to educate their pupils on conservation.

As data becomes an ever more important resource, addressing questions of data ownership, access and analysis rights becomes essential. Additionally, as Business Service firms are increasingly able to connect data across different data sources, issues of individual privacy and identity will come to the fore. These issues will be particularly pertinent to public or open data. Many Governments are now making data publically available to encourage the development of innovative solutions and apps. Handling questions of open data, especially across country borders, is an important issue for the EU to consider.

## **8. Not all Business Services are technology intensive, but they will all become technology dependent or enabled**

During its evidence taking sessions, the High Level Group heard from some Business Service firms that are not currently particularly technology intensive, but concluded that even if they are not technology intensive today, they will become so. A key question this raises is how should the EU support firms as they seek to embrace and exploit technology for improving the efficiency and effectiveness of services. Much attention is given to new entrants to the workforce – ensuring secondary and tertiary students have the right ICT skills, for example. The High Level Group also felt it important to recognize that those already in the workplace would need significant skills upgrades, especially given the pace of technology development.

## **9. Statistics and data on Business Services remain a challenge**

One of the complexities of completing this report was the relative paucity of good data and statistics on Business Services. The definition of what constitutes a Business Service varies from report to report. The changing nature of the economy, coupled with the blurring of boundaries between manufacturing and service firms, for example, makes analysis challenging. This issue is an ongoing one that has been raised in multiple previous reports and one that Eurostat has

been seeking to address. In future revisions of the NACE codes it would be worth exploring carefully the coding for services generally and Business Services specifically. The High Level Group's view is that NACE codes are not as well developed for services, as for agriculture and manufacturing. A potential risk is that the EU does not have good data for policy analysis and/or international trade negotiations with regard to services.

## **Recommendations for the Commission**

Our recommendations for the Commission are structured against the seven key action items identified at the outset of this report. For communication purposes we included suggested deadlines and timescales for completion of activities. Of course, the High Level Group recognizes the political constraints under which the Commission operates and the fact that the incoming Commission will inevitably take some time to consider its priorities, which may mean that the timing we propose needs adjustment. However, it is also worth the current Commission undertaking preparatory actions where appropriate.

### **1. *Europe 2020 Strategy***

- a) In reviewing the Europe 2020 strategy the Commission should ensure that it adequately reflects the importance of Business Services, both for the business environment and for Europe as a whole. (By 2015 a major initiative for Business Services is required to raise awareness and increase economic, environmental and societal impact of Business Services).
- b) The Commission should increase efforts to engage firms involved in Business Services in the Horizon 2020 programme. The programme offers significant opportunities, but is still perceived to favour product and technology development (by 2015).

### **2. *Seize the International Opportunity***

- a) In international trade negotiations the Commission should pay particular attention to Business Services, and ensure that business services markets in third countries are open to European service providers, including for services being offered by manufacturing firms. Servitization offers an opportunity to render the European manufacturing sector more capable of competing and prospering internationally (requires immediate attention).
- b) The Commission, in partnership with business, should focus on identifying the key barriers to international trade in Business Services, recognizing the diversity of organisations involved in Business Services. The outcomes should inform DG Trade in future trade negotiations and agreements (by 2015).



### 3. *Complete the Internal Market for Business Services*

- a) Industrial and services policies need closer integration – given the increasing importance of services in manufacturing – the mutual dependency between manufacturing and services needs to be pro-actively considered in both industrial and services policies (ongoing).
- b) Build on the existing Point of Single Contact to put forward a legislation that would set a regulatory framework for the Member States to create true universal business portals, delivering what is relevant in order for companies to establish, operate or temporarily do business in a given EU market (by 2015).
- c) Within the strategy for completion of the internal market make proposals to optimize the regulatory framework and standards conditions for Business Services. Pay particular attention to specific issues that affect Business Services, such as: excessive bureaucracy and fragmented legislation (which could be tackled by mutual recognition principle enshrined in the European legislation); barriers to entry (especially for SMEs) and taxation and insurance regimes that inhibit cross-border trade (by 2018).
- d) Encourage the creation of European rather than national service standards (where appropriate), as well as promote best practice use of standards. These standards should be developed with the full involvement of relevant stakeholders (on-going).

### 4. *Focus of Public Procurement*

- a) Working with Member States, the Commission must ensure implementation of the new procurement directives, focusing on outcomes, through life cost, value for society, quality and innovation, rather than lowest cost (by 2018).
- b) Ensure that the best use is made of sources of business support and advice in Member States, including the collection of best practices on public procurement and promotion of relevant standards and common practices and rules across countries in order to reduce barriers to cross-border trade (by 2018).
- c) Together with the Member States, the Commission should continue to encourage competition and excellence in public tendering and develop support for SMEs to increase their participation in public and private tenders. For example, reduce procurement participation costs by promoting aggregation, collaboration and standards for procurement across Europe (by 2020).

## 5. *Creating the Technological Infrastructure for Future Business Services*

- a) The Commission should create a flagship programme of common European interest that brings together manufacturing and services firms across Europe to create a shared, single, open platform that will enable much easier and more open sharing of the data and information that facilitates innovation and productivity gains in Business Services throughout the EU. In its pilot phase this programme should focus on creating a shared virtual services marketplace for Europe (requires immediate attention).
- b) The Commission should work with Member States to promote the use of open data, especially public data, across Europe. Making these data more widely available can increase the rate of innovation and creativity in Business Services (by 2018).
- c) The Commission should take a lead to develop mechanisms to promote accessibility and standardisation of data – technologically enabled Business Services are constrained by the lack of interoperable data standards (by 2020).

## 6. *Developing and Up Skilling the Workforce*

- a) Within the European skills strategy there should be explicit attention to Business Services - with a particular focus on building the balance of technological, commercial and entrepreneurial skills required to grow Business Services. A key requirement of the skills strategy would be to forecast and match the demand and supply sides. It is essential that this Skills Strategy takes a long-term forward look, recognizing the changing nature of Business Services and the implied future skills requirements (by 2018).
- b) Provide support for eLeader programmes designed for Business Service firms – these programmes should be directed at helping Business Service firms reskill and upskill existing employees so they are able to take advantage of new technologies and innovation applicable to Business Services (by 2018).

## 7. *Follow Up and Implementation*

- a) Establish a partnership with stakeholders, including senior industrialists, SMEs, trade unions, academics and Member States where appropriate. This partnership should support the implementation of the recommendations of the High Level Group and ensure the development of a Business Services scorecard that can be used to assess the health, success and contribution of European Business Services (by 2015).
- b) Fragmentation in Business Services is a critical issue affecting both the Commission and industry. The Commission should seek mechanisms to

create greater coherence for Business Services. Mechanisms might include Commission organization and structure – a single DG for Business Services – and industry representation – creation of an inclusive European partnership for Business Services, covering the entire range of organisations involved in offering Business Services (by 2015).

## Recommendations for Member States

Clearly Member States have a role to play in implementing the recommendations made above. The High Level Group identified, in particular, the following issues:

- To support companies with cross-border trade, Member States should further develop Points of Single Contact into true universal business portals (see recommendation 3a), thus reducing the information deficit and allowing for electronic procedures so that companies can establish, operate or temporarily do business in a given EU market (by 2015).
- Working with the Commission, Member States must ensure implementation of the new procurement directives, focusing on outcomes, through life cost, value for society, quality and innovation, rather than lowest cost (by 2018).
- The European Commission, Member States, Business Service providers and the insurance sector should work together to address issues of recognition, equivalence and availability of cross-border insurance (by 2018 or even earlier).
- Member States should ensure that public procurement competitions encourage the provision of innovative Business Services. To do so, Member States should enhance the skills of public procurement officials so they are best placed to design appropriate procurement competitions that will drive innovation in Business Services (by 2018).
- Member States should support the development of a European skills strategy, with explicit attention to Business Services (by 2018).
- Member States should work with the Commission to promote the use of open data, especially public data, across Europe. Making these data more widely available can increase the rate of innovation and creativity in Business Services (by 2018).
- To facilitate cross border trade Member States should arrange mutual recognition of legislation and certification where appropriate (by 2018).
- Member States should support the Commission as it takes a lead in developing mechanisms to promote accessibility and standardisation of data – technologically enabled Business Services are constrained by the lack of interoperable data standards (by 2020).

- Member States should ensure that the education and vocational training systems meet the demands of the future Business Service labour market, especially in terms of new skills, such as combining ICT and business management competences (on-going).

## Recommendations for Industry

Finally, the High Level Group also felt it important to raise three specific issues for business:

- First, the image of Business Services. Many of those consulted raised the question of image, but the High Level Group felt that this was something best addressed by Business Services firms themselves, rather than an issue for policy. A key message to communicate is that Business Services offer a rewarding and valuable career path, particularly with the shift to high tech, high value services.
- Second, the question of innovation and skills in Business Services, particularly given developments with web 4.0 and the industrial internet. The High Level Group thought it important that industry took the lead in reskilling the existing workforce so they were able to capitalize on the productivity and innovation potential that modern Business Services offer.
- Third, a key challenge for Business Services is fragmentation – a challenge that is becoming greater as increasing numbers of manufacturing firms, for example, are now entering the Business Services domain. Firms involved in Business Services need to co-ordinate their efforts to engage with Member States and the Commission – perhaps through a European partnership for Business Services supported by the Commission.

## **ANNEXES**

- 1- MEMBERS OF THE WORKING GROUPS*
- 2- AD-HOC WORKING GROUPS REPORTS*
- 3- TERM OF REFERENCE*

## ANNEX I - MEMBERS OF THE WORKING GROUPS

### Innovation

<i>Chairperson:</i> Marja TOIVONEN	VTT
<i>Rapporteur:</i> Christian CHIZZOLI	Bocconi University
Brian L. ATKIN	Facilities Society
Peter CAMPBELL	BSA
Antonella CARÙ	Bocconi University
Christian CHIZZOLI	Bocconi University
Per CLEMMENSEN	Securitas A/S
Bettine GOLLA	Eurochambers
Kimmo HALME	Ramboll Finland
Andreas LILL	European Federation of Cleaning Industries - EFCI
Gareth OLDALE	Sharpe Pritchard
Luigi PERISSICH	Confindustria Servizi Innovativi e Tecnologici
Adam ROSE	Berwin Leighton Paisner LLP
Astrid SIMONSEN JOOS	Creuna
Christine SUDHOP	Bundesinnungsverband des Gebäudereiniger-Handwerks
Marc ZEGVELD	IBM Global Business Services

### Instruments

<i>Chairperson:</i> Scott STEEDMAN	CEN-CENELEC/BSI
<i>Rapporteur:</i> Richard COLLIN	BSI
<i>Rapporteur:</i> Maitane OLABARRIA	
UZQUIANO	CEN-CENELEC
Ulrich BAMBERG	German "Commission for Occupational Safety and Health and Standardisation" - KAN
Knut BLIND	Berlin University of Technology
Dirk BOCHAR	Federation of professional engineers -FEANI
Friederich BOCK	BOCK-UB+IT
Glen DALE	Euralarm
Pedro DUBIÉ	Spanish Project Management Association - AEDIP
Jos DUCHAMPS	European Centre for Facility Management - ECFM
Alfred HARL	Harl Consulting
Martin HILDEBRANDT	Federal Association of German Security Companies- BDSW
Jonathan KNIGHT	Frazer Designers

Harald OLSCHOK	Federal Association of German Security Companies - BDSW
Victoria RINGLEB	Alliance of German Designers
Norman ROSE	EBSRT
Jan VAN DER PUTTEN	EFCA
Hermen Jan VAN REE	Royal Haskoning DHV

### **Internal Market**

<i>Chairperson:</i> Emilie PROUZET	French Retailers Association - FCD
<i>Rapporteur:</i> Kasper ERNEST	Danish Chamber of Commerce – EU Office
Yves CHANTEREAU	Swedish Federation Consulting engineers
Jon CHASE	EACA Media Agencies' Council
Eduardo COBAS URCELAY	Aproser/CoESS
Jaap DE KONING	European Federation of Engineering Consultancy Associations - EFCA
Aurelia DEBRU	Renault
Claudio GALLI	Italian Association of Facility Management and Energy services- AGESI and Cofely Italia
Sven HALLSCHEIDT	Association of German Chambers of Industry and Commerce
Jonathan KNIGHT	Fraser Designers
Heinz KOGLER	Enterprise Europe Network in Austria
Andreas LILL	European Federation of Cleaning Industries – EFCI
Cristian NEVZOREANU	DACIA-RENAULT
Eamon O'HEARN LARGE	GMB
Enzo PEDUZZI	Siemens Switzerland and Euroalarm
Krzysztof POZNANSKI	Lewiatan/ISS
Nielsen Lars RINGTVED	JYSK Nordic
Norman ROSE	EBSRT
Sebastian SCHIWECK	DIHK
Søren SKAFTE OVERGAARD	eTypes
Christine SUDHOP	Federal Trade Guild Association of Professional Cleaning (BIV)
Paul TASKER	Cranfield University
Jan VAN DER PUTTEN	European Federation of Engineering Consultancy Associations - EFCA

### **Internationalisation**

<i>Chairperson:</i> Patrik STRÖM	University of Gothenburg and the European Association for Research on Services, RESER
<i>Rapporteur:</i> John BRYSON	University of Birmingham
Michael BRANDSTETTER	Austrian Chamber of Commerce, Brussels
Claude BREINING	Schneider Electric

Vittoria CARLI  
Jeff FLANAGAN  
Mette KYNNE FRANSEN  
Steven HOLLIS  
Peder JONSSON  
Robert LONG  
Jussi NYKÄNEN  
Tania PENTCHEVA  
Wilhelm REISMANN  
Andrea SÖHNCHEN

Dirk VANTYGHM  
Chris WEEKS  
Kaj Möller

ISED Group  
New Ventures, Mitie Group PLC  
Henning Larsen Architects  
KPMG  
Kreab Gavin Anderson  
ETSA  
GreenStream Network  
Cambre Associates  
iC Group  
Aviation Security Services Association –  
International - ASSA-I  
Eurochambers  
Caterpillar UK  
SWECO International AB

### **Skills**

*Chairperson:* Oliver ROETHIG  
*Rapporteur:* Dudley DOLAN

Uni Europa  
CEPIS and CEN/CENELEC

Mark ANDERSON  
Bill BROWN  
Manuela BRUSONI  
Dudley DOLAN

Pearson  
Manguard Plus  
Bocconi University  
Department of Computer Science, Trinity  
College Dublin, Ireland (retired professor)  
Bocconi University

Alberto GRANDO  
Caroline GREVENKOP-  
CASTENSKIOLD

Boarding Data A/S and Copenhagen Business  
Academy

Christian GÜNTHER

German Confederation of Skilled Crafts and  
Small Businesses – ZDH

Val HISCOCK  
Gertrud HIRTREITER

EBSRT  
German Confederation of Skilled Crafts and  
Small Businesses - ZDH

Jukka LAAKSO  
Ernst LYKKE NIELSEN

Flexim Security  
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Mika PEIPPO  
Luigi PERISSICH  
Melina SCHNEIDER  
Lesley WATSON

Flexim Security  
Confindustria Servizi Innovativi e Tecnologici  
Austrian Federal Economic Chamber  
Serco



## ANNEX II - AD-HOC WORKING GROUPS REPORTS

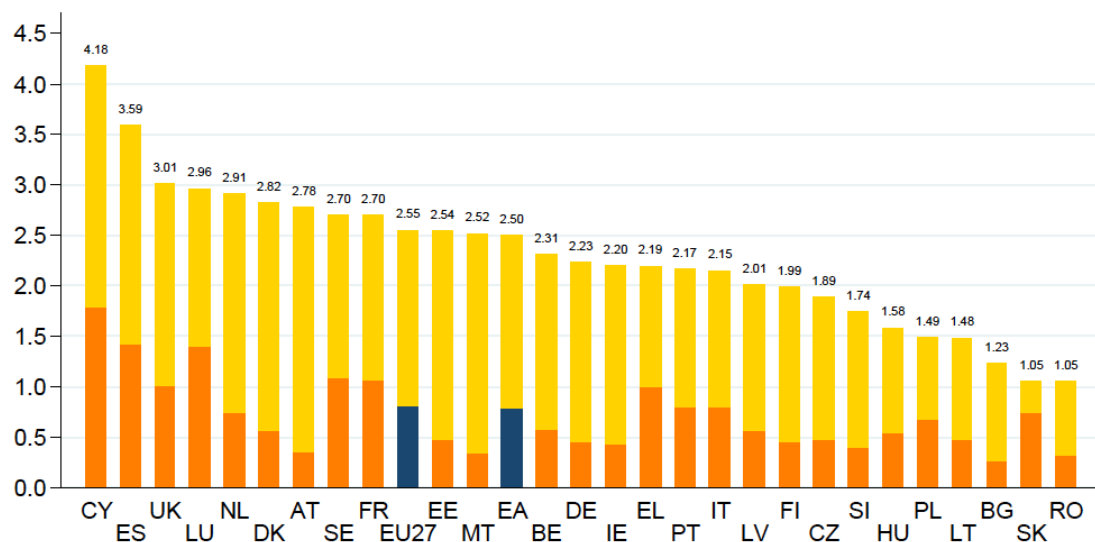
### 1- Internal Market working group report

#### The Internal Market for Business-Services

The establishment of an internal market for business services is paramount for the EU economy as today business services account for 11.7% of the EU economy<sup>31</sup>. To this end the Services Directive was adopted in December 2006 with transposition running until the end of 2009. However, recent investigations have shown that indeed the Services Directive has not delivered, yet, the full potential of an internal market for services. Out of 70% of economic activity overall in services only 22% of intra-EU trade is in services.

The current estimated EU-level impact on GDP of the directive is 0.8%. Further estimates consider that if all Member States were to act as an ideal country further 0.4% could be added, whilst if all Member States acted as the top performing five Member States, 1.6% could be added to GDP, as illustrated in figure 1. In conjunction with e.g. the Directive on Professional Qualifications these growth potentials could possibly be adjusted further upwards.

Figure 1. The GDP impacts under the “what if – 5 best” scenario (in%)<sup>32</sup>.



<sup>31</sup> European Commission (2012), DG MARKT, SWD(2012)147final – on the result of the performance checks of the internal market for services (construction, business services and tourism).

<sup>32</sup> European Commission (2012), DG ECFIN, Economic Papers 456, The economic impact of the Services Directive: A first assessment following implementation.

The above figure takes into account the implementation of the Services Directive itself. Nonetheless, further benefits of the internal market for business services could be envisaged if other remaining barriers are overcome. In this context identifying these remaining barriers will have a key role in increasing the growth potential and productivity of the European business services sector. The ideal would be to bridge the gap, which has occurred especially in terms of productivity vis-à-vis the US business services sector<sup>33</sup>.

Investigating the barriers of the internal market for business services, considering the mere size and variety covered by this terminology, can be an insurmountable task. Therefore, a bottom-up approach taking point of departure in a few specific sub-sectors has been chosen as a means to reach horizontal conclusions. Experts from the design sector, technical engineering and architects sector, and the facility management and security sector have been involved in order to map current barriers, trends and needs in these sub-sectors.

Furthermore, the user-perspective has been included as an important and integral part of the investigation. Recent figures have shown that business related services account on average for up to 8.3% of intermediary input value for selected manufacturing sectors, ranging from 3.7% to 23.2%<sup>34</sup>. Users of business services are often those who in practice experience the fragmentation of the European market. Hence, the contribution of business service users can to a certain extent deliver guidance to more fundamental problems of the internal market, than what individual business service sub-sectors can elucidate.

The European business landscape consists of more than 99% SMEs<sup>35</sup>. In light of this, special attention has to be devoted to investigating the needs and requirements as well barriers and obstacles faced by European SMEs. It has been established that Member States with a higher rate of exporting SMEs tends to have better overall SME performance<sup>36</sup>. Hence, if the internal market can facilitate and be an incubator for an increased number of SMEs taking up the challenge of exporting beyond national markets, this could drive up growth, employment, and productivity in the EU in the coming years.

## Outline of the Report

The Internal Market Working Group set up in the context of the High Level Group on Business Services, will identify the current situation in the sectors involved, including from a user-perspective of business services, analysing the situation in each sector. Drawing upon these findings a horizontal view of the business services sector will be analysed in terms of strengths, weaknesses, opportunities and threats. This will set the natural course for exploring future scenarios of the business services sector in the EU. Several policy options will be outlined and

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<sup>33</sup> ECORYS (2012), Study on business-related services.

<sup>34</sup> ECORYS (2012), Study on business-related services.

<sup>35</sup> European Commission (2013), DG ENTR: <http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/>

<sup>36</sup> ECORYS (2012), EU SMEs in 2012: at the crossroads.

briefly discussed following the insights of experts from various fields of the business services sector. In conclusion the most efficient and viable policy options will be put forward and elaborated upon as recommendations for policy-makers seeking to create growth and increase productivity in the coming 3-7 years.

## Current Situation in Business Services

Mapping the current situation in the internal market for business services is necessary in order to understand some of the underlying reasons for the lack of materialisation of growth potential and comparatively low productivity in the EU. Taking a bottom-up approach based on findings from individual sub-sectors will provide for in-depth micro-level analyses while compiling evidence allowing for horizontal conclusions on the situation of the sector.

## The Design Sector

The design sector is by nature interdisciplinary. It incorporates everything from service design, over product and packaging design, to process design of complex logistical value chains, be it in services or manufacturing. Design in this sense is thus increasingly about interpreting human behaviour into value-added services, products, processes, etc. In the past years the term “design thinking” has evolved to describe these developments<sup>37</sup>. The design sector is also a constantly evolving sector in other ways with a rapid flow of new business entrants, which is not least fostered by constantly emerging new technology. Thus, the continued possibility of taking on board new technology is key for the sector.

The sector is characterised by a specific structure of predominantly micro or small enterprises<sup>38</sup>. In fact 85% of all enterprises in the sector have less than 20 employees. Economic theory indicates that, due to a lack of economies of scale, markets consisting of primarily micro and small enterprises in general deliver less productivity gains than peer markets with bigger players<sup>39</sup>. Hence, in terms of productivity the structure of the sector could be a potential weakness. It is debated whether small firms are better for innovation in their capacity of being more agile, while big companies may be more innovative due to their multidisciplinary nature.

New technology and the new “design thinking” approach of decoding human behaviour are essential for the development of the sector. The main problem in this respect is how these new technologies and “design thinking” possibilities are directly and indirectly regulated by legislators at national and European level. There is a clear balance to be struck between self-regulatory measures and regulation, e.g. as in the case of data protection. Such a regime can either be relatively open, leaving businesses liable for the use of it, or it can be heavily

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<sup>37</sup> Tim Brown (2008), Design Thinking, Harvard Business Review, The Magazine, June 2008.

<sup>38</sup> ECORYS (2012), Study on business-related services.

<sup>39</sup> Copenhagen Economics (2013), Barriers to productivity growth in business services.

regulated in miniscule detail, hampering the innovation and potential productivity gains in the sector and economy at large.

The importance of design companies has grown substantially in the last decades, involving themselves more and more in business processes. Design processes and services are related to products. The fragmentation of product regulation (still *de facto* existing in the EU) was mentioned, as an issue to be tackled. This fragmentation inherently makes global (European wide) service offers (such as in marketing, advertising and design) impossible. These must be adapted to requirement and rules, often at national level. Also, the stifled nature of many product requirement and rules at European and national level (e.g. labelling rules) disrupt innovation and integration in the sector. The combined regulatory burden of a product or service life-cycle process is a valuable insight in relation to creating an internal market better equipped to deliver growth and productivity.

Besides detecting regulatory burdens in their professional work, design companies are also met with regulatory burdens, fragmentation of the internal market, and other intrinsic barriers from a design company perspective. Insurance and liability problems ranked high for the sector. As an example, getting ever more involved in core processes of projects also means that business partners transfer more liability to design companies while getting temporary insurance coverage in cross-border projects can be problematic. Taxation issues such as transfer pricing also function as a barrier, especially when several national authorities make claims on the same money stream. An example of an intrinsic barrier was the lack of a common language or terminology in the internal market. Further elaborating standardisation in the sector, including standardisation of terminology, was seen as an opportunity to be developed. Finally, a general lack of information on the functioning of Member States' markets was highlighted.

## **Technical Engineering and Architect Services**

Today technical Engineering and Architect services embrace more than purely technical advice and construction designs. Increasingly more areas of services are demanded and supplied by and to clients. This includes; advice on procurement and funding of projects; assuming the tasks of both project and construction management; studying the feasibility of projects; conceiving the design; executing the design in detail; procuring contractors and suppliers; and administering contracts and supervising construction and installation. Hence, clients increasingly require a full range of services from the sector. Be it the construction of a new factory, office building, or airport – or be it water treatment projects, data processing, or human resource systematics.

The sector is characterised by having either micro or small enterprises (primarily Southern Europe) or large enterprises (Nordic/Anglo Europe)<sup>40</sup>. There is a tendency that in markets where clients ask for integrated life-cycle

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<sup>40</sup> ECORYS (2012), Study on business-related services.

services larger companies have bigger market dominance due to these requirements. As larger enterprises tend to be more productive<sup>41</sup> a drive towards more intelligent and demanding public and private procurement could drive productivity and innovation up.

In the sector many problems were identified not as regulatory barriers but rather as lack of information or as cultural barriers derived partially from tradition. Furthermore, the linguistic barrier is predominant. Standards as a basis for a common language/terminology could be a possible means to overcome the linguistic and traditionalist obstacles. Information gaps should be solved by better access to information on Member States markets, allowing for easier access, thereby increasing competition. Experience shows that this would lead to productivity gains<sup>42</sup>.

Furthermore, the sector experiences specific problems when dealing with multinational long-term projects. The legal complexity of these operations with multiple enterprises from different countries increased the associated costs to a level detrimental to the cross-border development of the sector and its general productivity. Mitigating this legal complexity is thus imperative for the sector. A European private company statute, transparent taxation rules and administrative cooperation, better insurance markets and possibilities, and standards in liability regimes could help the sector to attain higher productivity.

## Facility Management

The facility management sector has evolved immensely over the last 20-30 years. It has gone from providing single services, such as cleaning of an office space, to delivering multifaceted and highly integrated facility services (IFS). Today the sector consists of a range of intertwined sub-sectors 'working together' to create integrated service packages for customers. To mention only a few of the elements integrated today: cleaning, furniture, office supply, logistics, event management, energy management, maintenance, catering, document management and ICT. The significance of this is that the sector is divided into a labour intensive part (vastly predominant) and a knowledge intensive part. This has consequences for the fragmentation of the sector in its internal organisation.

The company structure of the sector is characterised by many micro enterprises (up to 75%), however, more than half the sectors turnover is placed in a few (1.4% of enterprises in the sector) large enterprises<sup>43</sup>. The main driver of facilities management today is outsourcing. 2.5% of GDP in the top five EU countries (Germany, UK, France, Italy, and Spain) has already been outsourced, and if including internal facility management services it could be up to as much as 5% of GDP<sup>44</sup>. The trend shows that enterprises tend to be larger in the Member States with the highest outsourcing rate<sup>45</sup>.

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<sup>41</sup> Copenhagen Economics (2013), Barriers to productivity growth in business services.

<sup>42</sup> Copenhagen Economics (2013), Regulation and productivity in the private services sector.

<sup>43</sup> ECORYS (2012), Study on business-related services.

<sup>44</sup> EFCI presentation made on May 16th in Brussels.

<sup>45</sup> ECORYS (2012), Study on business-related services.

Within facility management a European standard (EN 15221-1 “Facility Management – Terms and Conditions”) has already helped the sector in creating a common terminology when delivering and procuring services cross-border. Accordingly this has gapped certain issues related to procurement, especially cross-border. However, several obstacles remain.

In order to take advantage of the internal market for services there are two options for facility management enterprises. They can either provide services cross-border directly from the Member State of establishment or they can establish in the Member State where the customer is based. Nonetheless, despite the possibility and right to do so according to the Services Directive, the main functionality when operating cross-border is partnerships with established facility management providers or via affiliated companies in the operation (user) Member State. Especially in public procurement it is nearly impossible to enter the market unless you have a local or national partner from the given Member State. This means that mergers, acquisitions, and take-overs are part of the current consolidation and operation in the sector at the European level besides partnerships.

The problems associated with operating cross-border seem to be vast enough to deter companies, even relatively large companies, from doing so. Also, the complexity of establishing in new Member States renders partnership models more interesting. Possible measures to mitigate these issues could be a decrease in legal complexity across Member States and an increased level of information so as to facilitate market access, including correspondence with national authorities. Transparency on labour market conditions and legal clarity in the area was also vital, as the sector is highly labour intensive, and, thus, very sensitive to changes and variations in this area.

### **Private Security Services**

For the private security service sector the Internal Market has proven to be successful, notwithstanding the fact that the sector remains outside the scope of the Services Directive. Through multiple court rulings from the ECJ the right of establishment and equal treatment/non-discrimination in the sector has been established<sup>46</sup>. Today this function as the foundation for a sector – still to a very large extent regulated at national level, as there is a very close link with public security and public security policies and strategies – thriving in terms of cross-border activity.

The company structure resembles that of facility management services. The sector is characterised by many small enterprises, around 50% of the 35,000 active enterprises have only one employee, while only around 1.7% are large enterprises. These, however, make up more than half the sectors turnover<sup>47</sup>. The main driver of growth in the sector has been outsourcing from private and public entities. A strong growth driver in the sector has been the transferral of security

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<sup>46</sup> CoESS webpage: <http://www.coess.org/?CategoryID=206>

<sup>47</sup> ECORYS (2012), Study on business-related services.

from being a public task into being a procured service offered by the private sector. In 2011 25% of all commercial contracts in the sector was with the public customers. As an illustration the average ratio of the security force is around 31 in 10,000 inhabitants, whilst the figure for the police is around 36<sup>48</sup>.

National regulations are still the primary framework for the activities of the private security services providers. In 94% of Member States special licenses for operating are required by law, while for individual guards licenses are necessary in 88% of Member States. Also, in 94% of Member States there is sector specific legislation regulating private security services<sup>49</sup>. Especially the scope of activity of private security allowed by national laws is different. In 18% of Member States a 'specialty principle' applies, meaning that an enterprise licensed as a private security enterprise cannot offer additional services<sup>50</sup>. This leads to different business opportunities and operations in different countries, fragmenting the sector across Europe.

Nonetheless, the sector is adamant that inclusion into the Services Directive should only happen on the condition that in all Member States the conditions for entry into operations in a market are of a sufficiently high and strict level for all private security companies. Today, however, for example a lack of collaboration between justice and police authorities across the EU is an obstacle especially in the field of background screening and vetting. This is particularly the case in relation to worker mobility, as it is critical for employers not only to be fully aware of the rules applying to the recruitment of foreign nationals in general, but also to have access to information regarding the training and checks a worker or manager in the industry would have undergone in their own Member State (or the Member State of their most recent employment). Use of arms and compulsory training requirements are other areas where Member State legislation differs.

In general one major improvement that could be made at a European level, would be to ensure information on different national market requirements, and especially to allow for the electronic interaction with national authorities when applying for licenses, performing background checks etc. Administrative burdens are today specifically high for the sector with regards to licenses, checks, etc.

### **Electronic Security Services (ESS)**

Electronic Security Services are an integral part of the market offering of the private security services sector. Without related services, products and systems would not be able to fulfil their intended purpose of use of mitigating the risk at the place of installation. Electronic security services is a special service that require specifically qualified personnel to perform them because of the critical life safety and asset protection aspects.

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<sup>48</sup> CoESS (2011), Private Security Services in Europe, CoESS Facts & Figures 2011.

<sup>49</sup> CoESS (2011), Private Security Services in Europe, CoESS Facts & Figures 2011.

<sup>50</sup> CoESS (2011), Private Security Services in Europe, CoESS Facts & Figures 2011.

Electronic security services are under the scope of the Services Directive. Nonetheless, for electronic security services one of the core issues which prevents the provision of cross border services is national rather than European standards, national licensing schemes, insurance coverage, and local public safety restrictions the sector continues to be confronted with barriers. Also, barriers connected with the mobility of skills have made it difficult for the sector to take advantage of the internal market. The lack of a coherent qualification framework is apparent in the sector. Therefore, initiatives such as the EQF<sup>51</sup> bear opportunities for the sector in terms of productivity and growth.

## User-Perspective on Business Services

The user perspective on business-services is fundamental for understanding the dynamism of the sector at large. The process of delivering new and innovative services is as well based on bottom-up demands from users, as it is bottom-down offers from providers. Users of business-services are all types of business. It includes big multinational industries, such as car manufacturers, large service sectors, such as retail and wholesale, and a plethora of businesses of a *sui generis* nature. In general the user-perspective very much complement providers' perspective on many of the issues raised in the above.

Business-service users identified, especially for the multinational enterprises, the need for project-based mobility and remote management. Issues such as temporary posting for training or on an industrial project basis and remote management were highlighted. Legal guidelines in the area are quite fragmented. Increasingly projects and training entails business related services, and with the lack of mobility, effective and efficient use of business related services is not possible or living up to its full potential.

Regulatory barriers were also a main concern for business-services users. For instance, in Europe fire and safety regulations for warehouses differ substantially. For a wholesaler or manufacturer wanting to build new warehouses across the EU this means: deploying different technical expertise, including architects, engineers, and designers in every member State; installing differing fire and security systems, resulting in different servicing of these in every Member State; engaging with multiple authorities for approvals, often using a range advisors and legal experts in every Member State.

One other specific finding was that the on-going presence of a *de facto* fragmented Internal Market for products in many ways hampers the Internal Market for services. When goods cannot move freely, neither can the services connected to them. Business-services related to testing, marketing, designing, labelling, security, etc. are as fragmented as the products they deal with. This severely decreases the potential for economies of scale in the Internal Market as well as productivity of both the providers and the users, and thus hampers overall economic growth.

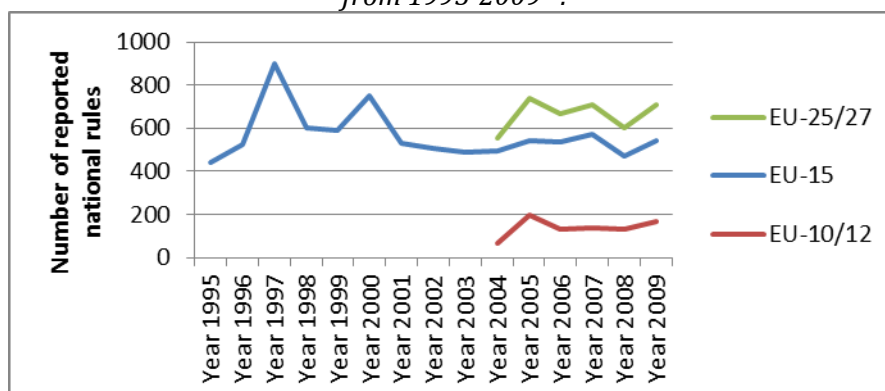
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<sup>51</sup> EQF under the European Commission, [http://ec.europa.eu/eqf/home\\_en.htm](http://ec.europa.eu/eqf/home_en.htm)



An example that illustrates the scope of specific national rules, on otherwise harmonised areas, is the TRIS-register. In the register Member States must report new national rules influencing the free movement of goods. The graph illustrates the number of yearly reporting's to TRIS since 1995:

Figure 2. Graph illustrating the number of reported national rules to the TRIS-register from 1995-2009<sup>52</sup>.



For the free movements of services no such registration demands are put on Member States, and therefore no statistics are available on the number of new national regulations put in place every year, which could potentially conflict with the free movement of services.

Finally, issues such as differentiating company status, taxation issues cross-border leading to extensive costs of advice and interaction with national authorities, lack of labour market transparency, lack of European standards, insufficient application of mutual recognition principles were all pertinent to the users of business-related services.

## The Horizontal View

This section will attempt to summarize the findings above from the sectors participating in the working group on the internal market into a coherent horizontal view on the current situation in business services.

### Information Gap and Authority Interaction

For business-service providers operating in the internal market a clear information gap exists with relation to cross-border trade in services. Information issues are related both to cases of permanent establishment in other Member States as well as to cases of permanent or temporary provision of services cross-border to other Member States. Also, once information is retrieved, interacting with Member States authorities is cumbersome and administratively burdensome, and in some cases even not possible without substantial costs due to linguistic issues.

Information was called for on national rules on corporate structures, on national product and service labelling requirements, on taxation requirements, on

<sup>52</sup> Numbers from the TRIS database: [http://ec.europa.eu/enterprise/tris/statistics/index\\_en.htm](http://ec.europa.eu/enterprise/tris/statistics/index_en.htm)

bilateral double taxation agreements, on insurance requirements, on procedures regarding posting of workers, on applicable minimum wages and on recognition of professional qualifications.

In general the Points of Single Contact established under the Services Directive are appreciated in bridging the information gap and allowing for authority interaction. However, at the same time the scope of the PSCs is insufficient to cover the actual needs of businesses. Also, several other authority contact points exist and will come into existence in the future<sup>53</sup>. For businesses the request was to integrate these into one business contact portal with information available, possibility to electronically complete procedures and processes with public authorities, and to allow for complaint handling if necessary.

### **Administrative Burdens**

It was noted that many administrative burdens still exist for business-service providers. Not least when establishing in another Member State. These burdens are not necessarily an expression of protectionism or discrimination, but rather the use of PSCs reveals how many unnecessary demands Member States have for companies wishing to establish in general.

One example was a demand by one authority for “a guarantee/certificate of morality”, which does not exist in most Member States, where companies are completely unfamiliar with this term, and therefore have difficulties even figuring out what it is, and who can sign such a document, and what the contents should be. Furthermore, even though PSCs, where supposed to be electronic, in many countries the application process itself must happen manually, where the receiving address or authority is not always clear.

Many burdens were associated with the establishment in Member States under different corporate structures. The European Private Company Status was discussed in this context, as it was perceived to alleviate many of the problems and burdens. It should also be mentioned that there were many administrative burdens mentioned in relation to getting professional qualifications recognised in other Member States

### **Insurance and Liability**

A particular difficulty identified by the group concerns insurance obligations to which service providers are subject, either through EU or national legislation. For example many Member States do not take account of insurance obligations complied with in the Member State of establishment, which leads to a duplication of insurance coverage costs borne by businesses. Furthermore, businesses face difficulties in relation to insurance for temporary cross-border service provisions. Often an insurance policy will not cover cross-border, whilst getting insurance in a Member State where the business is not established can be very difficult or even impossible.

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<sup>53</sup> Like the one-stop-shops for VAT to be established in all Member States by 2015.

In relation to liability businesses also face difficulties, especially since performing more tasks along the business or a project life-cycle means that users transfer ever more risks and liability onto service providers. Disproportionate requirements on minimum coverage and a lack of coherence and transparency in risk assessments were specifically problematic.

### **Taxation Issues**

Many businesses operating in several member states of the EU experience problems with regards to taxation. Too often they are met with demands of taxation by more than one member state on the same money stream. Referring to the bilateral double taxation agreements in place between most member states, these demands are unnecessary. The real problem arises from the fact that a business will have to defend and prove its case towards both member states independently, thus incurring vast costs for legal and tax advice in both countries. It is reported by businesses that often they simply give up and pay double tax. This is neither efficient nor good for employment.

Especially in the field of transfer pricing the problems are vast. With vague OECD guidelines, businesses often face two member states with different interpretations. In other cases, such as VAT, issues arise when member states do not agree which part of an invoice is indeed a product and which is a service. With the continuous trend towards more integration between products and services blurring the definition of either, this problem will need to be dealt with.

Alongside the discussion on a Common Consolidated Corporate Tax Base (CCCTB) the issue of the bilateral nature of double taxation agreements was also raised. For businesses it is absurd to operate in a market (the internal market) with the risk or possibility of being taxed twice on the same money stream due to a lack of double taxation agreements between Member States.

### **Lack of Data on Business-Services**

Today the business services sector accounts for 11.7% of the European economy. As the business services are very heterogeneous, ranging from highly specialised, knowledge intensive activities to more labour intensive less skilled activities, there is a demand for more detailed activity breakdowns of the basic structural data, enabling detailed analysis of the services sector equivalent to the possibilities for manufacturing.

Improvement of the knowledge and statistical coverage of the business services is important in order to better understand the real forces behind the development and competitiveness of the sector. This is an essential instrument for giving guidance to decision making by business operators, policymakers and other stakeholders. Policymaking can only be effective when it is based on reliable statistics about the structure and development of the sector.

## Further Issues

The integration of services into packages offered to users also indicates that more innovative business solutions could be created by strengthening the dialogue between users and providers, as well as by fostering more partnerships between disciplines on the providing side, especially amongst SMEs. In order to unleash potential further scrutiny of this issue should be done over the coming years.

Besides the mutual recognition of professional qualifications, businesses in general also experience some difficulties related to the mobility of people. A main point was that due to knowledge intensive character of services, where specific skills, training, and knowledge is not easily transferred or reallocated as with production means, the mobility of human resources is of essence to the sector and its productivity. Mobility of labour should happen with full respect to national labour laws, national collective agreements, etc., but potentially more could be envisaged to increase the mobility of the European work force.

Furthermore, it was noted the posting of workers and the associated costs were a problem for many business-service sectors. Especially the transaction costs related with advisory services were mentioned.

## SWOT analysis

The most important strengths, weaknesses, opportunities, and threats with relation to the internal market for business services based on the above analysis can be summarized accordingly:

*Table 1. SWOT analysis based on the findings of the working group on the internal market for business services.*

STRENGTHS	WEAKNESSES
Size of the Market Full life-cycle service (big companies) General growth sectors (future-oriented = investment) Standards	Fragmentation Company structure Rigid regulation Legal fragmentation/complexity Asymmetric/lack of information Insurance coverage Not apt for cross-border projects
OPPORTUNITIES	THREATS
Standardisation Mitigation of barriers Full life-cycle service Consolidation/partnerships Mobility of workers	Further fragmentation Over-regulation Legal uncertainty Information gap

## The Future of Business Services

In relation to the present situation within the business services sector, a few common features noted by the sectors; 1) a continued trend towards outsourcing processes to external service providers, both B2B and G2B; and 2) service providers expanding their business by constantly taking more responsibilities or risks, as they increasingly become integrated solutions providers covering a whole life cycle of a product, process, or service provision. These commonalities transcended into a joint belief in continued growth at local, regional, national, European and international level, and not least within the internal market.

Growth in the sector has generally been above that of the overall economy. The average growth rate from 1999-2009 has been 2.38% for business services while the average for all sectors of the EU economy in the same period was merely 1.1%. In terms of employment growth rates the average for business services from 1999-2009 was 3.54% while the figure for all sectors of the EU economy was far lower at 0.77%<sup>54</sup>. None of the sectors involved expressed expectations that the sector would not perform equally above average in the coming decade, taking of course the economic crisis into consideration.

As the above analysis clearly evidenced there are still numerous barriers and obstacles in relation to the internal market for services. Nonetheless, unless any of the threats listed in table 1 materialises, the worst-case scenario for business services in the coming years will be a slowdown outsourcing rates, especially from the public sector, leading to a falling growth average (but still above the overall economy). However, if the barriers and obstacles identified were to be removed fully or partially, the sector could potentially perform at the same growth average or above. Furthermore, productivity could be increased and narrow the gap vis-à-vis the US business service sector productivity. The most likely scenario for the coming years, depending on the level of success from policy-makers in removing the remaining barriers and obstacles, thus seems to be positive.

## Policy Options Going Ahead

Three main streams were identified by the sector with regard to obstacles and problems hampering the full potential of the productivity and growth in the sector. The first stream was very much linked to indirect regulatory (not covered by the Services Directive) and practical barriers fragmenting the internal market for services. The second stream evolved around the fragmented corporate structure and conditions on which a company operates on an everyday basis. The third and final stream was connected to the lack of a true internal market for both goods and services (the first hampering often the realisation of the second,

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<sup>54</sup> European Commission (2012), DG MARKT, SWD(2012)147 final – on the result of the performance checks of the internal market for services (construction, business services and tourism).

why it is taken on board in this report). This is both due to the lack of correct implementation, lack of rigorous enforcement, and actual deficiencies in the EU legislation. Furthermore, in its own right there was a strong support for more data gathering, in order to allow for better statistics in the sector in the future. Obviously balancing the burdens connected to data gathering with the value-added of the obtained knowledge.

## **Practical and Indirect Regulatory Barriers**

On the issue of indirect regulatory and practical barriers, hampering the full potential in terms of productivity and growth in the business services sector, there were three main concerns.

First and foremost, many indirect regulatory barriers continue to exist because of the scope of the Services Directive. Hence, an extensive discussion on a possible revision of the Services Directive was discussed, including the “country of origin” principle and the inclusion of further sectors. However, there was no consensus on a recommendation for a revision, since several sectors were not convinced that the directive would be strengthened, seeing a weakening as a real threat, while some sectors did not want to risk being included due to certain attributes of their sectors. Certain sectors, however, had specific wishes for further harmonization in the spirit of the Services Directive. As an example, in the electronic security services sector due to the nature of service provided (life safety, protection of assets, security) in some Member States a certification is required for companies providing services in the sector. To follow the spirit of the Services Directive a harmonized pan-European certification scheme is required. The sector is prepared to take the lead but political support is required.

Second, many regulatory barriers (be they direct or indirect) transcended into practical barriers i.e. extensive administrative burdens and red tape for enterprises wanting to operate cross-border. Removing these administrative burdens and cutting red tape, was considered a relatively cost-free and easily achievable objective. Thus, there was a clear consensus that this should be done, and that the best way was to build on the best experiences from the PSC establishment process in Member States.

Third, while many of the true barriers to trade in services are bound in culture and tradition, it was highlighted that much more could be done to tackle the practical barriers incurred by enterprises every day. The main request was simply access to relevant and reliable information. This, coupled with the possibility of completing procedures (applications, registrations, licensing, VAT-procedures, establishment, etc.) online with public authorities in other Member States, could create truly more open market access to all EU markets. There was therefore a strong wish to create market access portals in every Member State under EU regulation, setting requirements for these portals’ content and their functioning.

In connection with practical barriers the issue of guidelines on workers mobility was also discussed. A request to have 1) guidelines to facilitate workforce exchange within a corporate group, between affiliates and if feasible between business partners (for training and/or specific projects), in respect of employee legal rights, and 2) guidelines to facilitate remote management (e.g. industrial project) as they would give better protection for employees and reduce administrative burden for companies, were raised by some sectors.

## **Fragmented Corporate Structures and Operating Conditions**

There was consensus that several issues related to corporate structures need to be tackled at EU level. One of the building blocks in this context is the possibility of a European Private Company Statute allowing enterprises to become truly European, allowing them easier access to all Member States' markets. Therefore, the group supported the creation of such a Statute. Another issue discussed was the Common Consolidated Corporate Tax Base proposed by the Commission. The group supported this project as well. Furthermore, harmonisation of take-over regulations was raised, however, the group did not come to any conclusions.

In terms of the basic cross-border operating conditions for businesses especially insurance and liability issues were highlighted as major problems to be tackled. Some of the solutions identified were; the recognition of insurance coverage in the Member State of origin when providing especially temporary cross-border services; assuring that such insurance policies are present in the origin Member State; reducing disproportionate requirements on minimum coverage; and establishing more coherence and transparency in risk assessments most likely through European standards. There was a clear consensus that these issues should be addressed.

Further to this in the area of cross-border operating conditions for businesses the issue of taxation was raised and many problems related to this. There was consensus that national authorities should be obliged to cooperate better when confronting businesses with demands on the same money streams and earnings. Businesses should not get caught between two Member States authorities making similar claims, spending both excessive human and financial resources on this. Hence, Member States authorities should solve the issue between them, and then make the correct claims on businesses. Also, there was consensus that in an internal market where cross-border activity is paramount, it is absolutely unsustainable and unacceptable that a combination of bilateral double taxation agreements does not cover the whole market. Hence, a multilateral EU-wide double taxation regime is necessary.

## **Implementation, Enforcement and Further Integration**

There was a consensus in the group that a true internal market for services does not exist today. Notwithstanding the inconclusive position on a revision of the Services Directive, there was complete consensus that much more could be done in terms of implementation and enforcement of the existing directive. As figure 1 above showed there is great potential to be harvested in the context of

implementation, whilst further enforcement will drive down some of the remaining regulatory barriers.

One of the issues, which was more surprisingly a big concern for many sectors and for users, was the extent of fragmentation in the internal market for goods. This fragmentation has a clear impact on business services, as they are as fragmented as the goods they provide services to or for. Hence, there was a broad consensus that much should be done in terms of finalising the internal market for goods. This includes; further integration and strengthening of EU legislation; avoiding diversified implementation of directives; using more regulations instead of directives; and allowing for less national rules and requirements related to goods in the primary EU legislation.

## Policy Recommendations

In the following the policy recommendations made by the working group will be presented accordingly.

### My Market Access Point (My-MAP)

It was clearly identified that one of the major problems in the EU market today is transparency, an information gap, and the ability to communicate online and undertake procedures with national authorities. To ensure that these problems are tackled sufficiently in the future, a coherent approach must be taken so that businesses get only one contact point in every Member State in the case they want to enter a given Member States market or have problems operating in it – irrespective of the sector a business operates in.

Today when businesses face problems in the internal market or want to take advantage of it, they are faced with multiple portals, access points, and information websites. Some are national and some European. The most well-known is the “point of single contact” (PSC) under the Services Directive, establishing national PSCs in all Member States. However, this portal is not the only relevant contact point for businesses. If they want to know more about product regulations in specific Member States, they must go to the “product contact point” (PCP)<sup>55</sup>. In 2015 a one-stop-shop for VAT will be created in every Member State as a new portal for businesses to deal with. When having specific problems in the internal market in relation to breaches of EU legislation, businesses in turn have to look for the national SOLVIT centres. Several other examples could be given.

All the above initiatives are very positive, and the wish of business is not to end any of these initiatives or redo them. Rather what is needed is to combine them into one business portal in every Member State. However, given that PSCs, in case of some Member States already enriched with business information going beyond the legal requirements of the Services Directive, are so far the most

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<sup>55</sup> Under regulation 764/2008/EC.



comprehensive and complete one-stop-shops for business at the national level, it could be envisaged to build upon the existing organisational framework of these portals.

Nonetheless, there is still much information relevant to businesses wishing to do cross-border activity which is not covered by any of the existing portals, websites, etc. The PSC Charter has already outlined a number of information points that should be included in PSCs. This should be taken into full account and integrated, as all this information is necessary. However, further information is still necessary such as: information on employing people in a given Member State (wages, collective agreements, posting of workers, etc.); information on taxation matters (such as double taxation agreements in effect in a given Member State); information on labelling requirements; and further information which is vital for business operation in a given Member State (the given is a non-exhaustive list).

Information is one part of the need of business. The other part is the actual communication and interaction with national authorities. In situations where procedures to establish, procedures to be licensed, procedures to get product approvals, procedures to register, and so forth are necessary these should be able to be found and completed via the national business portal. The same is the case for complaint situations (today via e.g. SOLVIT). The procedures and communication in general must be e-enabled, so that physical presence or physical documentation is made superfluous. Besides being e-enabled it should be a requirement that all interaction can be carried out and all information and documentation be found in English as a minimum.

Information and communication, procedures, and complaint requirements put on Member States are today inserted into multiple pieces of legislation as these are created over time. The PSCs are part of the Services Directive, the PCPs a part of regulation 764/2008/EC on mutual recognition and so forth. This approach does not deliver one single portal for businesses but a plethora of them. Therefore the working group recommends that a specific piece of legislation – a regulation – is made for the creation of “My Market Access Points” (My-MAPs) in all Member States. Via such a piece of legislation Member States will be obliged to a far greater extent than today, to deliver an actual useful tool for businesses and to commit the necessary resources to it. Instead of creating e.g. PCPs under regulation 764/2008/E, or the PSC under the Services Directive, the new legislation should be a point of reference whenever information requirements or procedure or complaint handling requirements are devised in EU legislation. A European entry point to the national My-MAPs could very well be the Your Europe website (business part).

**Recommendation:**

**The European Commission should propose a regulation for the creation of Market Access Points in all EU Member States. The Market Access Point shall function as a universal business portal delivering what is relevant in order to establish, operate, or temporarily do business in a given EU Member State market.**

## Cutting Red-Tape and Administrative Burdens

Experience from the PSC process in the frame of the Services Directive have shown that red tape and administrative burdens have been made more visible, and that several member states have on their own initiative thus reduced these. Nonetheless, much more could be done in this area utilising on the full picture that a My-MAP regulation would create.

Hence, in light of the recommendation above, the working group would further recommend that, with the transparency created from the My-MAP, the Commission is asked review each member states' requirements for establishing or operating a business with a view to removing unnecessary red tape and administrative burdens.

This could be done in the form of a report highlighting unnecessary requirements and procedures in place in Member States, benchmarking best practices, and creating a scoreboard of the administrative burdens and red tape in member states.

**Recommendation:**

**The Working Group would further recommend that, with the transparency created from the My-MAP, the Commission be asked to review each Member States' requirements for establishing or operating a business with the view to cutting unnecessary red tape and administrative burdens.**

## Internal Market for Insurance

The European legislation<sup>56</sup> contains some provisions designed to facilitate the provision of cross border services as well the insurance of cross border service providers and also, at the same time, guaranteeing protection to policyholders. According to Article 23 (2) of the Services Directive, the host Member State imposing an obligation to be insured upon service providers from another Member State has to accept as equivalent the similar insurance cover from the home Member State. However, the EU legislation in place does not contain any provisions on:

- obligations on a host Member State to ensure that service providers from other Member State may obtain insurance when operating temporarily in their jurisdiction;
- obligations on insurers to provide either an extension of home cover to another Member State or to provide temporary cover to an incoming service provider from another Member State;
- guidelines on the assessment of equivalence of insurance cover to allow Member States to determine if insurance cover obtained in another Member State is adequate.

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<sup>56</sup> Directive 2006/123/EC ("Services Directive"), Directive 88/357/EEC on non-life insurance reinforcing the potential for providing insurance in other Member States without maintaining an establishment in that other Member State (MS), The Rome I Regulation No 593/2008.

It is not the perception that this is a specific attempt to protect national markets on the side of Member States, nor is it necessarily the perception that insurance companies consciously wish to fragment markets. Nevertheless, the barriers connected to obtaining cross-border insurance hamper the functioning of the internal market.

On this basis the working group recommends that the Commission draw up a legislative proposal to address the situations when Member States impose compulsory insurance for an activity, but where it is difficult or even impossible for businesses to get insured for the cross-border provision of such an activity, either due to the reluctance of insurance companies to provide such a cover or due to the difficulties in having their insurance cover from the Member State of establishment recognised.

**Recommendation:**

**The European Commission should propose a regulation obliging Member States to put in place clear and transparent procedures for assessing the equivalence of insurance covers from another Member State as well as solutions ensuring that service providers are able to find suitable offers on the insurance market.**

## **European Private Company Statute**

In relation to the problems incurred by businesses on corporate structures, the working group recommends that a European Private Company Statute (already proposed before, but mistakenly withdrawn as part of the REFIT exercise<sup>57</sup>) is established in EU law to give an option of a harmonised corporate structure supplementing the national structures. Such a proposal should allow for business to be registered in only one Member State, but universally accepted as a legal entity in all EU Member States.

**Recommendation:**

**The Working Group recommends that a European Private Company Statute is established in EU law.**

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<sup>57</sup> [http://ec.europa.eu/smart-regulation/refit/index\\_en.htm](http://ec.europa.eu/smart-regulation/refit/index_en.htm)

## Better Cooperation on Taxation

The working group recommends that the Commission put forward a legislative proposal for obligatory cooperation between tax authorities where bilateral taxation agreements are in place between Member States (though preferably there would be an EU multilateral double taxation agreement/regulation, see below). Such obligatory cooperation should result in the requirement of tax authorities to settle between them a dispute, as soon as a business makes the two authorities aware that they have been met with demands on the same money stream. Hence, businesses would save the cost of defence towards both authorities, only being obliged to deliver the information required by the cooperating authorities.

**Recommendation:**

**the Working Group recommends that the Commission puts forward a legislative proposal for obligatory cooperation between tax authorities, with the requirement on tax authorities to settle between them a dispute, when a business is subject to demands on the same money stream from two or more given authorities.**

## Multilateral Double Taxation Agreement

One of the highest risks that businesses in the EU can incur is that of double taxation. It is custom in the EU that Member States have bilateral double taxation agreements. However, this is not always the case. In order to minimise the risks incurred by businesses in the EU the working group, therefore, recommends that a multilateral EU-wide double taxation agreement be created.

**Recommendation:**

**The Working Group suggests that the Commission works together with Member States to progress towards a multilateral EU-wide double tax agreement.**

## Statistics in the Services Sector

Today the services sector accounts for more than 70% of the European economy. Yet, when politicians, civil servants, professional organisations, and academia formulate needs, policies, and future actions it is done on a very fragile factual basis. The lack of data in services is astounding. Whereas in some sectors of the economy we have statistics into the most minor details of production (in Denmark there are 8 sets of statistical data on pigs alone), in other sectors, accounting for much higher shares of the economy, there are only overall statistics. This severely hampers the efforts to boost and create growth in many service sectors and sub-sectors. Therefore, the working group recommends that EuroStat and Member States increase the scope and the level of detail in the data gathered on the services sector.

**Recommendation:**

The Working Group recommends that EuroStat and Member States increase the level of detail in the statistical data gathered on the services sector, so as to enable policy-makers and the sectors themselves to better identify needs, appropriate policies to be put in place, and other future actions.

## Further Integration for Goods

For businesses in all sectors, also business service providers, it is a genuine problem that the internal market for goods is not yet realised. Product regulation (food, chemical, waste, product safety, consumer information, etc.) today to a big extent allow for national special rules on the basis of health and safety derogations. The main purpose is to allow national governments to better protect citizens. However, from an internal market point of view it is detrimental as the fragmentation following this is immense. Common legislation should be equally apt to address these legitimate concerns of protection of citizens, and therefore EU legislation should be devised at a sufficient level of protection. Having insured this sufficiently, Member States should not be allowed to derogate from EU legislation.

**Recommendation:**

The Working Group recommends that all EU legislation in relation to the free movement of goods be made under full harmonisation with no possibilities for Member States to introduce national rules based on health and safety. A sufficient high level of protection should be insured at the EU level, mitigating the need for national actions.



## 2- SKILLS AD-HOC WORKING GROUP REPORT

### Introduction & background

In 2010, the European Commission announced in two flagship Communications the action to set-up a High Level Group (HLG) on business services:

- *An Industrial Policy for the Globalisation Era [1]: "The Commission will set up a High Level Group on Business Services to examine market gaps, standards and innovation and international trade issues in industries such as logistics, facility management, marketing and advertising;"*
- *A Single Market Act I [2]: "Given the importance of business services, the Commission will set up a HLG to study the shortcomings of this particular market."*

The rationale for setting up the HLG was that the sector had been identified as one having a high-untapped potential. The purpose of the HLG is to help policy makers better understand the current challenges in the sector and to identify ways to improve the level of productivity and innovation of business-services. The group will deliver concrete recommendations, which can guide the further development of policies for business services. The HLG specifically looks at the link between business services and manufacturing.

Business services encompass a very varied selection of sectors ranging from technical services, such as engineering and architectural services; computer services; and other professional services such as legal, employment services and facility management. For the HLG to produce concrete recommendations, its work is focused on a limited number of sectors. Thus, the HLG addresses a variety of issues, which are relevant also for other business service sectors.

The HLG started with the examination of selected topics and sectors through the ad-hoc working groups designated by the HLG. The Commission provided support to the HLG for this work in the form of background material and support for the working groups. The ad-hoc working groups will provide short policy relevant reports.

Business services employ 21 million people in the EU in more than 4 million enterprises and have an untapped potential to contribute to increased productivity, competitiveness and growth. They encompass a varied selection of sectors ranging from technical services (e.g. engineering and architecture, ICT) to other professional services such as legal services, accounting, employment services and facility management (e.g. cleaning, catering, security services). As the borderline between services and goods becomes less clearly defined, barriers to trade in services are directly hampering trade in goods to an increasing degree. Moreover, business services are crucial to industrial competitiveness and

innovation and they are particularly relevant for SMEs, who rely more on purchasing services from the market than from large companies.

Business services are one of the largest services sectors with a turnover of almost around €1,500 billion, and are a source of growth and new jobs. Business services are also one of the most important inputs to manufacturing firms and an important source of innovation.

The High Level Group created five working groups to examine specific aspects of the Business Services sector and these are as follows; innovation, instruments, internal market, internationalisation and skills. This report deals with the skills area, which is transversal and is relevant to all areas of the labour force and so the recommendations are more widely applicable.

The High Level Group will provide policy recommendations to the Commission to promote these objectives. The High Level Group is expected to finish its work in spring 2014.

## **Analysis of the current situation**

Business Services need skills to be sustainable, to contribute to jobs and growth and indeed are the key for Business itself. The demographic background in Europe and also the increase in pension age are issues of concern. The skills area looks at a wide range of Business services and hopes to be representative of as many in the workforce as possible.

There are a number of issues to be considered which affect the current situation; these include demographics, communication skills and ICT Skills.

The current recession is causing great hardship to the citizens of Europe (Van Rompuy, 2013). One of the outward manifestations of the recession is the high level of unemployment in many member states. Unemployment totals more than 26 million throughout the EU (Eurostat, 2012), 10.7% of the EU27 workforce. The youth unemployment rate stands at 23.7%.

The education systems in Europe are very strong and the creation of people with skills is a particular strength. The traditions of apprenticeship and vocational education are particularly well developed in Germany and Austria.

The structure of 28 member states with differing cultures, legal backgrounds, languages creates a situation where, while there may be skills shortages in one location, it may not be easy for people with the appropriate skills to relocate and fill the vacuum.

The new policies emanating from the European Commission such as “Opening up Education” and “ESCO” will provide opportunities of moving the education system onwards and embrace the opportunities provided by the technological developments.



The demographic situation where there will be a reduced supply of young people joining the labour market and an ever growing proportion of pensioners will add to the financial difficulties facing Europe in the near term future.

To appreciate the current “skills” situation it is appropriate to make some definitions so that the language which is used can be understood. There follows some attempt to define knowledge, skills, attitudes and competences.

## **Knowledge**

‘Knowledge’ means the outcome of the assimilation of information through learning. Knowledge is the body of facts, principles, theories and practices that is related to a field of work or study. In the context of the European Qualifications Framework, knowledge is described as theoretical and/or factual.

## **Skills**

‘Skills’ means the ability to apply knowledge and use know-how to complete tasks and solve problems. In the context of the European Qualifications Framework, skills are described as cognitive (involving the use of logical, intuitive and creative thinking) or practical (involving manual dexterity and the use of methods, materials, tools and instruments).

## **Attitudes**

‘Attitudes’ are conceived as the motivators of performance, the basis for continued competent performance. They include values, aspirations and priorities.

## **Competence**

There are two slightly different definitions of ‘competence’ in the recent European policy recommendations. In the Key Competences Recommendation, ‘competence’ is defined as a combination of knowledge, skills and attitudes appropriate to the context (European Parliament and the Council, 2006). In the European Qualifications Framework recommendation, ‘competence’ is seen as the most advanced element of the framework descriptors and is defined as the proven ability to use knowledge, skills and personal, social and/or methodological abilities, in work or study situations and in professional and personal development. Furthermore, in the context of the European Qualifications Framework, competence is described in terms of responsibility and autonomy (European Parliament and the Council, 2008). In the context of this work, competence is understood as a set of knowledge, attitudes and skills.

## **Demographics**

The population of many European Countries is declining, leading to a shortage of young people coming on the labour market. This impacts training schemes for apprenticeships and also the availability of young people to pursue vocational

courses. Examples of this can be found in Austria where the number of 15-year-olds had a last peak in 2008 with close to 100,000 persons. That figure will drop to 85,000 by 2016, due to years with low birth rates. From then on until 2025 the numbers will stabilize, with only minor swings.

## Communication

There is a growing migrant population in Europe and for many they are working in a country with a language which is not their native tongue. This leads to communication difficulties and these are exacerbated in the business services area where communication skills are of key importance.

## ICT Skills

As ICT becomes pervasive in the business area the need for ICT skills is growing. It is estimated that by 2015 more than 90% of the workforce will need ICT Skills. Currently there is a perceived lack of ICT skills in the working population aged 40 years and more. This will lead to a problem as most jobs, particularly in Business Services, will require ICT Skills.

## Skills required for Business services

The skills required for Business services can be viewed as follows :

- General skills
  - These include social, ICT and communication skills. Also general sectoral knowledge, basic education and the right attitude.
- Company Specific Skills
  - Company knowledge, Customer knowledge, product knowledge, financial knowledge and right values.
- Customer service Skills
  - Communication skills, sales skills, problem solving skills and customer relationship skills.
- Task specific skills
  - Technology skills, task specific expertise and task process skills.

It is suggested that the skills required for the future are as follows :

- **Ability to create and modify new services**
  - Management, developer skills for service development (Service design).
  - Technology skills and understanding.
  - Ability to create new business models and business services.
- **Understanding customer business, needs and processes**
  - Understanding customer business (value creation, job to be done).
  - Understanding customer's process (service path, easy to use).
- **Ability and resources for service development**
  - Development resources (money, people etc.).

- Model development models (service descriptions, canvas, blueprinting etc.).
- Technology resources (very often new services needs software development).

## ICT Skills

Use of technology in business services is essential – The Digital Agenda Europe scorecard (DAE pg 83) indicates that only one-quarter of users have high-level user skills and that this varies across countries. This is not just a concern for individuals, but also for the enterprises that employ them, as these enterprises need to maximise the potential of their employees to drive their business.

Similarly, the importance of ICT professional roles in the non-ICT sector is high (DAE page 85 fig 86), and around 40% of enterprises in 2011 experienced difficulties in recruiting ICT professionals. This will impact on firms' ability to develop new services e.g. cloud based business solutions through a failure to innovate and/or meet an existing market need.

Also, an absence of standardisation, or credible tools for comparison, complicates the process of developing the right ICT competences among the workforce.

## Exploring future scenarios

As Europe recovers from recession and moves towards growth, the issues of demographics and immigration will become more important. There is a trend towards a changing economy with new supply chains. The social media and mobile business will provide a basis for many new businesses.

As customers are taking a more active role in the Business Services economy it is important to look at Digital Marketing Initiatives and the effect that customer centric marketing will have. The whole area of mobile marketing and mobile business will transform many businesses.

There are new challenges in the economy with substantial youth unemployment, this is currently running at over 25% in many countries and will require considerable economic growth to create sufficient jobs to bring this figure under control.

A better-educated workforce will help to reduce the unemployment issue but the cost of education is rising faster than inflation. The value of university degrees is perceived to be diminishing with Grade inflation and impact on earnings. There is a commoditisation of educational content with Internet delivering access and ubiquity. There is an emergence of new competitors to the traditional education sector with the emergence of more Private providers and MOOCs (Massive Open Online Courses).

Education has traditionally been a very conservative area and slow to change. Also the impact of changes takes a very long time to make an effect on the workforce. While there are many pan European initiatives such as the EQF (European Qualification Framework) the Bologna Process (for higher education), the Copenhagen Process (for vocational education and training) etc, there are also rapid changes coming through private commercial sources. There will need to be recognition of the impact of these new learning processes and the recognition of prior learning and non-certificated learning.

As the recession took hold the Green Agenda was taking hold. Now the Green Agenda has been given a lower priority until growth resumes. It is clear that this will happen in due course and the Business Services Sector will again be expected to provide leadership in this area. There are various approaches such as "Green IT" which looks to power saving through various policies; the cleaning and maintenance service area will also play a leading role here.

### **Pessimistic scenario**

One possible scenario is based on pessimistic view of economic trends. Such trends could be the result of a failure of the vulnerable countries in undertaking a correction process of their financial imbalances and in undergoing an adjustment process with structural reforms. In this scenario the recovery from the economic crisis will fail to take off: the EU will not recover from the crisis within the next five years. As a consequence, companies will postpone investments and focus on maintenance/optimization of the existing infrastructure. Despite growing much more rapidly than average and being somewhat "anticyclical", adoption of ICT will also slow down. Large ICT projects will be postponed with a negative demand for ICT services. Companies with less than 250 employees will be strongly impacted. The short term tactical approach of most SMEs will limit their ability to innovate the products and services they offer in their business operations. Only large enterprises may start investments; nevertheless, they will only start limited and short-term investments.

In this scenario the demand for skills will be reduced and unemployment will remain high.

### **Optimistic scenario**

Another scenario is based on the assumption of a recovery from the crisis faster than in the previous scenario. This scenario is based on the assumption that most of the EU countries will face in 2014 a noticeable economic recovery because of an improvement of the sovereign debt crisis and because the policy actions taken against the crisis will quickly become effective. It is an optimistic scenario and it shows a positive deviation from growth rates of the previous scenario. Nevertheless, growth does not rapidly become higher than before the crisis as it can be expected that a full recovery will take a longer time period. After such a long and severe economic crisis, the economic recovery will lead to strong business and consumer confidence, creating a favourable environment for

investments. ICT investments will predominantly be aimed at productivity gains, and the European economy will be competitive at a global level. Cloud computing, mobility and Web 2.0 will become an integral part of European companies' strategies. The Internet economy and the Internet of things are possibly going to modify production processes and increase services contribution to the economic systems. The public sector will concentrate resources on research and development and on new services addressed to rationalize public spending and to improve the quality of services delivered. ICT spending growth will strengthen across all vertical markets, including those with a strong penetration of SMEs (such as business services, distribution, manufacturing and construction). Such a recovery will help to change the education system's capacity, making ICT courses more attractive for young people in a long time perspective. The number of ICT graduates will grow, stopping the decreasing trend. At the same time, enterprises will have an increased need for a trained and up-to-date labour force, so that industry will come back to the pre-crisis training budgets.

In this scenario the demographic problems will become an issue and there will be a shortage of skills in many areas.

### **Slow growth scenario**

Finally a scenario based on the assumption of a very slow return to the historical trajectory of GDP growth experienced before the crisis. What is becoming clear is that the return to the past trends may not be as easy as thought and for sure it will take more time than it took after any other crisis of the last 20 years. This is due on the one hand to the length of the crisis and on the other on the fact that the crisis has been particularly severe in some countries.

This scenario foresees that after a difficult 2013, the EU28 economy will start recovering with slow recovery rates until 2015 (lower than before the crisis) and with more positive growth from 2015 to 2020.

In this scenario ICT will play a relevant role in the economic recovery since ICT is an important tool for cost savings. ICT investments will therefore mainly be addressed to cost savings and to achieve productivity gains. As a consequence the investments achieved by the private industry will be mainly short to medium term. The investments achieved by the public sector will also be addressed to cost savings and rationalization of the public spending. Where possible, some countries may address investments to infrastructures in order to reduce the digital divide.

After a difficult time period ICT spending will progress at a moderate pace throughout the forecast period. In the short term, all vertical markets will feel the pressure of the strong uncertainty in the economy and the concerns over the sovereign risk in some EU countries. However some areas will be more impacted (government, finance, automotive, air transport), others will be more resilient (utilities, telecom). In the longer term, the moderate economic recovery will accelerate investments across all vertical markets, in particular those which have

already a developed use of ICT (utilities, finance, telecom, large companies in manufacturing and distribution). There will be a strong focus on cutting inefficiencies, centralizing procurement and reducing costs. Growth in the government sector (especially central government) will remain subdued along the forecast period.

In this scenario there will be a gradual increase in demand for skills with a particular emphasis on ICT skills.

## Competencies required

There are various competencies, which will be needed in the workplace of the future. The following competencies need to be developed and policy recommendations, which aid this, are required:

- **Personal Effectiveness Competencies** are personal attributes essential for all life roles. Often referred to as "soft skills," personal effectiveness competencies are generally learned in the home or community and honed at school and in the workplace.
- **Academic Competencies** are primarily learned in a school setting. They include cognitive functions and thinking styles. Academic competencies are likely to apply to all industries and occupations.
- **Workplace Competencies** represent motives and traits, as well as interpersonal and self-management styles. They are generally applicable to a large number of occupations and industries.

The following competencies are considered transversal, as they allow a worker to move easily across industry sub-sectors. Rather than narrowly following a single occupational career ladder it is important to support the development of an agile workforce:

- **Industry-Wide Technical Competencies** cover the knowledge and skills and abilities from which workers across the industry can benefit, regardless of the sector in which they operate. Because of this, many of the critical work functions on this tier deal with awareness or understanding. Using ICT efficiently will also be a necessary competence.
- **Industry-Sector Technical Competencies** represent a sub-set of industry technical competencies that are specific to an industry sector.

## Policy options

### Image

Measures are needed to reinforce the attractiveness, image and quality of the jobs available in the Business services area. These could include:

- Improved school and career counseling from 7th grade on ;
- Redefining mandatory schooling as a requirement to achieve a defined set of standards and scholastic goals (prequalification is important) ;
- Introducing systematic quality management to apprenticeship training and evaluations of the success rates in apprenticeship training ;
- Increasing the permeability for apprenticeship graduates to the higher education sector creation of suitable routes ;
- Provision of an Education counselor with a migrant background who goes to the companies and advises the young people.

### Educational Area

The need for an adequately educated work force with the appropriate skills and flexibility to meet the demands of a changing workplace will lead to some policy requirements:

- How to find the optimal balance between MOOCs and University/ School education?
- How to avoid certification/ recognition being too bureaucratic and having it built on an adequate Body-of-Knowledge?
- How to start a “best practices exchange”?
- Identify a key dimension/ Conceive a joint BOK & learning process/assess delivery/ certify competencies.

### ICT

Promote high-level ICT user skills development through support for existing proven training and certification solutions. Develop sector-specific guidance and best-practice to develop high-level ICT user skills that specifically support market development and innovation in the targeted business services sectors.

Utilize and promote existing frameworks e.g. e-Competence Framework for ICT Practitioners and e-Competence Framework for ICT Users developed by CEN Workshop on ICT Skills. Promote the acquisition of ICT skills through the use of existing resources e.g. the ECDL (European Computer Driving Licence). Use existing available tools to assess the ICT Competence level in the workforce for ICT competence development in non-ICT enterprises.

It could be argued that among many actions which need to be taken to assist the EU out of the recession is encourage innovations using ICT, create more ICT practitioners and to invest more in ICT systems and ICT skills. Yet there is a shortage of ICT practitioners and a lack of awareness and skills amongst

business people (EU, 2010). The creation of more ICT practitioners requires policy changes in the education system and cultural changes regarding the acceptability of ICT as a career. These changes need to start at primary school level with the youngest citizens and the changes need to follow them throughout their education into the workforce. While there is a shortage of ICT practitioners there is equally a shortage of leaders in this Information Society. To meet the need for e-Leaders it will be necessary to see the growth of courses, which include business, ICT, innovation and entrepreneurship.

## Vocational Education and Training

**Overall picture:** in all four sectors of business services (marketing and advertising; design; facility Management and technical consulting) the right skilled people are needed. As these sectors are so heterogeneous, it is important and necessary to have a high variety and full range of options to acquire the required skills, through formal and non-formal qualifications. All these qualifications, VET or tertiary educations have the same value and produce skilled workers as a result.

It is essential that the skills, which are needed at the **labor market**, be taught in the education and training institutions. The gap between skills offer and supply is based on a mismatch between the education systems and job market. Countries with a high proportion of young people in dual (enterprise-school combination) education and respective training systems are much less affected by youth unemployment and skills-mismatches. There is a correlation between vocational education and training and youth employment. Therefore we recommend strengthening the existing vocational and educational training systems in Europe.

**Enterprises** are very much engaged in apprenticeship training. On the basis of “return on investment-calculation” all trainings of employees happen worldwide in companies on a daily basis. Life-long learning is normal for companies, but happens mostly in an informal learning context. In order to achieve formalized training schemes with all their advantages (standard procedures, qualifications that are broadly understood and transferable on the labour market etc.), a market making catalyst is needed.

From the **trainee’s point of view** it is crucial that the vocational education and training is part of the general education system and that the acquired qualifications have to be permeable for further trainings and qualifications.

**For a vocational education and training (the dual apprenticeship training as well the full-time school based VET) we need therefore:**

- (1) A stable legal statutory framework, e.g. a regulation through governments or professional bodies on occupation and training standards etc.



(2) The **inclusion of companies in the governance structure** through training administration institutions.

(3) **Support measures (training material, examination, training of the trainers etc.), especially for SMEs:** Chambers of commerce and Skilled Craft Chambers, together with trade unions, can take over the responsibility or any other professional associations or tripartite institutions, depending on the existing structures in the country.

(4) **Partnership between the education and the business world as “co-ownership” of the social partners or any other professional associations or tripartite institutions, depending on the existing structures in the country:** In Austria and Germany the players are the economic chamber and the chamber of labour (AT)/Trade unions (DE)), along with the two relevant ministries (economy and education). They have a strong influence on the content and scope of training: trade profiles are negotiated between the social partners and form the basis for the part time vocational schools' curricula. This system allows adapting the curricula to the skills needed at the labour market and therefore guarantees a high employability of apprentices.

## Policy recommendations

- **Provide Digital Literacy training for people in the workforce over the age of 35.**

We recognise the proposals of DG EAC for Opening up Education and are pleased to see emphasis on STEM subjects, collaborative working and use of MOOCs for education.

We note the work of the CEN Workshop on ICT Skills, which has produced an e-Competence Framework for ICT Users, funded by DG ENTR, and trust that this will provide a basis for the proposal of Digital Literacy training for the older members of the workforce.

- **Raise awareness of Career Opportunities in the Business Services sector. Improve the image of careers in the Business Services sector. Create definitions for job profiles in the Business Services sector. Assemble statistics of job opportunities in the Business Services sector.**

We recognise the work of DG EMPL in preparing the ESCO initiative for definition of skills for jobs in all areas and trust that this will feed into the proposal above.

- **Promote the benefits of Entrepreneurship and Innovation skills. Improve the management skills in the SME sector of Business Services. Improve the management appreciation of the potential of ICT.**

We note the creation of the Finnish Service Alliance (FSA) association, which was established in October 2012. Its main purpose is to boost Finnish service research, and enhance the utilization of service research in private and public organizations nationally. The association supports the development of the service economy and increases the societal impact of service research in Finland. The association aims at facilitating collaboration between the academia and companies. We believe that this is a model of “best practice” which could be replicated throughout Europe.

We note the work of DG ENTR in the area of e-Competence for ICT Practitioners and their research into e-Leadership skills. We strongly believe that increased use of technology by the Business Services sector is hugely important and will only happen if managers are created who understand business practices, potential of ICT and also have entrepreneurial/ innovative skills.

We believe that mobile computing will be a great influence on the Business Services sector and the increasing use of Social Media, Digital Marketing and Customer Centric approaches must be considered.

We suggest that “Skillnets” which is a government initiative that funds and facilitates training through training networks of private sector companies who operate in the same sector or region and have similar training needs is worthy of consideration. Each training network delivers subsidised training to its member companies and, since 2010, to unemployed people. Skillnets currently funds over 60 training networks in the Republic of Ireland.

- **Provide courses to raise the level of Communication skills, language skills and soft skills.**

In view of the demographic situation in many countries there will be an increase in immigrant labour. As many Business Services jobs involve face-to-face situations there will be an increasing need to improve the language skills of the workforce.

- **Strengthen Lifelong Learning practices, geared towards up-skilling, and embed them in all Business Services.**

Business Services exhibit differentiated development patterns and we witness an increasing polarisation of skills in the labour market. Rather than pulling medium-skilled workers upwards, we see growing concentration of the workforce in high and low skill-sets whilst medium-skilled jobs diminish in numbers.

Business services need to broaden the skills base of the workforce by developing and providing substantial numbers of medium skilled jobs, not least by up-skilling low-skilled ones. Business Services need to define career paths and associated training schemes both prior to finding employment and throughout working life.

In order to ameliorate the image of Business Services, significant efforts must be engaged in order to establish career paths and entry requirements for specific industries and embed those in a lifelong learning perspective. Both formal and informal continuous vocational and educational training (CVET), starting at school levels, need to be strengthened and implemented. One way of achieving this is through the establishment of specific exchange platforms involving responsible stakeholders (business representatives, employer and worker representatives) in planning and implementing educational and training schemes throughout the life cycle of workers.



### **3- STANDARDS AND RELATED INSTRUMENTS AD-HOC WORKING GROUP REPORT**

#### **1. Executive Summary**

This report of the ad hoc working group on instruments provides input to the European Commission's High Level Group on business services. It considers the role that standards and related instruments may play in stimulating business service companies' performance across the EU, thus improving competitiveness and opening up the internal market for services. It also considers the role standards can play in integrating the EU Services Markets.

Standards and related instruments represent significant opportunities for the business service sector. Using these instruments in a strategic way will enable business service companies to transform and improve their performance. The report identifies opportunities in the areas of client-supplier relationships, internal business operations and reputation, entry and exit barriers and innovation.

Standards can provide an overarching structure to enable performance improvement in the service sector. Standards may be drafted as specifications for how services are to be delivered but they may also simply provide guidelines or define codes of practice, principles and processes. Business service companies should see voluntary standards as providing a means of defining product and service specifications, business processes or frameworks addressing values and principles.

To understand the role that standards can play in stimulating business transformation, it is important to be very clear about the relation between standards and regulation and that standards do not perform the same function as regulations. Regulations are written by government to set down minimum legal requirements. Standards are written by industry experts with stakeholder involvement and public consultation and represent a consensus on best practice in areas of product and service specification, business processes, and values and principles. They are voluntary documents supporting better practice and behaviours. When business service companies use standards they demonstrate achievement over and above legislative requirements.

The geographic dimension is a key issue; instruments may be developed at national, European or international levels. Determining the most appropriate level needs careful consideration. National standards can be useful as a first step for the development of new European or international standards. However, the existence of different national standards on the same topic and national certification schemes can potentially create barriers to the internal market. Standardization bodies need to continue to ensure the monitoring of national

and European standards and that the mechanisms of governance remain adequate to guarantee the respect of the European standardization principles and the withdrawal of conflicting national standards.

The report contains a possible future scenario where the standards and related instruments necessary for business transformation in the service sector have been rolled out across Europe and mechanisms exist to create the drivers for new instruments to be disseminated efficiently and at the right time. Business service companies will take full advantage of the instruments available and both policymakers and the developers of instruments (EC, Member States, business service providers and clients, national and European standardizers) provide the framework conditions for this to happen.

This scenario led to the policy options contained in the report. Enabling the roll-out of instruments will require information campaigns, the mandating of standards by the European Commission, the take-up of standards at European level where the market encourages it and the elimination of technical barriers through mutual recognition and harmonization.

In order to achieve this, the instruments working group makes the following three policy recommendations:

- The development of European rather than national standards should be encouraged in order to create the conditions for and foster the development of a single European market for services. There, nevertheless, remains an important role for national standards as precursors to European/international standards development. Prior to commencement, all European standardization work needs to demonstrate market demand and the benefit for the European single market. Fast track national standards (similar to CEN workshop agreements) can be promoted, ending up in European standards where there is a clear market demand. Where the European market is not well developed, the European Commission may envisage mandates to help the development of potential European markets for services.
- A targeted communication and awareness-raising campaign should be undertaken by the European Commission, Member States, CEN/CENELEC and National Standards Bodies (NSB) to service users and providers (primarily SMEs and their representative organizations) to explain the function and benefits of different instruments SMEs need to understand better the tools available and their benefits to assist them to become more involved in cross-border trade. The unrestricted provision of services across national boundaries within the EU should be ensured through the removal of national barriers. European standards can support European policies and legislation in the area of services, as has been the case with the internal market for products. Where certification schemes for European standards and other Europe-wide schemes exist, mutual recognition should be ensured to avoid the costs of re-certification. The proliferation of national schemes should be

avoided and European arrangements for conformity assessment should be promoted.

## 2. Introduction and background

### 2.1 Aim and objectives of the group

In March 2013, the European Commission set up a High Level Group (HLG) on business services to examine the challenges facing the sector and the obstacles to a well-functioning single market for business services. The performance and competitiveness of business services is essential to the economy in general and is also becoming increasingly significant for the manufacturing sector.

Nevertheless, the performance of business services in the EU lags behind other countries such as the US<sup>58</sup>. This was noted in the European Commission Communication (COM (2010)301) *An Integrated Industrial Policy for the Globalisation Era*: “whilst the implementation of the Services Directive has removed administrative barriers to cross-border service provision, there are still other areas where barriers remain and where the functioning of the internal market for services needs to be improved”.

The aim of the HLG ad hoc working group on instruments was to develop policy options for promoting the use of different instruments in business services and to make recommendations on how to drive better performance in business services through the use of different instruments.

The working group defined instruments as tools that can be used by public authorities or businesses to overcome problems and/or achieve a desired effect or objective, in particular regarding the improvement of business performance. The focus of the group was on voluntary standards and related instruments, whether they are stimulated by a regulator (e.g. a mandate, or request, issued by the European Commission to the European Standardization Organizations), or are market-based or informative. The working group saw standards as providing an overall framework through which many of the other types of instruments) can operate more effectively.

### 2.2 Working method and evidence

The working group considered the types of instruments that are available to policy-makers, business and other actors and developed a typology of instruments (see 3.1 below) intended for general use and a glossary of relevant terms related to the typology (Annex 1) to inform the common understanding of this complex area.

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<sup>58</sup> See Ecorys, Study on business-related services, 12 December 2012, [http://ec.europa.eu/enterprise/policies/industrial-competitiveness/documents/files/sector-studies-business-services\\_en.pdf](http://ec.europa.eu/enterprise/policies/industrial-competitiveness/documents/files/sector-studies-business-services_en.pdf), F. MUSTILLI & J. PELKMANS, Securing EU growth from services, CEPS Special Report, No. 67/October 2012, [www.ceps.eu/ceps/dld/7379/pdf](http://www.ceps.eu/ceps/dld/7379/pdf)

Evidence was gathered in the form of case studies and literature and examples were identified of the use of the various instruments. Case studies offered by the members of the group were reviewed, along with examples provided by the group's rapporteurs and those identified from the literature. An assessment of the current situation was structured by reference to the main issues identified from the case study review. A table highlighting the strengths and weaknesses of the different instruments was prepared.

Four key factors emerged in the discussion over the role of instruments in the service sector:

- the opportunity for instruments such as standards to bring about business transformation and performance improvement in their own right;
- the drivers for the use of different instruments;
- how instruments contribute to addressing the market failures and policy recommendations outlined in the Ecorys report on business related services<sup>59</sup> (such as information asymmetry in the interaction with the client, innovation, knowledge spill-overs and entry and exit barriers), and
- the geographic dimension, i.e. the relation between the use of instruments at a national and European level.

The working group sought to clarify the differences between the different instruments and their function in terms of promoting performance improvement and business transformation in the service sector.

It was agreed that in particular, standards cannot be seen as performing the same function as regulations: regulations set minimum legal requirements below which organisations or individuals may be liable to prosecution, whereas standards are voluntary business enablers, knowledge of good practice that can be used to promote better performance.

Standards may be drafted as specifications for how services are to be delivered but they may also simply provide guidelines or define codes of practice in terms of principles and processes. Business service companies should see voluntary standards as providing a means of defining product and service specifications, business processes or frameworks addressing values and principles. Implementing standards would permit a business to demonstrate higher performance in a given area, beyond any legal minimum requirement.

### **2.3 Performance of the service sector in Europe**

Business services in the EU account for 10-20% of total employment and almost 2000 billion Euro per annum turnover<sup>60</sup>. The vast majority of business services

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<sup>59</sup> Ecorys, Study on business-related services, 12 December 2012, [http://ec.europa.eu/enterprise/policies/industrial-competitiveness/documents/files/sector-studies-business-services\\_en.pdf](http://ec.europa.eu/enterprise/policies/industrial-competitiveness/documents/files/sector-studies-business-services_en.pdf)

<sup>60</sup> Kox, H.L.M., Unleashing competition in EU Business services, CEPS Policy Brief, No. 284, 24 September 2012. See also above-mentioned Ecorys study.



enterprises are SMEs, with a high percentage of micro and small enterprises. Despite the strong growth in the sector in recent decades, productivity growth in the EU business services sector lags behind that of the US. Services markets remain strongly fragmented along national lines, with only 20% of the services provided in the EU having a cross-border dimension<sup>61</sup>.

The Services Directive (2006/123/EC) was adopted in 2006. It covers most business services, with some exceptions such as private security services, and aims to facilitate the cross-border provision of services and the establishment of services in other Member States.

The Services Directive also offers a legal basis for future work on services standardisation in Article 26(5), which states that “Member States, in cooperation with the Commission, shall encourage the development of voluntary European standards with the aim of facilitating compatibility between services supplied by providers in different Member States, information to the recipient and the quality of service provision”.

The Professional Qualifications Directive (2005/36/EC), currently under review facilitates the recognition of professional qualifications of professionals wishing to work in another EU country.

The number of European standards in the area of services has increased in recent years, but their number is still small in comparison to the total number of European standards (fewer than 2% of all European standards). The number of European service standards is also small in comparison with the number of national service standards<sup>62</sup>.

The new Regulation on European standardization (1025/2012) has confirmed the role of the European Standardization Organizations in developing service standards and has also provided the European Commission with a clear legal basis to issue mandates to the European Standardization Organizations requesting the development of standards.

According to a recent study on services certification linked to service standards at national level in Europe<sup>63</sup>, 25%-30% of current service standards at national and European level have led on to the development of related certification schemes. In a minority of cases, the schemes encompass additional requirements than those established in the standard, mainly relating to the performance of certification/accreditation activities or national legislation in the area of services concerned. This study also concluded that there are only a few areas of services

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<sup>61</sup> A new strategy for the single market at the service of Europe's economy and society – Report to the President of the European Commission José Manuel Barroso by Mario Monti, Point 2.6.

<sup>62</sup> Technopolis, A study on services certification linked to service standards at national level in Europe, March 2012, [http://www.nordicinnovation.org/Global/Publications/Reports/2012/2012\\_03%20A%20study%20on%20services%20certification%20linked%20to%20service%20standards%20at%20national%20level%20in%20Europe.pdf](http://www.nordicinnovation.org/Global/Publications/Reports/2012/2012_03%20A%20study%20on%20services%20certification%20linked%20to%20service%20standards%20at%20national%20level%20in%20Europe.pdf)

<sup>63</sup> See Technopolis study mentioned above.

with a high incidence of national standards and schemes and there are even fewer European examples. One of these European examples is security services.

## 2.4 Typology of policy instruments

Different classifications of policy instruments exist. Following contributions from members and research work from the rapporteurs, the working group agreed to use the following classification:

- **Regulatory instruments** include instruments of a mandatory character that set minimum levels of performance, requiring changes in behaviour and setting penalties for parties who do not comply with provisions. Legislation and market surveillance are regulatory instruments, but there are also other instruments that do not have a mandatory character but can be used by public authorities such as European Commission mandates to the European Standardization Organizations (explained in the glossary, Annex 1), communications or recommendations from government (national or European) in order to support specific policies.
- **Standards** are voluntary documents produced through the collaboration and consensus among all relevant experts in a specific field and facilitated by independent standards developing organizations. The legitimacy given by the consensus in standards provides an overarching framework enabling them to deliver policy objectives and support other instruments (e.g. co-regulation, public procurement, conformity assessment and labelling, training and benchmarking). Standards can take a number of forms, including specifications, processes, and frameworks of codes and guidance.
- **Market-based instruments** are instruments that encourage behavioural change through market tools including codes of practice, certification, marks and labels.
- **Informative instruments** are instruments that encourage changes in behaviour through the provision of information. These include guidance, campaigns, benchmarking and KPIs and training.
- **Cooperative instruments** including private-private or public-private voluntary agreements and business collaboration.
- **Economic instruments:** funding programmes (e.g. research, SME support programmes), fiscal. and tax incentives.

The different instruments can be used in combination with each other, e.g. regulatory instruments in combination with standards or regulatory instruments in combination with informative instruments. The group decided to focus on standards and related instruments including market based and informative instruments or mandates to the European Standardization Organizations included in the above mentioned classification as regulatory instruments. Although economic instruments are included in the classification, the working

group decided not to consider them in the report as funding programmes are tackled in the innovation group.

## **3. Opportunities to improve business performance**

### **3.1 Supplier-client relationships**

One of the key areas for standards and related instruments to enhance business performance in the service sector is by impacting the client-supplier relationship. Policy changes that would encourage businesses to increase the understanding of clients about the services being offered to them, their added value, and the need to build confidence between the supplier and the client would all promote increased competitiveness and business success. A number of separate themes emerged under the over-arching topic of the supplier-client relationship.

#### **3.1.1 Improving contractual relationships**

Information asymmetry is one of the most significant market barriers identified in the Ecorys study<sup>64</sup> where instruments are of fundamental importance in shaping the performance of business services.

Buying services differs from buying products in that the provision and consumption of services normally happens simultaneously and, as a result, the customer cannot verify the quality and result of the service beforehand. This puts the onus on the purchaser:

- to make the right decision when selecting a supplier, and
- to accurately brief the supplier on their requirements and desired outcome.

There are many examples from different sectors of how information asymmetry has been addressed through market-based instruments. Case study 1 in Annex 2 presents a case study on the UK design industry. In this example, industry suppliers have developed guidance that can assist both supplier and client to enter more easily into a contract.

A similar approach has been adopted by the advertising industry, with one of the main trade associations in the UK, the Institute of Practitioners in Advertising (IPA) having developed a number of performance guides, including: “Briefing an Agency”, “Communication Strategy” and “Judging Creative Ideas”<sup>65</sup>. In some instances the trade associations, recognizing that the client would also need to be directly involved in identifying good practice, developed additional, informative material for their members, classed here as an informative instrument.

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<sup>64</sup> Ecorys, Study on business-related services, 12 December 2012.

[http://ec.europa.eu/enterprise/policies/industrial-competitiveness/documents/files/sector-studies-business-services\\_en.pdf](http://ec.europa.eu/enterprise/policies/industrial-competitiveness/documents/files/sector-studies-business-services_en.pdf)

<sup>65</sup> <http://www.ipa.co.uk/Page/Best-Practice-Guides>

Two supplier organisations, the IPA and the Incorporated Society of British Advertisers (ISBA) worked with a client organisation, the Chartered Institute of Purchasing and Supply (CIPS), to produce a 'white paper' for the industry called, 'Magic and Logic: redefining sustainable business practices for agencies, marketing and procurement'<sup>66</sup>. This document seeks to identify and address issues about the terms of engagement between procurers and advertising companies and is another example of an informative instrument intended to improve business performance.

There are also examples of similar guidance in this area that has been developed at a higher level in the form of voluntary standards. European Standard EN 16114 "Management consultancy services" aims to improve transparency and understanding between clients and management consultancy service providers. The consulting process is explained in three phases covering all the steps in providing consultancy, from initial inputs from the client until final closure. The application of the standard enables the provision of better value to clients, increased quality of services and reduction of risk.

A second example of a standard providing guidance on contractual relationships is EN 15221-2 "Facility Management - Part 2: Guidance on how to prepare Facility Management agreements". EN 15221 has been very successful in supporting facility management companies in their relation to their clients. Another example from the area of maintenance is EN 13269 "Guidance on preparation of maintenance contracts".

### **3.1.2 Building confidence and collaboration between supplier and client**

Developing a cooperative approach with stakeholders: with clients, with delivery partners, with employees is fundamental to business success in the service sector. Collaboration enables businesses to meet mutually defined objectives and enhance performance; it also promotes knowledge sharing and drives innovation.

In 1997, whilst CEO of BP, Lord Browne of Madingley is reported as saying, "You can't create an enduring business by viewing relationships as a bazaar activity – in which I try to get the best of you and you of me – or in which you pass off as much risk as you can to the other guy. Rather, we must view relationships as a coming together that allows us to do something no other two parties could do – something that makes the pie bigger and is to your advantage and to my advantage."

Both the High Level Group members and the members of the working group on instruments have stressed the importance of business collaboration for stimulating performance improvement in the business service sector.

While the importance of collaboration is widely acknowledged, until now the promotion of the importance of collaboration using any of the instruments considered by the working group has been ad hoc. The need for mutual

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<sup>66</sup> [http://www.cips.org/Documents/Membership/PPT1098\\_magic\\_and\\_logic.pdf](http://www.cips.org/Documents/Membership/PPT1098_magic_and_logic.pdf)

understanding of company cultures, the possible misalignment of corporate goals and a disparity in organizational preparedness for partnership are potential pitfalls for even the most prepared organization.

Instruments such as standards<sup>67</sup> and market-based instruments such as certification can play a role in building confidence between supplier and client. An example of how standards can support the development of collaborative relationships is British Standard BS 11000-1:2010 “Collaborative business relationships – a framework specification”. This standard provides a framework for developing collaborative relationships without specifying the precise forms these relationships should take. It can be subject to certification if the company or the market require it. Case study 2 in Annex 2 on the UK rail industry highlights the benefits of the standard and certification to it.

Certification is a market-based instrument that can also play a role in building trust and confidence. According to a study carried out in 2010 in relation to Nordic service providers’ experiences and views on certification<sup>68</sup>, the main reason to use certification is to improve service quality for customers and thus increase confidence in the service provided. A second finding of the study is that the need for certification increases in cases of asymmetric information.. In the case of some specific services, where the service has a strategic importance for the company or where errors may considerably affect the organization, certification may be a factor in increasing the confidence of the customer.

Nevertheless, the study also concluded that certification tends to be financially more challenging for smaller service providers. This can be a problem since smaller service providers are in greater need of tools such as certification to promote quality and client trust than larger providers which have a well-established brand or reputation. As the majority of enterprises in business services are SMEs, this issue of the cost of certification as a potential barrier needs to be taken into account in any strategy to use market-based instruments relying on certification.

### 3.1.3 Outsourcing

There has been rapid development in recent years in business services outsourcing, with outsourced services being increasingly close and integrated with an organization’s core business. The quality of the outsourced service becomes an increasingly critical factor in the success of companies and public authorities that use this approach.

CEN carried out two feasibility studies on standardization in the areas of outsourcing and IT outsourcing in 2007 and 2008 within the framework of

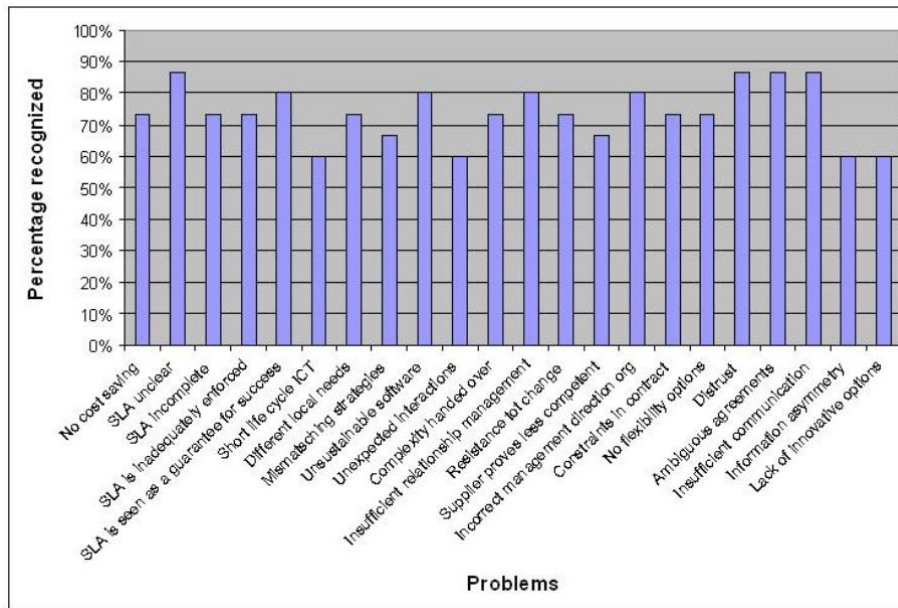
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<sup>67</sup> K. BLIND A Taxonomy of Standards in the Service Sector:Theoretical Discussion and Empirical Test, The Service Industries Journal, Vol.26, No.4, June 2006, pp. 397–420.

<sup>68</sup> Nordic Innovation Centre, Nordic service providers’ experiences and views on certification as a business tool, August 2010, [www.nordicinnovation.org/Global/Publications/Reports/2010/20101020%20Nordic%20service%20providers%20on%20certification%20-%20Main%20report.pdf](http://www.nordicinnovation.org/Global/Publications/Reports/2010/20101020%20Nordic%20service%20providers%20on%20certification%20-%20Main%20report.pdf)

mandate M/371 covering services. The problems that were identified were found mostly in the IT outsourcing study concerned contracting, service level agreements and distrust and insufficient communication (see graphic below). The study shows the importance of standards and related instruments in helping companies to manage their relationships with other business partners and setting clear contractual agreements. The study concluded that the development of standards in this field could be of help in overcoming these difficulties. As a result an ISO standard (ISO/DIS 37500), providing guidance on outsourcing processes, is currently under development.

Figure 1. Issues identified in IT outsourcing



Source: <http://ftp.cen.eu/CEN/Sectors/List/Services/feasibilitystudies/Project9ITOutsourcingMarch2009.pdf>

### 3.1.4 Conclusions on supplier-client relationships

The working group concluded from the different examples that the use of standards, informative and market-based instruments can be an effective tool for performance improvement in business services in improving supplier-client relationships. This performance improvement derives primarily from the reduction of information asymmetry and increased confidence between the supplier and the client.

Informative instruments such as business guidance are useful tools, and additional benefits can be achieved when both sides of the client-supplier relationship are involved in developing this guidance. Full and transparent stakeholder engagement and consensus-building provided by a standard that has been coordinated by an independent third-party organization can bring added value and increase confidence. Compliance with a standard can be demonstrated by certification and this gives assurance to the client that the standard has been met. However, since certification can often impose a financial burden on SMEs, the working group concluded that the use of voluntary standards and

informative instruments would be most effective to address performance issues around supplier-client relationships.

Most importantly, it was noted by the working group that there is already a range of such instruments used by the market, but at present these are typically found only at national level (see ‘The geographic dimension’ in 3.4 below). Not all market players are aware of the benefits of using existing instruments and the added value that could come from the use of European standards in this area. It was agreed that intervention by the public authorities at a European level could encourage the greater use of these instruments and extend their benefits across the single market. A vision for how this might be achieved is set out in the future scenario section (section 5) below.

Recommendation: The development of European rather than national standards should be encouraged where there is a clear market demand. Where the European market is not well developed, the European Commission may envisage mandates to help the development of the European market for services.

### **3.2 Improving business performance: increased efficiency in internal business operations**

Instruments can assist service companies to improve their business performance through upgrading their internal operations. Being able to measure their performance and compare it with other organizations in the same sector is essential for the improvement of their efficiency and internal business operations.

People are critical to the success of business service companies. Hiring and retaining staff is fundamental to business performance. Attracting and motivating staff is made easier when the company provides quality services, has a good reputation, offers good working conditions and, increasingly, acts in a socially responsible way.

#### **3.2.1 Measuring performance and increasing efficiency**

According to the results of a 2012 Technopolis study<sup>69</sup> on the implementation of service standards and their impact on service providers and users, the most widespread benefits of using service standards relate to the improvement to service quality and an improved ability to demonstrate service quality to customers.

Informative instruments such as key performance indicators can offer companies simple and unambiguous ways of measuring performance allowing for comparability across a specific sector, driving improvements and increasing competitiveness. Key performance indicators also help companies to make informed business decisions. This has also been a significant driver for the

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<sup>69</sup> Technopolis, Study on the implementation of service standards and their impact on service providers and users, 24 January 2012, <ftp://ftp.cen.eu/CEN/Sectors/List/Services/Technopolis20120124.pdf>

development of standards, with benefits to the improved performance of companies as is shown in the case study from the area of maintenance<sup>70</sup> (Case study 3 in Annex 2).

Standards can also help to disseminate best practices and enable companies to reach their potential, become more efficient and increase their performance. This can be seen in the area of project management (Case study 4 in Annex 2). The relevance of instruments and their application to major infrastructure developments has also been recognized. Here, significant cost savings can be made if the right instruments are considered and interpreted consistently at the right time in project design and planning. A major infrastructure project in UK within the railway sector with a total budget of over £40bn, has commissioned a number of studies to investigate means of driving greater efficiency and cost savings. One of these projects concerns the efficient application of design codes and standards. The company believes that securing a consistent interpretation of the necessary standards and codes used for the project, such as the European standards that form the Eurocodes, could bring significant cost and efficiency gains. These savings would come through:

- Clearer design specifications that would avoid any over-engineering on unnecessary risk mitigation grounds;
- Ensuring no re-design, for example on the grounds of conflicting compliance requirements due to alternative interpretations of instruments expressed at a late stage.

The company is envisaging a code of interpretation for engineers, contractors, designers and public authorities that will bring a consistent interpretation of the relevant standards across all stakeholder groups. This could also faceplate innovation and open up competition across Europe as unnecessary local interpretations could also be removed. The company is working with British Standards Institute and stakeholders to see which type of instrument (standard/market-based) would be the most appropriate tool for this work.

### **3.2.2 Improving processes and quality in service provision**

One of the main drivers for the development and application of standards in the services area is the desire to improve the quality of service provision.

Some service companies have decided to implement one or more management systems standards, often with the possibility of certification, to enable businesses to better control their internal processes. The services sector has more than 30% of the ISO 9001 (quality management) certificates worldwide. Other management system standards include ISO 14001 (environment), OHSAS 18001 (health and safety), ISO 27001 (information security) or the future ISO 55000 (asset management) and BS 10500 (anti-bribery). The engineering services case study (Case study 5 in Annex 2) shows how one business can adopt

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<sup>70</sup> [http://ftp.cen.eu/CEN/Sectors/List/Services/Case%20studies/Case%20Study\\_Maintenance.pdf](http://ftp.cen.eu/CEN/Sectors/List/Services/Case%20studies/Case%20Study_Maintenance.pdf)



and integrate a number of process standards, leading to a number of significant business benefits.

Some sectors have also developed standards to provide specific quality requirements for their services or to provide guidance on the application of ISO 9001 to their specific sector. Examples include EN 12507 “Transportation services- Guidance notes on the application of EN ISO 9001:2000 to the road transportation, storage, distribution and railway goods industries” and EN 15038 “Translation services- service requirements”. The latter focuses on quality in the translation process and one of the key issues covered by the standard is quality assurance. This has led to many benefits for the companies implementing it.<sup>71</sup>

### **3.2.3 Better working practices**

Instruments can assist with the take-up of better working practices by business service companies and thus aid their improved performance. Annex 2 includes a case study (Case study 6) showing how one business has transformed its performance in the area of sustainability through the use of an internal code.

Good working practices are contained within formal standards also. The new generation of framework standards, setting values and principles for better behaviour in the workplace, is now helping leading businesses improve their performance through the use of codes and guidance that capture behavioural and reputational issues relevant to senior management and company boards. Examples of this new type of voluntary standard that is changing industry performance include standards on governance (BS 13500 Code of practice for organizational governance), as well as on social responsibility (ISO 26000), sustainable methods of working (BS 8900, 8903, 8905), risk management (ISO 31000) and Project Management (ISO 21500).

### **3.2.4 Enhancing business reputation**

The Ecorys study on business services noted that building business reputation through project references and long-term business relations can provide clients with information that helps them assess the reliability of a service provider (client-supplier relationships, 3.1 above). The lack of available references from clients is mentioned in the Ecorys report as a possible entry barrier (entry/exit barriers, 3.4 below).

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<sup>71</sup>[ftp://ftp.cen.eu/CEN/Sectors/List/Services/Case%20studies/CEN%20Case%20Study\\_Translation%20Services.pdf](ftp://ftp.cen.eu/CEN/Sectors/List/Services/Case%20studies/CEN%20Case%20Study_Translation%20Services.pdf)

There has been a proliferation of business award schemes at European and national level, recognizing the advantages that good reputation brings. There has also been increased use of '360 degree' feedback techniques to stimulate better management performance. In the UK, recognition by schemes such as Management Today's 'Britain's Most Admired Companies' or the Sunday Times' '100 Best Companies' has a significant effect on businesses' reputation, as well as on their ability to recruit and retain quality employees.

Similar awards have also been created at European level, e.g. European Business Awards the European CSR (Corporate Social Responsibility) Award Scheme or Top Employers in Europe.

Many of these schemes are based on market-based instruments mainly private codes or standards.

### **3.2.5 Conclusions on increased efficiency in internal business operations**

The working group concluded that instruments can enable business service companies to attain performance improvements in a number of ways. This can be through the use of standards, with or without certification as the company and the supply chain require (noting the comment in 3.2 above about certification and SMEs). Standards can benchmark 'what good looks like' for a service, a sector or for one facet of a service. They can also help to establish key performance indicators and help business to measure and improve their performance.

The use of codes, that may be embodied in standards, can enable a business to obtain greater control over its internal processes and thus to drive up quality and gain the confidence of clients. The example of an internal sustainability code driving performance improvement could be replicated across a sector through the use of a third-party instrument, such as a framework standard.

Many of these instruments are already used across Europe – this can be seen for example for the management systems standards that have been adopted as international and European standards (e.g. ISO 9001 and ISO 14001). Nevertheless, the potential remains for businesses to come together to develop and subsequently implement other frameworks of codes and guidance that can improve business performance and help them measure and improve their performance. Some of these frameworks might already exist at national or international level; others are still to be developed. In either case, a European driver could make a significant difference to their adoption and thus bring the maximum benefit to the European single market for services and improve the efficiency and competitiveness of European companies.

This is considered further in the future scenario section below (5).

Recommendation: The development and use of service standards at European level including guidelines, codes of practice, principles, processes and frameworks on how to measure and increase performance should be supported.

This could lead to increased efficiency, business performance and competitiveness of the business services sector in Europe.

### **3.3 Overcoming entry and exit barriers**

#### **3.3.1 The geographic dimension**

The impact and effect of instruments can differ depending on whether they are applied at national or European and/or international level. The existence of different legal requirements at national level can create barriers to cross-border trade and/or generate additional costs for businesses. Standards and market-based instruments such as certification cannot overcome legal barriers but have the potential to help improve business performance and service quality and facilitate cross-border trade in services, particularly when carried out at European and/or international level. However, when carried out at national level, standardization and certification of services can introduce barriers to cross-border trade due to different or competing requirements, causing confusion, introducing unnecessary costs and creating barriers to entry for companies aiming at trading their services in different countries.

Standardization at European level should therefore be preferred to national standardization for services in the case of services with a cross-border dimension.

#### **3.3.2 Standards**

European standards in particular can improve the functioning of the internal market as they are implemented identically by each CEN and CENELEC member. The principles of standstill and withdrawal of conflicting national standards, contained in the CEN/CENELEC Internal Regulations and also in the standardization regulation 1025/2012 (for mandated work), protect against any 'piling' of standards, whereby national standards would duplicate European standards. The Regulation (Article 4(3)) also provides a mechanism for dealing with new national standards that negatively impact the internal market.

In exceptional cases, however, when a specific national regulation makes a direct reference to a specific national standard, conflicting European and national standards could co-exist. Standards bodies cannot modify national legislation but they need to monitor the development of national and European standards situation and ensure that their mechanisms of governance remain adequate to guarantee the respect of the European standardization principles and prevent such 'piling'.

The nature of standards development must be considered carefully when looking at the geographic dimension. Standards are developed when communities of experts perceive a need for a common solution to a business issue. If there is no community of expertise that either perceives a problem or is prepared to work together for a solution, then there will be no standard developed. For a European standard to be successful, it is necessary to have adequate stakeholder buy-in or a truly Europe-wide market. These elements must be considered prior to

initiating the work and there needs to be a focus on the part of the driver for the standard, which might be a National Standards Body responding to industry, a specific business sector or the European Commission, on getting the standard used. This focus should include factors like the relationship between the standard and regulation, the use of the standard in the supply chain, the feasibility of establishing certification based on the standard and the demand from industry for a standard.

It has often been the case that ideas for new standards have come from the national level and this has been used as a pilot. When the standard has been successful, it has been taken up at European or international level. This has proved a useful model for determining in advance that there is industry support, although further work to ensure the market relevance of a potential European standard would still be required. On the other hand, if there is evidence that the European market in a specific service sector does not develop properly due to segmentation of national markets, the European Commission can support the development of a European standard through a mandate.

An example of national standards that have been developed before being proposed at European level can be found in the area of management consultancy services, where a series of Italian standards already existed (UNI 10771, 11067 and 11166) and served as the basis for the development of the current European standard on management consultancy services, which is now the basis for the development of an International standard. Another example is the European standard on expertise services currently under development and proposed by France, which already has a French national standard (NF X 50-110) on the subject.

### **3.3.3 Certification**

According to the 2010 study on the experiences and views of Nordic service providers on certification as a business tool mentioned above at 3.1.2, differing national certification schemes work as non-tariff barriers and [European or]international harmonized certification schemes are preferred to national schemes by [European or] internationally oriented service providers. Compliance with unique national certification schemes involves extra costs for service providers who want to expand their activity into new markets. The study recommended that for those service sectors for which certification is a relevant measure, public authorities should take coordinated measures to avoid the proliferation of national schemes and promote international arrangements for conformity assessment.

One of the areas where the proportion of schemes linked to national standards is the highest is security and emergency services<sup>72</sup>. Electronic security services seems to be a specific area where the existing of different instruments developed at national level such as regulation, certification and standards create specific

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<sup>72</sup> See Study on services certification linked to service standards at national level in Europe written by Technopolis Group for Nordic Innovation, March 2012.

problems for companies willing to do business across borders and enter new markets (see Case study 7 in Annex 2).

### **3.3.4 Mutual recognition**

National regulation, national standards and national certification schemes can all potentially constitute barriers to cross-border service provision. Essential to avoiding barriers to cross-border service provision is the *mutual recognition* of certificates based on European standards. The European standardization system ensures that European standards are implemented identically across all the members of CEN and CENELEC and the use of European standards as the basis for certification should help the mutual recognition of certificates. The European 'Keymark' (CEN/CENELEC certification mark denoting compliance with European standards) has so far not been used in the area of services. Nevertheless, in those service areas where certification may be relevant the feasibility of using the Keymark could be explored.

Moreover, there already exists the capacity for mutual recognition of certificates through the use of accredited certification; this can avoid the costs of re-certification. Regulation 765/2008 lays down rules for national accreditation bodies in the Member States and this is supported by a series of European and international standards that define the competence of certification, inspection and testing bodies involved in conformity assessment.

The working group noted that many of the issues of mutual recognition do not come from standards or certification, but rather from additional national rules, i.e. regulation. The working group considered that it was within the remit of the internal market group to consider how best to make recommendations about this issue, but nevertheless agreed that it is a significant enough issue to be mentioned.

### **3.3.5 Reducing regulatory burdens and facilitating mutual recognition**

The adoption and implementation of the Services Directive (2006/123) considerably helped in reducing the regulatory burdens faced by service providers when doing business in another European country. The creation of Points of Single Contact, which can partly be seen as informative instruments established by the Directive in order to support its implementation, has also helped to reduce the administrative burdens in this area. Nevertheless, it seems that in some sectors, such as the area of electronic security services mentioned above, business providers face obstacles when trying to operate cross-border and therefore there may be a need to explore the use of regulatory and other instruments in order to improve the situation.

There are also examples of public authorities using informative instruments not only to facilitate compliance with regulatory requirements but also as tools to stimulate business growth. Some examples of these kind of campaigns include

the UK government's 'Great Business' campaign<sup>73</sup> and the Welsh Government's social media marketing campaign for start-ups<sup>74</sup>.

Regulatory instruments can be used in conjunction with other instruments to reduce regulatory burdens placed on businesses. Standards, for example, can provide specific means to comply with legal requirements. This is the case in the area of postal services where the European Commission gave a mandate to the European Standardization Organizations to develop harmonized standards (see Case study 8 in Annex 2).

The mandate to the European Standardization Organizations is a regulatory instrument that is a significant tool for the European Commission as it forms part of the overall framework of European standardization through Regulation 1025/2012 and defines the relationship between the policy or regulation and the standards that will support it. It enables the Commission to influence standards work at European level, in some instances through bringing national or international standards to European level, at which point they will be adopted as a single standard across the EU. The market relevance of the standards is still assured by the acceptance of the mandate by the European Standardization Organizations and the consensus-building process coordinated by the standardizers. The European Commission can also issue mandates for non-harmonized standards, if it believes that the European market has significant potential.

The report to the European Commission of EXPRESS<sup>75</sup> encouraged the development of standards to support service growth and competitiveness, especially for quality and safety of services. This will be considered during the work on Commission mandate M/517 that will define priorities for the development of horizontal service standards.

CEN's BT/WG 214 Strategic Advisory Group on Services is currently mapping existing sector specific service standards at national level. The European Commission could use this work to define possible sectors that should be a priority for developing sector specific European standards and issue mandates where necessary.

There are also other examples of the interrelation between regulations and standards in the area of public procurement. Public authorities can request compliance with standards, for example, in order to facilitate procurement. One UK example is the use of PAS 91 Construction prequalification questionnaires, where the standard enables companies to bid for tenders through a simplified process, in line with public procurement rules.

Finally, the lack of recognition of professional qualifications may also represent in some case an entry barrier to service providers. Directive 2005/36/EC on the

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<sup>73</sup> See <http://www.greatbusiness.gov.uk/>

<sup>74</sup> <http://wales.gov.uk/newsroom/businessandconomy/2013/7816670/?lang=en>

<sup>75</sup> Report of the Expert Panel for the review of the European standardization system. Standardization for a competitive and innovative Europe: a vision for 2020.

recognition of professional qualifications, currently under review, aims at facilitating the recognition of qualification in other members states and the mobility of professionals. Informative instruments (e.g. proposed European professional card and the engineering card developed by FEANI, detailed in Case study 9 in Annex 2) or standards dealing with qualification of personnel (e.g. prEN 15628 Maintenance-Qualification of maintenance personnel) can complement and support the objectives of the Directive.

### 3.3.6 Conclusions on entry and exit barriers

Entry and exit barriers are highly relevant to the overall recommendations of the instruments working group as they deal with the potential difficulties in using instruments at national level and the positive and negative impacts that this can have on the single market for services. National regulatory instruments, standards and certification can all constitute barriers to cross-border service provision. Action at European level and mutual recognition can counter this.

It is important to consider the drivers for the use of instruments in this circumstance. Communities of experts create standards and the market (e.g. supply chain/procurement) creates a demand for extra assurance through certification. Unless there is a pre-existing cross-border European market for the services, then the driver to create the instruments will usually be national. The European Commission has at its disposal regulatory instruments to counter this to some extent. It can, for example, issue mandates if it believes that there is a significant market potential and that national standards can to some extent inhibit cross-border trade. That having been said, the working group noted the importance of the development of instruments at national level as pilots for European adoption. The section on a future scenario (5) recognizes this opportunity.

The issue of mutual recognition is also important. In some cases, this can avoid the need for difficult and time-consuming harmonization. The working group noted the significance of mutual recognition of accredited certification, based on European standards, and felt that national rules constitute a major impediment to mutual recognition, as was seen in the electronic security services sector. This reflects the EXPRESS report recommendation on substituting national legislation and accreditation systems for services with systems based on European standards where appropriate. This issue is also considered in the future scenario (5).

Recommendation: Standardization should be in particular stimulated at the European level in order to avoid barriers and ensure the development of a truly European single market. Work on a European standard should be proposed when two or more National Standardization Bodies are working in the same area, or if two national standards on the same subject already exist, provided there is the necessary market demand. The European Commission could consider the use of standards to support legislation where appropriate and consider giving standardization mandates where there is a market need/potential and the development of standards supports European policy.

Where certification schemes for European standards exist, mutual recognition of these schemes should be ensured in order to avoid the costs of re-certification.

Standardization bodies need to continue to ensure the monitoring of national and European standards and that their mechanisms of governance remain adequate to guarantee the respect of the European standardization principles and more specifically the withdrawal of conflicting national standards.

### 3.4 Innovation

Standards have evolved significantly in the last 100 years. Starting with technical specifications of products, we have seen innovation in standards development. Process standards have enabled business across the world to improve the quality and reliability of their products and services as well as embedding other qualities such as environmental management. A new generation of standards is under development, framework standards that embody best practice consensus knowledge in codes and guidance. These standards enable an organization to meet its full potential in areas such as risk management, corporate governance and organizational development. All of these types of standards are currently being offered by standards bodies across Europe, giving opportunities to business service companies to select the type of standard that best suits their sector.

Standards themselves can stimulate innovation in the entire business chain. A clear example of this comes from the construction sector in the UK where a standard on Business Information Modelling (BIM) is enabling business service companies to use innovative methods while ensuring interoperability (see Case study 10 in Annex 2). As from 2016, any company wanting to work with the British government should use BIM. This is an example of how public authorities can promote substantial change in practices.

There are also examples of where European standards help the uptake of innovative services or new service concepts in the market. One such example of this is the European Standard EN 15900 “Energy efficiency services-definitions and requirements”. This standard was developed in order to provide guidance to both customers and providers of energy efficiency services on the actual content of the service and to contribute to the development of a market for these services.

A market-based instrument can be a driver for innovation. The construction and support services company in case study 6 (Annex 2) has used its sustainability code as a lever, recognizing that sustainability can open up thinking and promote new ways of working. One of the project KPIs is a measure of innovation.

The working group considered that standards can play an important role in stimulating innovation in procurement. In a business relationship, both suppliers and clients are bound by their contract; it is therefore important to ensure that the contract itself permits and indeed should stimulate innovation in service delivery. In this respect, standards can aid companies in the procurement stage,



by helping them express their needs in terms of performance requirements, rather than inputs. An example of this would be a cleaning contract that required a building to be clean and had a number of key performance indicators (i.e. outputs) as opposed to one that contained the number of times a certain part of the building should be visited and cleaned (i.e. inputs). The former can enable innovation in service delivery; the latter will inhibit innovation.

According to the Ecorys study, carefully structured procurement could in general foster innovation. Nevertheless, one of the problems faced in this respect is the lack of objective indicators that would allow companies or public authorities to assess innovative concepts. Standards for procurement could provide guidance to help private and public procurers shift the focus from price to issues such as energy efficiency, sustainability or durability of products. In the UK, standard BS 8903 'Principles and framework for procuring sustainably-Guide' was developed in order to provide guidance to help private companies and the public sector on how to implement sustainable procurement. The idea of creating guidance, through standards if the market needs it, on how to assess and promote innovation within procurement could also be developed.

### **3.4.1 Conclusions on innovation**

Innovation in business services can be stimulated by the use of instruments, provided the contract is written in a way that enables this to happen. Public authorities can be a catalyst for this service innovation by recognizing the potential of instruments and requiring their use; this is the case also for procurement by private entities.

Recommendation: Within the framework of Mandate 517 on horizontal service standards, CEN should analyse the feasibility of a European standard for procurement, addressing issues such as terminology, information requirements or procurement criteria.

### **3.5 Communication and awareness on the different instruments**

One of the issues highlighted during the discussions between the working group participants was the need to clarify some of the misconceptions around concepts such as standards and regulations and to raise awareness in relation to the possibilities offered by the different instruments.

This confusion over the role of different instruments was confirmed by the Technopolis study on the implementation of service standards and their impact on service providers and users. According to the study, one of the most widespread barriers to the development and use of service standards is a lack of understanding of the general and specific benefits that service standards can provide. This is especially the case with SMEs. As a result, one of the main recommendations in relation to the uptake and use of standards was the need to promote the potential benefits and advantages of using standards to both service providers and users. This information should seek to help raise awareness and understanding more widely of the need for, applicability and potential value of standards to businesses, regulators and public procurers.

SMEs need to understand better the tools available and their benefits as a driver to get involved in cross-border trade. This can come from public authorities (European and Member State), but also from standards bodies and trade associations. National level work is necessary to prevent resource and language issues. This reflects the recommendations of the EXPRESS report on supporting European Standards Organizations efforts to demonstrate the benefits of standards and to collect case studies.

SMEs lack the time and financial resources to participate in the development of standards and related instruments and sometimes the technical capability to determine which instruments are the most useful for them. Their representative organizations, therefore, play a key role in the dissemination of the use of these instruments.

The participants in the Technopolis study also highlighted the need to improve communication and information on standards that are currently available and also to tackle some misconceptions regarding the actual content of service standards. This information is available through the websites of the different standards bodies at European and national level. There are also examples of activities co-organised by National Standards Bodies and business organizations in order to promote awareness and the use of standards. An example of these activities is the series of national workshops organised at national level (e.g. Portugal and Belgium) in relation to the European Standard EN 15221 on Facility Management.

The working group felt that the integration of some of this information into other platforms used by service providers such as national business information portals, was an interesting proposition

### **3.5.1 Conclusions on communication and awareness on the different instruments**

There is evidence of confusion in the market around the meaning of, and interrelation between important different types instruments such as regulatory instruments and standards. The working group agreed that in order to facilitate the uptake of standards and other instruments in the area of services a targeted communication project campaign is necessary in order to inform service users and providers, primarily SMEs and their representative organizations, regarding the existence and benefits of the different instruments. Standardization bodies and Member States should work together to provide information on standards and related instruments to businesses. The uptake and use of standards in the services sector would also be facilitated by a better understanding by businesses of how standardization can be used in the area of services and its potential benefits.

Recommendation: Standardization bodies and Member States should work together to provide information on existing standards and other instruments to businesses. An awareness campaign should be delivered that would facilitate the

uptake of European standards in the area of services explaining how European standardization can be used in this field and its potential benefits. This campaign should include European Commission involvement and support.

#### **4. Summary of findings in relation to instruments**

Table 1 below highlights where different instruments can stimulate business service companies' performance, based on the key issues identified above.

There is a role for standards, regulatory instruments (mainly mandates), market-based and informative instruments in the improvement of supplier client relationships. Informative instruments in the form of guidance exist, mainly at national level. Market-based instruments such as certification by a third independent party can help to build confidence (subject to the resolution of any issues around the cost of certification noted in 3.2 above).

Using standards involves both service providers and users in a transparent consensus-based process coordinated by independent third party organizations. The legitimacy of the process brings confidence to users of the end product. In particular, frameworks of codes and guidance enable better performance of business service companies.

There is also a role for standards, market-based and informative instruments in relation to increased efficiency in internal business operations. Standards can provide for example tools to improve internal processes, set minimum quality criteria or establish a series of indicators that can help to compare performance with other organizations. Market-based instruments such as certification can play a role where the market demands it. One of the issues to be considered regarding certification is the costs associated to it. Awards (informative instruments) have a role regarding enhancing business reputation.

All types of instruments have a role in overcoming entry and exit barriers. If the different regulatory, standards and market-based instruments are adopted and if mutual recognition is ensured, they will facilitate cross-border trade. The different instruments can also complement each other, leaving essential requirements to be covered by European legislation and supported by European standards and sometimes by certification schemes. Informative instruments are also important (e.g. points of single contact) since finding information is a key challenge for companies wanting to provide services cross-border.

Regarding innovation, the main role is for market-based instruments (since contracts between companies should also permit innovation) and also standards in setting common criteria, providing guidance or indicators on how to evaluate innovative ideas. Uptake would depend on the market.

The lack of awareness of standards and related instruments among stakeholders is felt by the working group to be the most significant barrier. Stakeholders do not know these instruments exist or which benefits could come from their use. Raising awareness about the different instruments is therefore crucial.

*Table 1: Strengths and weaknesses of standards and related instruments*

	Regulatory instruments	Standards	Market-based instruments	Informative instruments
<b>Supplier client relationships</b>				
Improving contractual relationships	✓	✓✓	-	✓✓
Building confidence and collaboration between supplier and client	✓	✓✓	✓✓	✓
Outsourcing	✓	✓✓	✓	-
<b>Increased efficiency in internal business operations</b>				
Measuring performance and increasing efficiency	-	✓✓	-	✓
Quality in service provision	-	✓✓	✓✓	-
Take-up of good working practices	-	✓✓	✓✓	✓
Enhancing business reputation	-	✓✓	✓✓	✓
<b>Overcoming entry and exist barriers</b>				
Reducing regulatory burdens and facilitating mutual recognition	✓✓	✓✓	✓✓	✓
<b>Innovation</b>				
Innovation	✓	✓✓	✓✓	-
<b>Awareness on the different instruments</b>				
Awareness raising	✓	-	-	✓✓

- = no impact

✓ = some impact

✓✓ = strong impact

## 5. Exploring future scenarios

The working group developed a single possible future scenario where we see business service companies taking full advantage of the instruments available and both policymakers and the developers of instruments (European Commission, Member States' public authorities, business service providers and purchasers across Europe, national and European standardizers) providing the framework conditions for this to happen.

In this scenario, the instruments necessary for service business transformation have been rolled out across Europe and mechanisms exist to create the drivers for new instruments to be disseminated efficiently and at the right time.

The working group's future scenario is as follows:

- Business service companies are aware of the available business tools that will enable their performance improvement, including standards and related instruments. SMEs and their representative organizations in particular have a much improved understanding of the role of instruments and see the opportunities that they can bring. The European Commission, public authorities in Member States and the standards organizations at national and European level will all take part in continuing efforts to publicize the use of instruments by business services companies.
- Key instruments are in use by business service companies across Europe, facilitating cross-border trade in services and better performance:
  - Informative instruments like industry-wide guidance, brought into formal European standards where the market needs it, facilitate supplier-client relationships.
  - Business service companies are using codes and guidance, embodied in European standards, to transform their business practices in terms of internal operations, such as quality of services, efficiency and good working practices.
  - Standards are developed where communities of experts exist and are brought to European level where appropriate. This is achieved:
    1. Through specific business sector requests to ensure free circulation of services in the Internal market, supported by European market relevance .
    2. Through the use of European Commission mandates to the European Standards Organizations.
    3. Through national Standards Organizations identifying and proposing national standards to be adopted as European

and with the market relevance of such a standard at European level having been established.

- European legislation and policies make use of standards and related instruments wherever appropriate as delivery mechanisms.
- A suite of horizontal service standards has been implemented at European level that cover the principles and delivery of common elements of service provision.
- Accredited certification is recognized across Europe without additional checks.
- Any additional burden from national legislation is minimized and Member States have an open dialogue on mutual recognition of national requirements.

## 6. Policy options and recommendations

In order to enable business service companies to make the best use of the opportunities and for the future scenario in Section 5 to be realized, the instruments working group proposes three policy options, with associated recommendations.

### Policy option 1:

- The instruments working group proposes the policy objective of rolling out across Europe the use of instruments that maximize opportunities for the transformation of the performance of business service companies. Instruments can bring this improvement particularly in the areas of client-supplier relationships, internal business operations, entry and exit barriers and innovation.

### Recommendation 1:

- To meet this objective, **the instruments WG recommends that the creation of European rather than national standards should be encouraged.** This would enable businesses to improve performance and become more involved in cross-border provision of services and would restrict any fragmentation of the internal market for services through the possible proliferation of national standards.
- Creating European rather than national standards will be achieved by a number of actions. The European Commission can use standards to support legislation and policy in the area of business services as well as giving mandates to the European Standardization Organizations where there is market need, work on the same area in several Member States and where the development of standards supports European policy. This could include mandates for the adoption at European level of standards that have a proven beneficial effect on the market, such

as successful national standards.. This will also link to the work that will be carried out by CEN in relation to Phase 1 of mandate M/517 on horizontal service standards where the feasibility of developing horizontal service standards will be looked at and possible priorities will be defined.

- CEN-CENELEC Management Centre will monitor the development of national standards and encourage European work where two or more National Standards Bodies are working on the same issue and there is stakeholder support. CEN and CENELEC should continue to ensure the monitoring of national and European standards and that their mechanisms of governance remain adequate to guarantee the respect of the European standardization principles and more specifically the withdrawal of national standards in conflict with European ones.
- The creation of European standards needs to be subject to clearly expressed market demand across the EU and consideration of how the standard will have a positive effect on the European internal market.
- This work should not prevent NSBs from developing standards to meet the needs of the market, responding to their communities of experts, but should enable the good practices developed through national pilots to be brought to the correct (European or international) level for the market.

#### **Policy option 2:**

- The instruments working group proposes the policy objective of assisting business service providers and users, in particular SMEs and their representative organizations, to understand better the range of instruments available and to access them more effectively.

#### **Recommendation 2:**

- To meet this objective, the instruments WG **recommends a targeted communication project/campaign from the European Commission, Member States, CEN/CENELEC and National Standards Bodies to service users and providers, primarily SMEs and their representative organizations, regarding the existence and benefits of the different instruments.** These instruments would include **different** tools such as policy guidance, strategies and mandates to the European Standardization Organizations, specifications, codes, guidance and industry codes of practice.
- This informative instrument would include organized outreach work at national level and the collection of case studies that demonstrate the value of instruments. It would also include work to ensure that the nature and use of the instruments are well understood.

- Standardization bodies and Member States should work together in order to provide information on national and European standards to businesses.

### **Policy option 3**

- The instruments working group proposes the policy objective of ensuring mutual recognition and further harmonisation where necessary across Europe in business service sectors. This would prevent additional costs for businesses and facilitate cross-border trade in services and thus enable the realization of the internal market for services.

### **Recommendation 3:**

- To meet this objective, the instruments working group **recommends ensuring the unrestricted provision of services across national boundaries within the EU through the mutual recognition of certification schemes** based on European standards (where they exist), and through minimizing barriers from national legislation.
- Mutual recognition is an important principle. Member States should recognize the legitimate provision of services across borders without placing additional legislative requirements on them and should open dialogues to see how this could be best achieved. However, detailed proposals regarding legislative barriers are beyond the scope of the instruments working group. The instruments working group would support initiatives in this regard that would enable the removal of barriers to trade in services. National certification schemes based on European standards should be subject to accreditation by the recognized accreditation bodies of the Member States, which could facilitate mutual recognition of certificates. A pan-European certification scheme is available (Keymark) and should be used where appropriate.



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## Annex 3.1 – Glossary of terms

### Conformity assessment

Conformity assessment is the demonstration that specified requirements relating to a product, service, process, system, person, or body are fulfilled<sup>76</sup>. Typical examples of conformity assessment activities include testing, inspection, suppliers' declarations of conformity and certification. The assessment of conformity is usually, although not always, based upon 'formal' standards or regulations with which the product, process, service, etc. is claimed to comply.

A series of standards containing requirements on conformity assessment bodies and those who deliver conformity assessment services has been developed at international and European level. Conformity assessment requirements also form part of the EU's New Legislative Framework (formerly 'Global Approach').

### First, second and third party conformity assessment

Conformity assessment can be carried out by first, second or third parties<sup>77</sup>:

- First party: the person or organization that provides the product or service which is being assessed (manufacturer or service provider).
- Second party: a person or organization that has an interest in the product or service (purchaser and/or user).
- Third party: a person or body that is independent of the person or organization that provides the product or service, and of the interests of the user of the product or service.

### Certification

Certification is a procedure by which an independent third party gives written assurance that a product, process or service conforms to specified requirements. Certification can take several forms, including primarily:

- Product/service certification – certification that a product or service meets specific requirements. These could be regulatory requirements (the work of a Notified Body under EU product legislation, enabling a manufacturer to affix the application of the CE marking), or voluntary certification, such as CEN's Keymark. This type of certification is far more common for products, although there are some service certification schemes.
- Management system certification – a certification of compliance with process standards, such as ISO 9001 (quality management) or ISO 14001 (environmental management).

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<sup>76</sup> Based on definition from *ISO/IEC 17000 Conformity assessment- Vocabulary and general principles*.

<sup>77</sup> Based on the ISO CASCO conformity assessment toolbox.

- Personnel certification – certifying the competence of personnel.

It is important to note the separation of standards and conformity assessment. As a matter of principle, ‘formal’ standards do not contain conformity assessment requirements.

## Accreditation

Accreditation is a third-party attestation related to a conformity assessment body conveying formal demonstration of its competence to carry out specific conformity assessment tasks<sup>78</sup>. An accreditation body (in the EU there is one per Member State in accordance with Regulation 765/2008<sup>79</sup>) determines the competence of conformity assessment bodies to carry out their tasks.

### 1. Co-regulation

When a co-regulatory approach is used, the public authorities set the top-level regulatory requirements and leave the market to define how these general principles should be met in terms of technical solutions. In some cases, the use of standards is referenced in regulation. In others, the market itself may decide to develop standards for its own guidance reflecting the technical state of the art and thus assist with compliance.

The co-regulatory approach has most notably been introduced in Europe with the ‘New Approach’ to technical harmonization, which is now referred to as the ‘New Legislative Framework’ (NLF). In the framework of the ‘New Approach’/NLF over 4,200 European standards are used to support European legislation (Directives and Regulations). The legislation sets essential requirements, most often for health and safety. Compliance with ‘harmonized’ standards (those requested by the European Commission for the purposes of the legislation) provides a presumption of conformity with the relevant essential requirements of the legislation.

In line with the World Trade Organisation’s Technical Barriers to Trade Agreement (WTO TBT Agreement), compliance with regulation is mandatory, but compliance with standards is voluntary. In the ‘New Approach’/NLF, manufacturers remain free to choose any technical solution that provides compliance with the essential requirements of the legislation. This means that compliance with standards remains voluntary. There are some co-regulatory examples where regulations have made standards mandatory (e.g. the EU Construction Products Regulation), but this is exceptional.

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<sup>78</sup> Based on definition from *ISO/IEC 17000 Conformity assessment- Vocabulary and general principles*.

<sup>79</sup> Regulation (EC) 765/2008 of the European Parliament and of the Council of 9 July 2008 setting out the requirements for accreditation and market surveillance relating to the marketing of products and repealing Regulation (EEC) No 339/93.

## **2. Earned recognition**

Companies that demonstrate compliance with standards may earn recognition from regulators, who trust them to comply with their legal obligations. This enables enforcement authorities to reduce the number of oversight and inspection visits.

'Earned recognition' can achieve the same or better outcomes as regulation, but on a voluntary basis. In this way, the cost of regulation is reduced for both the state and the regulated business.

## **3. Marks and labels**

Marks and labels are statements about the quality, environmental performance or other characteristics of a product or service. They are associated with the product/service in order to state that the product or service meets a specific standard or requirements established by legislation, a certification or labelling scheme. Labels can be mandatory, as is the case of the energy labelling of products or the CE-marking, which indicates compliance with relevant European legislation. Marks and labels can also be voluntary, such as the eco-label or the fair-trade label.

## **4. Regulation**

Regulation is a legal act that requires or prohibits certain behaviour. It is mandatory and leads to sanctions if it is breached. There are many different types of regulation. For example, at EU level there is primary legislation (Treaty of the European Union, Treaty on the Functioning of the European Union) and secondary legislation, with Council and Parliament acting together as the main legislators, most commonly through the ordinary legislative procedure (formerly co-decision). Secondary legislation can be:

- Regulations (directly applicable on Member States)
- Directives (to be implemented by Member States)
- Decisions (binding on those to whom it is addressed)

The Treaties also permit the Commission to make delegated acts and implemented acts where Council and Parliament authorize it through secondary legislation. Member States have similar types of legislation.

## **5. Self-regulation**

This is an approach undertaken by businesses that voluntarily agree to work in a certain way. Self-regulation can be used where there is a need to reassure markets on the conduct of business but where there is no desire by the public authorities for regulatory intervention. For example, an industry or profession might choose to develop and adopt its own code of practice promoting ethical conduct. Public authorities can encourage the use of standards/codes of

practice/guidance to deliver policy. Public authorities might also work with an industry/sector to develop a code of practice or other means of determining compliance that involves other parties in setting standards and authorizing the activity. Examples include:

- customer charters
- codes of conduct
- approved or recognised codes
- voluntary agreements
- standards ('formal', 'informal' or 'private')

Standards are a form of self-regulation but are characterized by a specific process. Standards developed in support of self-regulation can be supported by accredited conformity assessment (certification) if greater assurance of compliance is required.

## **6. Standardization**

Standardization is the process through which standards are developed. European standardization works on principles recognized by ISO and the WTO of transparency, openness, impartiality and consensus, effectiveness, relevance and coherence. It involves a series of formal procedures undertaken by independent organizations that ensure a broad, public consultation and the representation of the views of all interested stakeholders.

The system is based on the identical implementation across Europe of European standards, a requirement that national members do not work on subjects already covered by European standards ('standstill') and the withdrawal of conflicting standards. This sets European standardization apart from all other regions of the world.

The European standardization system for CEN and CENELEC works on the basis of the 'national delegation' principle, whereby the members bring national positions to European committee meetings where consensus is developed. This enables national interests to be taken into account locally and in the national language.

The robustness of the system in Europe means that the resulting standards have the authority to be used by industry and the legitimacy to be used as a tool for public policy purposes. European legislation (now Regulation 1025/2012<sup>80</sup>) governs the relationship between the public authorities and the European standardization system.

## **7. Mandates to the European Standardization Organizations**

Mandates to the European Standardization Organizations (ESOs) are the means by which the European Commission can request the European Standardization

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<sup>80</sup> Regulation 1025/2012 of the European Parliament and of the Council of 25 October 2012 on European standardisation.

Organizations to develop standards that support either European legislation or policies. Those mandates issued to the ESOs in order to support compliance with requirements in European legislation, such as in the case of the New Approach Directives, give rise to harmonized standards, compliance with which provides presumption of conformity with the relevant requirements of European legislation.

These mandates are in fact requests that can be accepted or refused by the ESOs (though in practice they are rarely refused). Mandates can request the development of standards (standardization mandates), request the development of a programme of standards (programming mandate) or request a study of the feasibility of developing standards in a certain field (study mandate). Mandates are developed through a consultation procedure with interested parties, culminating in a formal Member State consultation through the Committee on Standards. The acceptance of a mandate by the ESOs should ensure that the resulting standard remains market relevant.

## 8. Standards

Standards are an agreed way of doing something; they capture, for voluntary use, current good practice through trusted processes. They are a tool for business and industry that takes into account the needs of all relevant stakeholders. This tool is often relied upon by public authorities to support policy or legislation.

### Formal, informal and private standards

Standards are developed by many different types of organization and for different purposes. In this glossary, in using the term 'standards' we mean *formal standards*. These are developed through the 'formal' standardization system: national standards developed by National Standards Bodies<sup>81</sup>, European standards developed by the three ESOs and international standards developed by ISO and IEC. These can be full consensus standards, such as ENs, or other deliverables that are not standards but are nevertheless developed through consensus processes in the 'formal' system, like Technical Specifications, Technical Reports and CEN Workshop Agreements.

*Informal standards* refer to specifications developed by fora and consortia outside the 'formal' system, such as W3C, IETF and OASIS. Many of these organizations work in the ICT area where there are fewer 'formal' standards. The specifications developed by these organizations may have global reach and market acceptance, as well as robust procedures, and indeed Regulation 1025/2012 foresees a procedure whereby these specifications can be brought within the European public procurement regime as technical specifications.

*Private standards* are developed by organizations (trade associations, sector groups, companies etc) to meet their own needs and using their own process.

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<sup>81</sup> A list of National Standards Bodies members of CEN can be found at [www.cen.eu/cen/Members/Pages/default.aspx](http://www.cen.eu/cen/Members/Pages/default.aspx)

Only 'formal' standards have the recognition of being standards in terms of Regulation 1025/2012. This recognition comes from the legitimacy brought by the standardization process used to develop them.

### **'Harmonized' standards**

Standards that are requested by the European Commission ('mandated') for the purposes of supporting harmonizing legislation, mainly of the New Approach type. The references of a harmonized standard are published in the Official Journal of the EU, from which time compliance with the standard provides a presumption of conformity with the relevant legislation. There are over 4000 harmonized European standards.

### **Standards embody knowledge**

Standards provide trusted knowledge for business and industry (as well as other stakeholders), specifications to underpin trade and supply chains, good practices to improve business processes (e.g. quality, environment) and guidance on values and principles (e.g. for risk management, governance or asset management).

Standards are an important source of structured knowledge for organizations. They bring value through the confidence that users can have in the expertise they embody and in the independence and rigour of the standardization process. Standards are part of the spectrum of professional publications, educational materials, academic publications etc. that businesses use but are built on a higher order of market and peer review and consensus.

### **Standards are for voluntary use**

Standards are not regulations, being drafted and maintained in a different way and for a different purpose: to enable higher performance, rather than to define legal minimum requirements. Standards are voluntary in that there is no obligation to apply them or comply with them.

### **Standards are business tools**

Standards are tools devised for the convenience of those who wish to use them. They help to:

- Facilitate international trade, particularly by reducing technical barriers;
- Provide a framework for achieving economies, efficiencies and interoperability;
- Enhance health and safety, consumer protection and confidence;
- Support public policy objectives, and
- Where appropriate, offer effective alternatives to regulation.

## Standards come in many forms

Types of standard:

- A **specification** gives a coherent set of absolute requirements, each objectively verifiable. The result is a set of criteria for products, services or systems. It is particularly suited to giving the performance criteria demanded of a product, or the fundamental elements of a service or management system;
- A **code of practice** contains recommendations and guidance, where the recommendations relevant to a given user have to be met in order to support a claim of compliance;
- A **guide** primarily contains information and guidance;
- A **process standard** contains a process, such as a management system;
- A **framework standard** provides a code or guidance in a document that can be used by a business as an enabler of better business performance and to protect its corporate reputation;
- A **method of test** provides repeatable and reproducible procedures with consistent outcomes for the assessment of material, product or process performance;
- A **method of specifying** gives characteristics of a material, product, process or system so that a customer can select the values needed before agreement with a supplier;
- A **vocabulary** is a compendium of terms and definitions;
- A **classification** is an ordering of items or grading system for use across a given sector, field or discipline.

At European level, we have four main types of deliverable:

- **European Standards (EN)** ensure the commitment of National Standards Bodies (NSBs) to adopt them as identical national standards and are subject to standstill and withdrawal requirements. The development of an EN includes a public commenting period (enquiry) followed by an approval by weighted vote by CEN-CENELEC members.
- **Technical Specifications (TS)** can be produced when there is no immediate need or not enough consensus for an EN, or where technology is not mature enough and the subject matter is still under technical development. CEN-CENELEC members are not obliged to adopt them as national standards or to withdraw any conflicting national standards.
- **Technical Reports (TR)** are documents containing informative material such as data from a study, description of the state of the art on a



particular subject, etc., which is not suitable to be published as an EN or TS.

- **CEN and/or CENELEC workshop agreements (WA) are more flexible documents** that can be developed in a shorter time than European standards. Unlike ENs, TSs and TRs, participation is not based on national delegations nominated by national standardization bodies but the workshop is based on direct participation of any interested party. WAs are approved by the workshop participants and do not have the status of a European standard. Therefore, CEN/CENELEC national members do not have to adopt them as national standards and conflicting national standards or specifications may continue to exist.

(NOTES: there are other deliverables in addition to these produced by ETSI, such as ETSI Standards and ETSI Guides; the ETSI EN process is slightly different to that of CEN and CENELEC).

### Standards in the service sector

Standards in the service sector perform a number of different functions. There are specifications for services, standards used by service industries, standards for service processes. Some examples are:

- Terminology standards in order to establish common terms and definitions within a specific sector such as *EN 13306 Maintenance-Maintenance terminology* or *EN 15221-1 Facility Management- Part 1: Terms and definitions*;
- Measurement methods and key performance indicators in order to be able to compare and measure quality, performance or any other aspect relevant to the service such as *EN 15341 Maintenance- Key Performance Indicators*, *EN 15221-6 Facility Management- Part 6: Area and Space Measurement in Facility Management* or *EN 13850 Postal services- Quality of services- Measurement of the transit time of end-to-end services for single piece priority mail and first class mail*;
- Specifications describing requirements in relation to the service, its provision or any other aspects relevant for the service provision such as *EN 15696 Self storage- Specification for self storage services* that specifies requirements for the provision of self storage facilities and also the provision of services, *prEN 15628 Maintenance-Qualification of maintenance personnel*, which describes the qualification of the personnel with regard to the tasks to be performed, or *EN 15900 Energy efficiency services- Definitions and requirements*;
- Codes of practice or standards providing guidance, best practices and principles in relation to a relevant aspect of a service such as *EN 14012 Postal services- Quality of service- Complaints handling principles*, *EN 13876 Transport- Logistics and services- Goods transport chains- Code of practice for the provision of cargo transport services* or *EN 15221-2*

*Facility Management- Part 2: Guidance on how to prepare Facility Management agreements;*

- Standards focusing on processes and establishing requirements or recommendations in relation to these processes in order to improve them and achieve an specific outcome such as *EN 12798 Transport Quality Management System- Road, Rail and Inland navigation transport- Quality management system requirements to supplement EN ISO 9001 for the transport of dangerous goods with regard to safety* or *EN15221-5 Facility Management- Part5: Guidance on Facility Management processes.*

## Annex 3.2 – Case studies

### **Case study 1: UK design sector guidance (Section 3.1.1)**

The importance of getting the supplier selection and briefing process right is frequently underestimated.

In the majority of cases, the reason an external company is being approached is because the client organisation lacks in-house capability. In other words, it needs something over and above what is necessary to run its day-to-day business and, as such, is likely to be of strategic importance.

It is critical therefore that the key decision makers are involved in the selection and briefing of service suppliers and in the evaluation of their deliverables. It is here that the issues of 'language' and 'openness' are so important, particularly for creative services such as design, i.e. to understand where each side is coming from. The supplier, in order to ensure it is going to provide the most appropriate service, will ask searching questions about the client's business model, strategy, processes, objectives, market and competitors. Clients can sometimes be reluctant to be open about these issues or a manager not senior enough to answer these questions is assigned from the client's side.

On the supplier side, it is important to understand the client's business model and tailor proposals to the purchaser's requirement and add value. Creative agencies generally work through a method or process to achieve results and it is important for the client to understand this and not cherry pick stages in an attempt to save time or money.

Large organisations occasionally use impersonal on-line supplier sourcing tools in an attempt to overcome internal personnel inexperience or to attract the largest number of applicants. Personal contact is essential for building trust and establishing if the 'chemistry' is right and the parties can work together. It is the experience of many successful designer/client relationships that, like marriage, a period of 'engagement' before starting a project is invaluable to establish compatibility.

There is a temptation for time pressured clients to search for and shortlist creative service suppliers using the internet. However, there exist instruments that can assist the supplier and client to address the information asymmetry:

- A reliable route is via trade bodies and associations that represent professional service companies. In the UK, the Design Business Association (DBA) and British Industrial Design Innovation (BIDA) are good examples of associations that support and provide a platform for commercial design service companies. They offer prospective clients advice on selecting and working with designers on one hand and providing training and codes of practice for their members on the other.

- These organisations have also developed client briefing guidelines in order to help both parties in this process. An example of what is included in these guidelines is:
  - Selection: research and shortlist 2 to 4 companies, exchange non-disclosure agreements and meet them to discuss your brief.
  - Business summary: describe your business or the business you seek to establish. What are your aims and objectives?
  - Proposition summary: describe your proposition, its core objectives and the unmet need or gap in the market it addresses; and its current status, budget, IP protection and brand position.
  - Customer/end-user summary: describe your typical or desired customer or end-user and their unmet needs.
  - Market summary: describe your market, its size, your main competitors and how you envisage delivering your product, service or brand proposal to that market.

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### **Case study 2: UK rail industry and collaborative business relationships (Section 3.1.2)**

A major infrastructure organization within the UK rail sector has implemented and gained certification to BS 11000. The company adopted the standard in response to Sir Roy McNulty's 'Rail Value for Money' study, published in May 2011, which identified greater collaboration between organizations in the industry as one of the means for delivering greater value for passengers and tax payers.

The company has since worked with the British Standards Institution, the Railway Industry Association and The Institute for Collaborative Working to deliver a significant and growing capital works programme in line with the requirements of the standard. The standard has been implemented across five pilot projects and has served as a framework for developing the policies and processes, culture and behaviours required to drive continual improvement with key suppliers.

A number of benefits have already been identified:

- Contracts and businesses aligned with BS 11000 have resulted in a new environment for doing business and reducing costs ;
- BS 11000 provides a common language for the supply chain facilitating and improving contractual relationships ;
- The company now has a blueprint for collaborative working for future projects – the standard encourages a 'lifecycle standard' where processes continue to evolve.

The company has noted that BS 11000 gives the strategic framework to develop, with key suppliers, the policies and processes, the culture and behaviours

required to establish successful collaborative relations. It recognized that this led to benefits for the organization and its suppliers, for the rail industry and for UK. The organization's BS 11000 programme is already being expanded and will see other major projects added to the initial pilot portfolio. The capital expenditure of these additional projects will increase the overall value of projects working under BS 11000 to almost £3bn.

### **Case study 3: maintenance sector standards (Section 3.2.1)**

An example illustrating the importance and benefit of standards setting a common terminology and key performance indicators in a specific area can be found in the area of maintenance.

The above mentioned Technopolis study included the case study of a global forest products company based in the Nordic countries. In order to be competitive in an international market, the company needed to reduce costs and take advantage of its economies of scale. As a central part of operations, the maintenance services had a key role in determining the future levels of cost and efficiency that would be needed for the company to maintain competitiveness. In order to manage maintenance effectively they realised that first they needed to learn how to define and measure it. Moreover, in order to be able to compare maintenance and availability performance, either internally or externally, they needed a common platform in terms of clearly predefined and standardised indicators or metrics, supported by definitions. Until then, different mills and departments were creating their own definitions and a comparison of the different operations was not possible. The use of EN 13306 *Maintenance terminology* and 15341 *Maintenance Key performance indicators* helped the company in defining common definitions and terminology. The common definitions and ratios have allowed for transparent comparison of maintenance performance between plants, in order to find synergies, learn from best practice and achieve improvements. This also led to improvements to the bottom-line for the company, particularly in terms of cost reduction and efficiency improvements.

Finally, the standards also played an important role in the discussions within the company regarding outsourcing of maintenance activities since measurement help to understand whether the maintenance activities are competitive and how internal maintenance compares with outsourced services.

### **Case study 4: Project management standard (Section 3.2.1)**

Among the project-intensive industries in which occupational employment has a high level of project-oriented work we can find business services and manufacturing.

According to research performed by the Project Management Institute, less than two-thirds of projects meet their goals and about 17% fail outright. Performance in meeting project goals, timelines and budgets significantly affects an organization's ability to thrive. Organizations with high performance in these three aspects risk US\$20 million per US\$1 billion spent while less successful organizations jeopardize US\$280 million for the same US\$1 billion spent.

However, in 2013 “Pulse of the Profession™” highlighted that organizations undervalue project management and put inadequate focus on talent development. Only about half of respondents (54%) say their organizations fully understand the value of project management. This suggests that organizations must mature their project, program and portfolio practices to reverse this trend and promote success across the organization.

ISO 21500 Guidance on project management provides high-level description of concepts and processes that are considered to form good practice in project management helping to improve project success and achieve business results. The standard has been used in order to write a project management methodology to follow major projects in order to measure the performance of complex projects and in order to avoid risks that could lead to an increase in budget, time, and lack of quality or not achieving the defined objectives. An example of the use of the standard in developing such a methodology is the Major Projects Authority in the Cabinet Office of the Prime Minister of the UK (<https://www.gov.uk/government/policy-teams/major-projects-authority>).

#### **Case study 5: UK engineering services and management systems (Section 3.2.2)**

A major British engineering and construction group has multiple certifications to management systems standards: ISO 9001, ISO 14001, OHSAS 18001, BS 11000, ISO/IEC 27001 and ISO 22301. The company has recognized the benefits that these standards bring to improving its performance. The reasons for adopting the different standards have varied, with drivers combining external (e.g. customer expectations) and internal (e.g. Board expectations) factors. The benefits of adopting the standards and receiving certification include customer satisfaction and the embedding of a culture of continuous improvement (ISO 9001), reduction in waste generated (ISO 14001), reduction in accidents (OHSAS 18001) and reduction in security incidents (ISO 27001). The company found that the use of the standards assisted with achieving the strategic goals of the organization while differentiating it from competition.

#### **Case study 6: UK construction sector and sustainability code: Carillion (Section 3.2.3)**

In the early 1990s, the UK construction industry was under significant media scrutiny and subject to opposition from environmental groups following high profile protests on a number of large road construction projects. Reputational concerns and a growing environmental awareness led one major UK construction and support services company, Carillion, to develop an environmental policy and strategy and to attain certification to ISO 14001. The company did not stop at this point, as with greater understanding of environmental issues and embedding of principles into operations also came an awareness of the importance and potential benefits from an integrated approach to sustainability.

Reflecting UK Government objectives, Carillion developed a sustainability programme, which brought together social and environmental impacts with business objectives. An overall sustainability policy and strategy model then

integrated sustainability right across the company, into business strategy and systems, training and development and communication, down to the level of the individual.

Carillion also began working collaboratively with other organizations such as major corporations (banks, retail, food producers etc.) and environmental groups and this enabled it to develop key performance indicators on sustainability.

To ensure company-wide buy-in, a business case for sustainability was developed, showing benefits for stakeholders, the whole supply chain, end users and local communities. With the business strategy mapped onto the sustainability model, Carillion used this internal code to shape and develop its journey towards sustainable performance. With Board-level commitment to a challenging vision and targets, the results so far have been external validation of its sustainability performance, with associated brand reputation benefits, which has supported increased competitiveness and have enabled the company to win projects. Sustainability is seen as a business differentiator that is essential to Carillion's longer-term legacy and commercial success.

### **Case study 7: electronic security services and mutual recognition (Section 3.3.3)**

Electronic Security Services are an integral part of the market offering of the industry. Without related services, products and systems would not be able to fulfill their intended purpose of use of mitigating the risk at the place of installation.

Electronic security services have to be considered special services that require specifically qualified personnel to perform them because of the critical life safety and asset protection aspects. These types of services require specifically trained personnel. In certain EU Member States, the market requires certified companies and personnel.

These services are under the scope of the Services Directive. However, due to national licensing schemes, insurance coverage, and local public safety restrictions this sector continues to confront barriers notwithstanding the Article 49 treaty prohibition of restrictions for EU nationals to provide services anywhere within the Community.

One of the issues which prevents the provision of cross border services is the fact that national standards, regulations and certification schemes create barriers. This is the reason why the industry is currently working on developing a European Standard as a basis for the qualification of companies active in the sector. One of the most important benefits of developing a European Standard in this area is the obligation on national standardization bodies to adopt the European Standard as a national standard and withdraw any conflicting national standards.

Due to the nature of service provided (life safety, protection of assets, security) it is understandable that in some EU Member States a certification is required for companies providing services in the sector. Nevertheless, in order to avoid creating barriers the industry is promoting the creation of a harmonized pan-European certification scheme.

The industry also considers that the implementation of an EU system to relate different countries' national qualification systems for workers to a common European reference like the EQF would strongly improve the acceptance of cross-border service provision.

#### **Case study 8: postal services standards (Section 3.3.5)**

Directive 97/67/EC on common rules for the development of the internal market of Community postal services and the improvement of quality of service and its subsequent amendments governs the setting of quality of service standards for national and intra-Community cross-border services and envisages that member States will do the same at national level. It was therefore necessary to have available harmonized quality of service standards (focusing on routing times and on the regularity and reliability of services) and a common methodology for measurement, in order to be able to evaluate the convergence of the quality of service throughout the Community.

In order for Directive 97/67/EC to be implemented in member states and to enable quality of service to be reliably and consistently measured, there was first a need for a description of quality of service and then tools and methods for measuring and assessing quality of service standards. The Commission has issued mandates to CEN requesting the development, of quality of service standards in postal services. As a result two European standards, EN 13850 and EN 14534 related to the measurement of the transit time of end-to-end services of, respectively, priority and bulk mail have been developed. These standards are well accepted and used within the postal services sector.

#### **Case study 9: European engineering card (Section 3.3.5)**

The importance of international mobility is increasing for engineers. Industrial enterprises are taking an increasingly active role in foreign markets and engineering service providers and engineering offices are becoming increasingly involved in international projects. Despite the increase in demand for internationally mobile engineers, there remain considerable obstacles to mobility even within the EU.

One of the aims of the revision of the Professional Qualifications Directive (2005/36) has been to make easier to take up and exercise professional activities within the EU. The introduction of a professional card for those professions who are mobile and who wish to have it is a new element.

The Engineering card, a professional card for engineers, can contribute to the recognition of qualifications and professional mobility of engineers. It documents educational and professional qualifications and provides those organizations responsible for recognition in the EU Member States with crucial aid in searching



for information and making decisions, simplifying the recognition process considerably.

The five main features of the Engineering card are:

1. **Completeness:** the information contained on the card is comprehensive, i.e. it provides a complete overview of the academic education, professional experience and further training of the card holder.
2. **Based on a recognized European reference framework:** the professional card provides information according to the European Qualification Framework (EQF). The EUR-ACE criteria, the accreditation criteria for engineering studies adopted across Europe, also apply to academic education.
3. **Independent testing and recognition:** qualifications are tested and recognized in the country of origin by an independent register commission. The register commission is made up of experts from universities, relevant engineers' organizations and industry, ensuring wide recognition of the card.
4. **Flexibility through decentralized administration:** The professional card is introduced and administered decentrally in each individual EU Member State. Qualifications obtained in the card holder's country of origin are documented. In addition to the standardized entries, country-specific additions in line with national requirements are also possible.
5. **Voluntariness:** possession of the Engineering card is voluntary. This ensures that the Engineering card offers a needs-based solution and that unnecessary costs and bureaucracy are avoided.

Eleven FEANI members have already introduced the concept of the Engineering card in their countries (Germany, Poland, Czech Republic, Slovenia, Portugal, FYRO Macedonia, Croatia, Serbia, Ireland, Netherlands and Luxembourg).

#### **Case study 10: Business information modeling and innovation (Section 3.4)**

BIM, building information modelling ('a process involving the generation and management of digital representations of physical and functional characteristics of a facility' – Wikipedia), is being taken up across a range of business services: designers, facility owners, construction contractors, etc. In order to facilitate the adoption of this technique, BSI has worked with industry experts to develop a national specification, PAS 1192-2, that sets a framework for information management in relation to BIM. The take-up of BIM has partly been driven by UK Government, which will require compliance with the standard for public procurement purposes. It has also gained considerable business support both from the demand (owners) and supply (design firms, contractors) sides. This is an example of a standard facilitating the adoption of a new business technique that has had support from business as well as from Government. It will enable the introduction of innovative practices that reduce business costs through ensuring that businesses' use of BIM is interoperable.



## **4- INNOVATION AD-HOC WORKING GROUP REPORT**

### **Introduction and background**

Innovation is today considered the main way to achieve economic growth and competitiveness and to foster employment and welfare in a sustainable manner. Business services have a specific role in striving for innovation: they provide intermediate inputs into the production of other companies and organisations, and these inputs are usually knowledge-intensive in nature. In order to be able to perform this function, business service companies themselves have to continuously develop their own knowledge base, i.e. innovation is a necessary prerequisite for their business success. Thus, two perspectives are included in the relationship between business services and innovation: innovation THROUGH these services and innovation IN these services (Gallouj, 2002; Miles, 2005).

This two-fold role in innovation has led to concerns among policy makers, not only about the sufficient supply of business services in different countries and regions, but also about the skills level of service providers. The intermediary function enables the role of facilitator of innovation and favours the emergence of innovations but does not automatically lead to innovativeness in individual companies. The situation is particularly challenging in those business service sectors that earlier have relied on manual and personal services and nowadays are transforming towards heavy use of ICT systems (e.g. security services) or provision of complex expert solutions (e.g. facility management). In addition, the realisation of innovative practices depends on the skilful use of business services, which implies that the development of both supply and demand is needed (OECD, 2006). In concrete terms, the latter means the development of outsourcing and procurement practices.

In this report we analyse in more detail the development of business services from the viewpoint of innovation, surveying first the current situation and thereafter building some possible scenarios. We do not aim at an overall review but focus on a few core phenomena that increase understanding of opportunities and challenges in this sector. Sustainability as an area of expertise, collaborative procurement practices, and new applications of ICT are among the central issues that we include in the discussion. On this basis, we present a limited number of recommendations to improve innovation, not every possible idea. The report is a result of contributions from all members of the HLG innovation group.

### **Analysis of the current situation**

This section includes a SWOT analysis of the current situation in business services. However, the borderline between strengths and weaknesses is not

sharp, because the interpretation varies according to the company size in the case of providers and according to public-private dichotomy in the case of procurers, for instance. Thus, some topics are discussed from both perspectives. Also the recognition of external conditions as opportunities vs. threats is a matter of interpretation, depending on the specific business context. We aim to make the divisions in a way that enables practical conclusions and policy recommendations.

## Strengths

Since the beginning of the 1970s, business services have been the most rapidly *growing sector* in the advanced economies. At the early stage, this development was explained as a simple shift of intra-organisational tasks to external actors. Several studies have, however, shown that service upgrading instead of pure replacement outsourcing is usually the main motive in the purchase of business services (e.g. Kox, 2002). Due to the increasing need for various types of expertise in the present economy, the growth trend can be anticipated to continue. Simultaneously, the skilful provision and use of business services become all the more critical from the viewpoint of the economy and society.

The central role of business services in *innovation* is an important strength on which there is empirical evidence. Community Innovation Surveys that include data on technology-based providers of business services (IT and technical consultancy companies) show that these companies are active innovators and very similar to high-tech manufacturing companies in their innovation activities (CIS 2010). Studies with smaller samples and case descriptions have provided corresponding evidence from managerially oriented business services, e.g. advertising agencies and management consultancies (Leiponen, 2001; Santos-Vijande, 2013).

User-based practices have gained ground in business service companies: *customer value* is a central goal. Instead of the linear transfer of knowledge, companies have learned to link their generic expertise with the specific circumstances of clients, which means that benefiting the clients is not mere rhetoric but co-creation of value with them is genuinely pursued in everyday activities. User-based practices are a prerequisite for the transformative capacity of business services (cf. Expert Panel on Service Innovation, 2011), i.e. for the promotion of economic success and the facilitation of innovation processes.

A consequence of this development is the broadening of individual service offerings towards *solutions business* and innovations linked to them. Here combinations of routine and knowledge-intensive elements as well as technological and managerial elements are typical. The following two examples illustrate this development.

Mitie is a strategic outsourcing company. Mitie helps its clients to run more efficient and effective businesses by providing a full range of facilities management services, from cleaning to high-end specialist services like workplace management and energy management programmes. It works with a vast number of clients in Europe, in every

industry, delivering the broadest range of services that can be found in one place. Its tailor-made packages take into account the business profile and working culture of the client.

Interserve is a large international company whose origins are in construction and engineering design. Nowadays its offering covers not only all stages and assets linked to buildings and infrastructure, ranging from sustainability and energy issues to estates planning and facilities management, but also key frontline services such as back-to-work and care at home services. An example that illustrates the 'human side' of its portfolio is its bespoke change management programme – a nine step model which starts from strategic engagement and ends with building commitment amongst the employees.

The relationship between the provider and customer is increasingly developed on a continuous basis, reflecting the fact that many business services are required over the longer term. The deepest form of this kind of a relationship is *strategic outsourcing partner* (cf. the Mitie case). Here, the contract is based on the mutual sharing of the core values of business. This starting point helps to carry out an integrated process to support the effectiveness of the primary activities of the client: the agreed services are offered flexibly according to the client's changing objectives. The proactive outlook aligned to a common purpose fosters novel arrangements and improved practices. Clients appreciate quality and performance which displays innovative thinking; they encourage service providers to contribute their expertise for the betterment of both service delivery and their on-going relationship. Simultaneously with these 'extra requirements', there is often the option for learning: time to get it right. This opportunity to make changes and search for a better outcome must not, however, disturb the fair allocation of risk and reward.

## Weaknesses

Solution business and strategic partnering have been adopted first among large business services companies. The generalisation of corresponding practices in SMEs would require *effective networking* and the development of *integrator function*. In these areas, the advancement has not been rapid enough. Many small business service companies are innovative, but due to a relatively specific focus they cannot answer the demand for broader service packages. Collaboration with other SMEs is often too loosely organised. A particular problem seems to be the lack of companies that would be capable (or willing) to take the role of an integrator: to act as key nodes and hubs which synchronise several complex resource domains. There is also insufficient interaction between big and small companies in know-how sharing.

Another phenomenon is the *sharp polarisation* in the business service sector. There are a few large companies in each subsector while the vast majority are small or micro enterprises and the 'middle market' is almost empty. This means that middle-sized clients do not easily find a service provider that understands their problems on the basis of a similar size, which also often reflects a common development stage. Getting a bigger number of small providers to the growth path is a core challenge.

Networking and growth are important from the viewpoint of internationalisation, which is today tightly linked to innovation along with the globalised structures of knowledge production and transmission. Business services are a central part of these structures (Howells and Roberts, 2000). Multinational business service companies function as bridges between global, national and regional levels, facilitating the flow of globally generated innovations to the local level and raising awareness of locally specific cultural issues. In SMEs, growth and internationalisation have traditionally gone hand in hand, which implies that *the problems of growth have slowed down cross-border activities*. Today international business models are becoming more diversified based on digitalisation and allow more versatile paths to foreign markets (even innovative niche concepts). However, challenges in the management of distant delivery are big, and smaller companies have to carefully consider what kind of international activity is most realistic in each case (e.g. nearshore, onshore, or onsite).

Also *productivity and efficiency* are linked to the company size. In big companies, customer-based practices have been balanced with service concepts that enable scaling up. Small companies still often rely on fully tailor-made services as a way to offer a positive experience in the customer encounter. This approach hinders the achievement of an efficient business strategy because it is highly dependent on the skills of individual employees. It also weakens the elaboration of ideas into full-blown innovations. Thus, the development of *replicability* should be emphasised, not only for profitability reasons, but also due to its importance as a part of the service innovation process. Explicit service concepts and shared understanding among employees are a meaningful alternative to standardisation and mechanical input-output considerations.

## Opportunities

Several opportunities are emerging in business services, linked to new kinds of service processes on one hand, and to new areas of expertise on the other. Here we concentrate on two topics with broad impacts: the ICT development as a process enabler and the sustainability topic as an expert area. *Advancements of ICT* essentially support the development of customer-oriented practices and the application of life-cycle thinking. Building information modelling in the construction and facilities sectors is an illustrative example:

A building information model (BIM) replaces the traditional as-built information (drawings and specifications) with a digital version that is easy-to-update and holds data on the performance of the building over the occupancy phase. BIM improves coordination and integrity of information to reflect accurately the physical attributes of the building and to record changes. It provides a baseline for facility management, including the management of change. The model provides the history of a building to be used in business decisions and to be linked to the ERP systems.

Thus, ICT can be used to monitor and manage the client's property portfolio. A corresponding application in industrial engineering is various remote monitoring systems to secure the functionality of the installed base. ICT also

facilitates the follow-up of service performance according to the lines negotiated with the client. ISS and Interserve provide examples of novel practices in this area:

ISS – a company with Danish origins – works in partnership with McLaren Group. ISS provides facilities services management at its client's production and technology centres. McLaren's work is specialist and technical, and ISS services need to adapt accordingly. A system providing real time data on the movements of ISS employees in the client's premises supports the services. A 'heat map' image uses green, amber and red to assess employees' progress against targets.

Interserve – an international support services and construction company - has developed an IT solution to match mobile engineers with work requests and enable resource scheduling in real-time. Each engineer has a handheld device (PDA). The system calculates the priority of work, recommending an engineer to attend who has the right skill and is located within the right distance. Work orders are sent by Interserve's National Service Centre directly to the engineer's PDA. The engineer is then able to access relevant information on the PDA screen and update his/her progress in real time. The solution has resulted in considerable savings and reduction in service response times.

Many business service companies provide solutions in the areas of community infrastructures, energy production and consumption, housing and workplace design. These companies are directly linked to the urgent challenges of *sustainability and greening* – a new rapidly growing area of expertise. The development in the energy sector illustrates the need for new types of service innovations. Based on smart grids, new sensor and monitoring technologies are created and they in turn favour the emergence of new consumer concepts: smart home, smart suburbs and sustainable urban living. Home automation and systems for the load management help to develop grid operation. New services are needed, not only for measurements, calculations and impact assessments, but also for consultancy and for optimisation of the systems that use various energy sources and delivery mechanisms.

An important incentive for sustainable solutions is technological functionality and cost-effectiveness, but broader societal goals and non-technology driven initiatives also play an essential role. The success of sustainable solutions is highly dependent on the behavioural changes of individual citizens: e.g. reducing the consumption of scarce materials and reducing the waste. This means that the B-to-B and B-to-C contexts become increasingly inter-linked; the providers of business services have to take into account the end users: consumers and citizens. Collaborative practices and the development of the integrator function must be highlighted to ensure that *sustainable initiatives are more than the result of technology-push*. The following two examples illustrate emerging good practices:

ARAMARK provides catering and facilities management for BP. With the two companies working together, recycling rates at the site have more than doubled. Composting is used actively and the amount of waste has been reduced as a result of, among other things, innovative packaging techniques. These solutions have resulted in considerable savings for the client company.

Pinnacle PSG provides cleaning and ground maintenance services on behalf of local authorities, housing providers and education establishments. It is committed to improving

the performance of frontline services at reduced costs whilst creating sustainable benefits for the local communities. Pinnacle PSG's teams work with residents, students, community groups, and charities to develop initiatives that protect the environment, create life opportunities, and tackle important issues affecting communities. In consultation with residents, students and environmental advisory groups, the company has designed, constructed and helped to maintain a number of green spaces in urban areas. These have been used by local schools to educate their pupils on conservation.

In the rapidly developing area of sustainability, the 'make or buy' decisions are still under consideration in many organisations. In order to get assignments and at best to become an outsourcing partner, business service companies will need 'green measures' to show how their offerings can be greener than self-provision. Combining the frameworks and tools of *service design* and *sustainability design* is one promising approach (cf. UNEP, 2000).

## Threats

The weaknesses discussed above also include threats – for instance, the problems regarding growth and internationalisation weaken the position of companies amongst the intensifying global competition. The tightening economic conditions are a big challenge. In addition to these general problems which companies in other sectors face, there is a more specific problem whose continuation seriously threatens the prospects of business services: the problem of *procurement practices*.

From the viewpoint of innovation, the core problem in current procurement practices is that they overlook service providers as a source of know-how. Particularly in the public sector, there is little incentive to promote innovative practices, because of the lack of transparency, reluctance to stray from rigid definitions of service, and the principle of 'lowest price'. Public procurers operating under the common European guidelines have to be competent in technical issues of tenders; consequently, they often concentrate on formal and normative procedures rather than on the content of the service to buy. This also makes it difficult to include the end-users' and/or customers' needs and suggestions within the tender specifications in an effective and appropriate way.

There is the option of 'technical dialogue' that has to be performed in public procurement under specific conditions, in order to comply with transparency and equality criteria. Here the suppliers are asked to propose improvements in pre-defined components of the offer, which will be balanced with the economic component. Even though beneficial, this option is difficult to realise due to the stickiness of contracts. It also requires enhanced skills of the buyer and the supplier.

The concept of '*informed client function*' is central in the context of procurement. In the public sector, it is developed but highly prescribed as seen above. In the private context, failure to develop and maintain this function is common and leads to unmet expectations; it also exposes the parties involved to many kinds of risks. Procurers may not be aware of their organisation's needs and they typically cannot express them in terms that will enable suppliers to offer the



most appropriate services in the most efficient and cost-effective way. The lack of agreement on the appropriate arrangement for delivering services prevents the achievement of the desired end-user experience and best value for money (or other success criterion). Suppliers may even offer services of inferior quality or performance.

The informed client function applies irrespective of the type or size of the organisation procuring services. For small organisations, the need for an efficient and cost-effective procurement process is as real as for their larger counterparts. In the latter, the informed client function should, however, be more 'professional' in order to achieve the benefits of economies of scale and internal efficiency. Some procurers might be defining their needs and service requirements for the first time. In such cases, it is possible that they specify a higher level of service than is required, with the respective higher costs. A way to avoid this problem is to discuss with prospective service providers before a formal tender/bid process. This might reveal over-specification which can be corrected without sacrificing quality/performance or compromising on health, safety, security or sustainability, i.e. targets of the service. It requires, however, that the client is capable of engaging with service providers as an equal: understanding the issues involved and the most appropriate option.

## **Exploring future scenarios**

We identify four scenarios, in which the development of business services takes different directions based on different main drivers. Because our focus is on innovation, we analyse the drivers of innovation in particular. The first scenario is technology-driven and includes the deepening and broadening of digitalisation as its core phenomenon. The second scenario is based on the prospect that companies increasingly adopt service-based thinking, highlighting the customer value and end-user experience. The third scenario anticipates a change in business models: new types of procurement practices play a central role here and impact on the business behaviour of both the provider and the client. The fourth scenario also concentrates on the modes of collaboration, but suggests that networking and system-level considerations will be the central driver instead of the provider-customer dyad.

The four scenarios do not exclude each other. The core drivers included provide, however, different perspectives to the future and the scenarios illustrate what the developmental consequences may be. In each scenario, we take into account the best alternative, the worst alternative and the most probable alternative. The time perspective is until 2020.

Figure 1: Four scenarios based on different drivers

The core of the scenario	Best alternative	Worst alternative	Most probable alternative
Technology-driven scenario	Versatile use of new data reserves, data analysis methods and ICT-based collaboration for the creation of new business services: Big Data, Open Data and crowdsourcing.	Risks linked to data security and privacy will be realised and stop the advancement of new practices.	Development in various European regions takes place at different pace due to country-specific strengths and different policies linked to data reserves.
Service-driven scenario	Emergence of flexible innovation processes that foster collaboration between providers and users. Supported by innovation policy instruments.	User-based practices are seen as opposite to profit striving. Leads to neglect in awareness raising and in the development of competences.	Empowerment among consumers and citizens will take place, and will create positive pressure towards collaborative innovation.
Procurement-driven scenario	The generalisation of a new procurement model: transparent process, performance-related specifications, multiple selection criteria and long-term relationships.	Current procurement practices persist. In the regulatory framework the focus continues to be on the form instead of the content.	Changes will take place in the private sector. Problems of the public sector will remain due to the greater complexity of the solutions needed.
Network- and systems-driven scenario	Service providers and client organisations essentially increase collaboration. Policy actors support this development (incl. the construction of systemic innovation indicators).	Awareness about the importance of system level considerations does not increase but the majority of innovation efforts concentrate on individual products and services.	Most dynamic sectors (e.g. ICT) and sectors with the most urgent challenges (e.g. the energy sector) adopt systemic approaches.

## Technology-driven scenario

During the coming years, both the developed and developing economies will be increasingly dependent on technological knowledge. From the viewpoint of business services, the advancement of ICT – that has fostered the growth of this sector in the past two decades – will be central also in the future. Digitalisation is ‘propelling’ our world towards a reality in which services must be available anywhere and anytime. Simultaneously more and more data is accumulated and companies try to get their share of these *data reserves* and create new business based on them.

The growth of data is no longer limited to active human creation, but computers, phones and other digital devices and sensors collect, store and transfer data automatically. A lifelong log of human individuals and also product life-cycle management will be possible when everything can be connected easily. Making

sense out of data requires new, improved methods for communication both between humans and machines and between machines (so-called internet of things). It also requires the development of *data management and data governance* methods: standards, practices, applications and services. All this is important because along with the opportunities, also the risks of misuse of information will grow.

The concept of '*Big Data*' refers to the huge, unstructured mass of data created via digital devices. Big Data is usually characterised as being three-dimensional: increasing volume (amount of data), velocity (speed of data in and out), and variety (range of data types and sources). A big portion of the data is now in silos: enterprise data, financial data, health data etc. The analysis of the content of those silos helps to reveal potential new data categories for both vertical (sector based) and horizontal (issue based) activities. At the company level, the utilisation of Big Data means a transfer from the analysis of past trends to detailed real time information. It makes the growing data reserves as the core of innovation resources of the companies. For business service companies, consultancy based on Big Data is one of the most promising new areas and highlights *the creative use of ICT*. For instance, social data mining from Facebook, Twitter, etc. is becoming part of Big Data.

Another important trend is *Open Data*. It includes the idea that certain data is freely available to everyone to use and republish, without restrictions from copyright, patents or other mechanisms of control. *Open Public Data* in particular is an important resource: many governmental organisations and cities collect a broad range of different types of data in order to perform their tasks. Recently, Open Data has gained popularity with the launch of public initiatives in several countries.

Economically, Open Data is of great importance. Several studies have estimated its economic value at tens of billions of Euros annually in the EU. Key to this approach is that public service providers develop new collaborative ways of working with data users, including commercial users – and where necessary actively engage in the market to stimulate demand for data. The premise for growth is that public service providers do not charge users for their data, but that they enable users to gain access to it, so that they can use it as a platform for innovation or enterprise. Examples of application areas are legislation data, health data, energy data, meteorological data and transport data. The following case illustrates how new services can be developed in the last mentioned area:

ITO World Ltd is a UK based SME that specialises in mapping and visualising transport data. Founded in 2006, the company has since worked with, for example, the Department for Transport, National Rail Enquiries, Guardian Media Group and Vodafone. It has also worked with Google, supporting the provision of public transport journey planning for London using Google Maps. This service was based on official Transport for London data, released as Open Data. In 2012, ITO World integrated real-time information about disruptions on the London Underground into their service. In the event of any service interruption, travellers are presented with alternative route options and estimated travel times based on real-time data.

The third trend in ICT-driven scenario is the development of a new innovation practice: *crowdsourcing*. It can be defined as ‘a collaboration model enabled by people-centric web technologies to solve individual, organisational, and societal problems using a dynamically formed crowd of interested people who respond to an open call for participation’ (Pedersen et al., 2013). Two of the most common crowdsourcing models include one-time challenges and on-going communities. Crowdsourcing provides a grassroots perspective on how technological facilitation alters the realm of collective innovation. Collaborative service innovation has traditionally taken place in dyadic relationships between the service provider and the user. The emergence of the internet and social media has significantly lowered the cost of involving masses of users via virtual platforms. Crowdsourcing has been argued to have an important positive impact on the emergence of novelties: social interactions trigger new interpretations and new discoveries that individual actors’ thinking alone could not have generated (Hargadon and Bechky, 2006). The following example illustrates how a service provider can facilitate crowdsourcing:

InnoCentive provides a third-party online platform that firms can use to ‘outsource’ their innovation problems, leveraging on a network of talented solvers all over the world. An expert from InnoCentive facilitates the process, helping the client to formulate the problem to be solved and the specific criteria against which solutions will be evaluated. This is an effective solution for SMEs, in particular, as they typically cannot afford large, fixed investments in R&D activities.

In the future development of the technology-driven scenario, the *best alternative* is the versatile use of Big Data, Open Data and crowdsourcing for the creation of new business services. Whereas the pressure from markets may be sufficient to promote the utilisation of Big Data and crowdsourcing, the promotion of Open Data requires encouraging activities of policy actors. Regarding all three technologies, policies are also needed for necessary regulation to manage the risks of openness. The *worst alternative* is that some risks linked to data security and privacy will be realised and stop the advancement of new practices. The *most probable alternative* is that development in various European regions takes place at different pace due to country-specific strengths and different policies linked to data reserves.

### Service-driven scenario

The generalisation of *service-based business strategies* is a future option that may develop hand in hand with technological advancements, but starts from quite a different perspective. This perspective highlights that value is not an inherent property of technology, goods or services, but it is unfolded in the use context. Value cannot be first produced and then sold, but its emergence requires that an individual product or offering is linked to other products and offerings (Vargo and Lusch, 2011). This perspective changes the way in which the relationship with the client is understood: *the client is not a target but co-creator of value*. In order to contribute to the value creation process, the provider needs a comprehensive understanding of it and has to configure value propositions and plan interaction accordingly. Dialogue, transparency and risk sharing are core

elements in 'user-facing' parts of business, supported by internal development of corporate responsibility, workplace quality etc.

From the viewpoint of innovation, this scenario involves the transfer of focus *from inside-out to outside-in* perspective: it highlights continuous collaboration with users throughout the innovation process. Actually, this collaboration is increasingly going on in the form of idea acquisition, testing and piloting. A bigger change can be the emergence of *an alternative innovation model* to the dominant R&D model. During the last thirty years, a highly formalised process including pre-planned steps has been the ideal in innovation and almost the only process type recognised in policy programs and support. The generalisation of user-based practices may reveal that more experimental approaches are beneficial to accelerate innovation and change the logics of markets and not only help companies to get a share of the existing markets. The new model includes, more or less, the merging of planning and implementation to reduce time-to-market and to achieve more radical results.

In business services, the immediate clients are, in general, not the ultimate recipients of services. Thus, a genuine service-orientation in innovation also means a more intensive *collaboration with end-users*. Two groups of end-users have to be taken into account: the employees of the client organisation and persons or entities external to the organisation (other companies, citizens and society in general). End-users are in a unique position to make judgments on the extent to which services are likely to satisfy requirements. They might also offer insights into how a service can be performed in a more efficient and cost-effective way. However, listening to the end-users is not a simple task because they are often far from the decision makers who purchase specific services. Thus, their engagement has to be explicitly planned and managed. This is particularly important to take into account in the public context in which the number of stakeholders and citizens might be very large.

The *best alternative* in the development of this scenario is the emergence of flexible innovation processes that foster the collaboration between providers and users, and which are supported by innovation policy instruments. The *worst alternative* is that user-based practices are seen as opposite to short-sighted strivings for profit and therefore both awareness raising activities and the practical improvement of necessary competences will be neglected. The *most probable alternative* is that some empowerment among consumers and citizens will take place, and will create positive pressure towards collaborative innovation. In this end-user based prospect, the technology-driven and service-driven scenarios are mutually reinforcing. New consumer communities emerging in the internet exemplify not only joint innovations, but also reflect the importance of experience as an element of value.

## Procurement-driven scenario

In this scenario, the activity of procurers drives the development, providing new opportunities for business service companies and supporting innovation in them. There is *an emerging procurement model*, which includes a transparent process, performance-related specifications, multiple selection criteria and long-term relationships. The model is based around the following activities:

- 1) establishment of needs – stakeholder interests and end-user needs
- 2) development of a procurement strategy – the broad plan for service provision
- 3) request for information – the pre-qualification of service providers
- 4) request for proposals – effectively, the tender/bid stage
- 5) evaluation and commercial close – formalising the arrangement
- 6) mobilisation – start-up for service delivery
- 7) performance review – monitoring of service delivery; corrective actions

A benefit of a transparent process is that service providers can be more assured of honest dealing on the part of procurers. They understand what they are expected to provide, and where the risks lie. Even more effective processes are those where service providers are encouraged to offer innovative solutions within the overall framework. Central to this desire are performance-related specifications as opposed to those of a prescriptive nature. Determining the fulfilment of targets is much easier when performance indicators have been agreed at the outset and used, over time, to fine-tune service provision. At best, performance specifications focus on *deliverables that end-users define in consultation with stakeholders in the client organisation*.

The quality of the relationship between procurer and service provider is important. Building productive relationships takes time and is most likely to come from a longer-term perspective on service delivery than one motivated by short-termism. Often, this implies closer working between procurer and provider, but a looser relationship might also be possible. It is necessary to determine the most appropriate relationship for any given combination of service provision against the needs of the client. Formal *reviews of service delivery* provide the opportunity to consider changes that might be necessary to raise performance, realise targets and agree incentives. The greater the openness in this regard, the more likely it is that procurers and providers will be able to explore novel ways of delivering end-user satisfaction with the best value for money.

A defined procurement process also includes decision-making concerning *four main options for service delivery*: 1) single service provider, 2) bundled (or multiple) services provider, 3) total service provider, and 4) agency. Single service or bundled services are not mutually exclusive; combining them is often the 'best-fit' solution. The total service provider is offering a single point of responsibility based on the integration of a number of services ('one-stop shop'). Despite its intention, there is no one model of total service provision. In dynamic

markets, one procurer's interpretation of its needs, expressed as total service provision, is likely to be different from another. Lastly, the use of agency means that personnel are hired from a supplier as and when required. Agencies can answer a temporary need for personnel, but this alternative ought not to be considered as a permanent solution.

The selection of the most appropriate option or combination of options needs to take into account the resources and costs involved in managing the relationship with each service provider. Each option brings with it risks of one kind or another, including the ability to attract competitive bids. It is also important to note that procurers (units and individuals) act for and on behalf of the client organisation and have to balance many and often competing interests to ensure that the organisation achieves its objectives. It can be a complex situation that is subject to change as the organisation anticipates and responds to the business environment.

The *best alternative* in the development of this scenario is the generalisation of the above-described procurement model both in the private and public sectors. Due to the common rules, this requires active policy support at the European level. The *worst alternative* is that the current practices persist, and in the regulatory framework the focus continues to be on the form instead of the content. The *most probable alternative* is that changes will take place in the private sector, but a great part of the problems of the public sector will remain. The implementation of the new model is much more complex in the latter context due to the several layers of decision making and the presence of political interests.

## Network- and systems-driven scenario

In recent years, it has become apparent that many economic, environmental and social challenges are too big to be solved via individual product or service innovations created in individual organisations. Thus, a broader perspective is needed in the analysis of business development and policy measures: *innovation has to be understood as a systemic phenomenon*. A system innovation is based on the simultaneous development of organisations, technologies, services, and multiple network relationships. In the novelty created, *new ways of interacting* with other actors is an important ingredient, i.e. a central issue is how to combine various innovations effectively and disseminate them rapidly on the basis of continuous interaction between different organisations.

Systemic failures bring to the fore the necessity of developing interactive practices that reach beyond the traditional R&D model of innovation. Changes are needed, not only in processes and organisational structures, but also in attitudes and values. The last mentioned points refer to the importance of initiatives that foster participation in civil society and support the development of strong networks and social movements based on open innovation. A central challenge in the promotion of this prospect is that system innovations require the combination of top-down and bottom-up approaches: a 'managerialist'

approach that secures efficiency and effectiveness in innovation and implementation, and an empowerment approach that emphasises grassroots initiatives of citizens, users, employees and individual entrepreneurs.

Cultural and societal aspects are central in many system innovations, and this implies a need to align corporate and societal goals. For example, in the energy industry, power utilities are facing the challenge to move beyond their core business and to do 'more with less': they have to find a balance between increasing energy needs and growing ecological concerns. In this case, moving from providing services to creating solutions may give new opportunities for innovation.

In the private context, high tech sectors (ICT in particular) have adopted the concept of *ecosystem* to describe the new system-level strivings in business development. The metaphor imitating a living organism highlights the idea of *coevolving* the capabilities and roles of different stakeholders: producers, customers, subcontractors etc. One or more central companies (that may change over time) set the directions of development, around which shared visions are gradually formed. These visions then help the participating members to align their activities and to find mutually supportive roles in the system. As every member increases the overall value of the ecosystem, it becomes powerful and is able to create versatile new solutions to common problems.

Business services may apply systemic considerations for the promotion of both *the supplier side collaboration and the customer side collaboration*. The former refers to a greater use of joint ventures in the provision of services – a practice increasingly demanded if SMEs want to develop their service capability. The latter refers to a situation in which two or more customer organisations join together to procure services from suppliers; it is one important direction in the further development of procurement practices. In the best case, the two types of collaborations meet and broader actor networks are formed. The lack of integrators discussed in the SWOT analysis is a problem that has to be solved to make these prospects probable. Collecting together dispersed good examples of the integrator function would be a step forward. The following case is an illustrative one:

Pitti Immagine is an Italian company devoted to promoting the fashion industry worldwide; recently its scope has been expanded to food and fragrance as well. The company is focused on the modern trade fair as a platform of renewal and development. By offering information and knowledge, it aims to make the trade fair an event that creates stimulating relationships involving the exhibitors, their collections and the buyers and public. Starting from a deep collaboration with the exhibitors (selected by Pitti) and visitors, Pitti has developed innovative services involving many external partners: IT system providers, catering, fitters, logistic operators, communication agencies, and designers. It acts as a resource integrator, which activates different partners based on the trade fair typology and the selected exhibitors. It has also created a new virtual concept: all the material of 'the traditional fair' is reproduced for the virtual fair accessible two weeks later.

System innovations require new kinds of *policy measures and governance structures that support their creation*. There is also demand for the development



of *reasonable indicators* for system innovations. A good starting point for this development is the emerging practices of impact assessment: these practices are closely linked with learning and continuous improvement instead of the earlier focus on past activities. Approaches that combine impact assessment with foresight and the perspectives of network governance are also developing.

The *best alternative* in the development of this scenario is that both service providers and client organisations essentially increase collaborative ways of working, and this development is supported by policy stakeholders (including the construction of system level innovation indicators). The *worst alternative* is that awareness about the importance of system level considerations does not increase but the majority of innovation efforts concentrate on individual products and services. The *most probable alternative* is the most dynamic sectors (e.g. ICT) and sectors with the most urgent challenges (e.g. the energy sector) adopt systemic approaches.

## Policy options

While the main driver is different, the four scenarios include common emphases. In particular, the increasing need for openness and collaboration is characteristic of all scenarios. Our analysis of policy options starts from these common characteristics – we point out open innovation practices, best practice sharing and connections through/across value chains. Thereafter, we consider policy options that focus on the less developed, non-technological side of innovation: we highlight the importance of service-based business models and the prioritisation of societal goals in innovation. Finally, we return to the issues identified in the SWOT analysis: we discuss policy options related to the specific needs of SMEs and to skills development.

### Supporting the application of open practices in innovation

Both the technological and non-technological drivers favour a broad view of innovation: the emergence of novelties is not restricted to a formal process inside R&D functions. Innovation is increasingly open and based on entrepreneurial interactions between different subjects: be they single individuals (employees, independent inventors, customers, etc.) or organisations (suppliers, clients, competitors, public authorities, etc.). These new, more open innovation models leverage the networks' power of aggregating resources and competencies far beyond the scope of a single firm. Furthermore, open innovation systems allow SMEs to take part – and benefit – from innovation activities otherwise out of their reach.

On the other hand, it is important to avoid a too straightforward view: *there is not one generally applicable model for innovation*. Open practices include a continuum from the use of purposive inflows and outflows of specific knowledge to loose development networks. In addition, openness is not the only issue to be considered when efficiency and impact are pursued in innovation activities; for

instance, acceleration of the innovation process within a firm may be the most urgent task. Also structured R&D still plays an important role in many innovation efforts.

Today, open access often means openness on a global scale. Thus, a balance between open practices and the *protection of intellectual property (IP)* has to be considered carefully and be taken into account in the respective policies. IP issues are particularly sensitive for SMEs (they need to avoid falling victim to large, predatory corporations) and particularly challenging for service companies that can only rarely use patents. Informal protection means – secrecy, restricted access to certain databases, loyalty building among employees, and keeping important experts in-house are a plausible alternative but not systematically applied.

### Promoting best practices sharing

Sectoral boundaries are blurring, industries are increasingly interconnected and mainstream distinctions – such as those between products and services or between public and private sectors – are losing prominence. Consequently, also managerial best practices are less context-specific, which enlarges their application scope. For instance, showcasing how changes in workplace practices can reduce energy consumption and the carbon footprint is widely applicable. Also the number of plausible alternatives is growing, which highlights the dissemination of knowledge about the related experiences. For instance, outsourcing can be implemented in many ways, and instead of ‘one truth’ it includes a variety of managerial solutions: embedded working, site sharing, knowledge transfer arrangements, risk sharing etc.

Diffusion and sharing of best practices among firms of different sizes, among regions and countries, and among sectors (both private and public) fosters innovation and competitiveness. In this sense, the concept of *large-scale demonstration* suggested by Expert Panel on Service Innovation (2011) and implemented now by ESIC (European Service Innovation Centre) is highly welcome. Another useful approach could be *‘learning circles’* that would foster knowledge transfer from large and more established companies to small and start-up companies. In order to motivate companies to disseminate their experiences, the simultaneous development of means of IP protection (see above) is crucial. On the other hand, it is important to highlight that copying a service practice developed elsewhere is rarely successful – the learning inputs based on earlier experience must be skilfully modified to be suitable to a new specific context.

A better overview of *the current stage of knowledge transfer mechanisms* in the EU area is needed in order to support the mechanisms of best practices sharing. The Expert Group on Knowledge Transfer and Open Innovation (DG RTD) is promoting this kind of overview as regards universities and other scientific actors. Combined with the results and recommendations of the HLG on business

services, an important step can be taken towards a holistic view about knowledge intermediaries in Europe.

### **Connections through and across value chains**

Collaboration through different steps of value chains and between value chains has been highlighted as a promoter of innovation in terms of generation, development and execution of new ideas. Encouraging and supporting common initiatives of the procurers and providers, including both private and public stakeholders, is an important policy option in these 'value chain innovations'. A good example is the programme 'Industry 2015' launched in 2007 by the Italian government for supporting the economic development:

Many objectives were included in the 'Industry 2015' programme: energy efficiency, science of life and innovative services in the cultural industry. The government defined the programme and involved regions in consortia; each consortium was supposed to have industry, services, universities and research centres with the aim to create new services. 142 projects have been established and financed within the programme.

The lack of orchestration capabilities is a typical problem in 'value chain innovation' (as well as in networked innovation). Both awareness raising and concrete support is needed here: the importance of the integrator function has to be emphasised and the core capabilities created as a part of development programmes. More concrete discussion of orchestrators' tasks would promote the visibility of this role. Studies in this area have identified the following key tasks: balancing the interests of divergent parties, taking care of knowledge mobility and competence leveraging, legitimising the common activities (including appropriability issues), and visioning the benefits to be achieved via collaboration (Ritala et al., 2009).

### **Business models for service-based growth and expansion**

A business model describes how a firm creates value for its customers; how this value is promoted, marketed and delivered to customers; and how the value comes back to the firm in the form of revenues and profits. Today, traditional, simpler business models (where an individual firm sells its products/services and gets paid) are leaving space to more articulated, nonlinear and complex models, where different stakeholders participate and contribute to the value creation.

Business models have gained ground as a way to concretise the most important components derived from and reflecting the strategy of a company. Simultaneously, the broadened view on innovation has brought to the discussion the concept of 'business model innovation', which means that innovation is considered – not only as novel products, services, and processes – but also as a strategic change. An essential part of this discussion is the perspective of customers and users as co-creators of value. This perspective highlights the significance of service orientation in all kinds of companies (not only in service

sectors). Identifying new business models, understanding their structures and logics, with the aim of sharing this knowledge at the European level, is an important option in the pursuit of innovation.

### **Service innovation priorities to improve societal well-being**

Service innovations often have significant impacts on consumer and societal welfare, both at the individual and at the community level. Many services even produce macro, eco-socio-cultural consequences on the well-being of entire nations.

A deeper understanding of how innovation in business services could enhance the well-being of present and future generations of citizens could represent a starting point to identify some big, innovative projects to be supported at the EU level. These projects should be evaluated not only in terms of economic returns, but also from the point of view of equity, social justice, ecology, consumer freedom, etc. Concepts such as the 'triple bottom line', focused on people, planet and profit, could be adopted to assess initiatives, encouraging firms to consider also ecological and social outcomes of innovations to be pursued.

### **Supporting SMEs' activities in public procurement**

Public procurement, and the role of SMEs in it, is a key issue in the EU. *SMEs as suppliers could be an important source of innovation* for the procuring organisations, but these companies often do not have the competencies and the organisational capacity to participate in the public procurement tenders. While the procurers hereby miss ideas for innovation, the providers lose significant market opportunities.

It is noteworthy that European laws guide procurement processes, providing specific criteria and predefined procedures with which both customers and suppliers have to comply. Consequently, there are apparent policy options in this area to support the participation of SMEs in procurement tenders. Development programmes that help SMEs to create the competences needed for dialogue and interaction with public authorities are one alternative. Also the arenas for best practices sharing can be used for this purpose.

On the procurers' side, fostering the adoption of *more transparent and systematic tendering practices* (see the respective scenario) is a central approach. It helps clarify the contents of the service being procured – difficulties in this respect are one central problem today (e.g. a public organisation cannot specify the elements of a marketing communications campaign). It can also reveal the excessive number of tender authorities and compel the public bodies to define in more detail at which level different types of procurement decisions are made and are most reasonable.

## Addressing skills shortage and the labour mismatch

Skills shortage (the difficulty of finding the right talent for a job) and labour mismatch (the coexistence of high levels of unemployment and job vacancies) are increasingly characterising modern economies. These phenomena are particularly intensive when innovations and radical changes destroy 'traditional' jobs while creating new ones, and educational choices (both on the demand and supply side) are not synchronised. In the advertising industry, for example, the advent and rapid growth of new media (such as social networks or mobile apps) or the availability of 'big data' on consumers requires skills and competencies which are different from those available inside agencies and which are also hard to find on the labour markets.

Skill shortage and labour mismatch may hinder innovation in service industries, given their labour-intensive nature. Mapping the existing skill shortage / labour mismatch in business services could be the first step to deeply understanding this phenomenon in depth, in order to highlight its magnitude across different business service sectors and countries. Further, mapping results could be used to promote educational / training programmes at the European level to be lined up with service providers' jobs requirements.

## Policy recommendations

The working group has developed five groups of policy recommendations that summarise and concretise the policy options described in the previous section:

### Open innovation

Open innovation relies on informal agreements, unstructured mechanisms, and on cross-border and cross-sectoral cooperation. In order to foster it, the EU could:

- promote the creation of new types of business structures that better enable informal collaboration among firms, public authorities and professionals;
- enable cross-border ownership of business structures and working – might need to be implemented through a new structure and/or tax regime;
- strengthen policy programmes that support agile, entrepreneurial innovation processes;
- facilitate occupational and geographical mobility of labour to facilitate the recruitment of people with specific skills and/or for specific services projects;
- support SMEs in protecting and exploiting their intellectual property (IP) while participating in open innovation networks;
- develop innovation programmes that foster the inclusion and empowerment of individual citizens, particularly in the area of sustainable development.

## **SMEs and public procurement**

A concerted effort of all levels in government is needed to weaken existing barriers that prevent SMEs participating in public tenders. The EU could:

- within the regulatory framework, require a greater transparency in tender practices;
- foster the creation of intermediary experts able to guide SMEs in the relationship with public authorities, decoding the public procurement procedures with the aim of reducing the information asymmetry between SMEs and public authorities;
- create centres to collect best practices on public procurement and promote common practices / rules across countries in order to lessen cross borders barriers;
- directly support SMEs in increasing their competences to participate in public tenders;
- help SMEs in reducing costs of participation in public tenders (for instance by promoting aggregation / collaboration).

## **Advancement of ICTs**

ICTs (broadly intended) are key enablers for innovation: they facilitate interactions within open innovation networks, speed up knowledge sharing and reduce information asymmetry. They are also unfolding a wide range of opportunities for new products and services. The EU could promote diffusion of ICTs by:

- supporting the ICT infrastructure development, with particular reference to broadband diffusion;
- supporting education and training programmes – both at primary and higher education levels – to increase ICT competences of citizens and employees;
- promoting diffusions of ICT systems and procedures in public organisations, for example by requiring the use of digital procedures in public procurement or creating a digital identity for citizens;
- promoting the adoption of ICT technologies by firms, in particular by SMEs;
- developing systems that encourage opening the public data sources and establishing entrepreneurial activity based on them.

## **Measurement indicators**

Service innovation, systemic innovation and agile innovation processes require new metrics and KPIs to be evaluated. The EU could:

- promote the development of new innovation indicators able to evaluate systemic changes and assess future-oriented impacts;
- foster the diffusion of these new indicators in existing interventions on innovation;
- establish new incentivising programmes aimed at rewarding also other innovative practices besides formal R&D.

An important source to be taken into account is the final report of the EPISIS project (European Policies and Instruments to Support Service Innovation) finalised in 2012. This project has analysed, among others, the typologies and indicators linked to service innovation.

### Skills shortage and labour mismatch

In order to reduce increasing skills shortage and labour mismatch, the EU could:

- systematically map the shortages of skills and competencies across different business services sectors; these activities could involve national universities / research centres while results have to be shared at the European level;
- promote / support educational and training programmes in universities / training centres aimed at relieving the observed mismatch;
- define standards for verifying the quality and effectiveness of the programmes being supported; standards are a powerful way to reduce information asymmetry among countries and to facilitate comparisons (in this area the outcomes of the HLG working group on Skills should be taken into account);
- support should favour initiatives that:
  - a) are jointly promoted by universities / training centres and firms as these kinds of programmes are based on the 'apprenticeship' ways of learning and assure a closer link between demand and educational offer;
  - b) involve institutions from different EU countries as these programmes can promote labour mobility and knowledge spill-overs across borders.

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## **5- INTERNATIONALISATION AD-HOC WORKING GROUP REPORT**

### **The Internationalization of European Services: Challenges, Opportunities and Policy Development**

#### **Introduction**

In the economically developed world, the vast majority, often more than 75 per cent, of all jobs involve some form of service work (Bryson *et al.*, 2004). Furthermore, in Europe, North America, Japan, Australia, New Zealand as well as parts of the developing world, around 90 per cent of new jobs are created in services. As a result the economies and societies of these countries appear to revolve predominantly around service activities and the experience of service work. It is generally accepted by scholars and policy-makers that developed market economies are dominated by various forms of service work, ranging from extremely well-paid lawyers and merchant bankers to less well-paid hotel and retail workers. Services contribute to economic growth in a variety of ways; they are traded locally, regionally, nationally and internationally. They are also heavily wrapped within and around the production processes of manufactured goods as well as other services; they add value by smoothing the relationship between production and consumption, for example via market research, product design, development and testing and advertising. Services can be exported either directly via transfer across borders or direct representation of the provider in another country or indirectly through the incorporation of a service into a product or another service which is then exported.

In 2013 the European Commission brought together a group of experts on business services from the private and public sectors. The objective of this High Level Group (HLG) on business services was to review the existing evidence with a view to proposing ideas for options and policy recommendations. Five ad-hoc working groups were established by the HLG that would focus on innovation, skills, internationalization, internal market and instruments. These groups were organized as parallel groups that drew upon expertise provided by the private sector and informed by academic research and policy-makers. This report reviews the existing evidence reviewed and considered by the services and internationalization working group and highlights a set of policy recommendations.

Two meetings of the group were held. The first meeting on the 16 May explored the group's brief informed by a presentation that provided an academic analysis of services and internationalization. This was followed by detailed presentations from four private sector companies that explored the activities of an energy service company, architectural practice, providers of information technology and a firm providing cleaning and security services. The second meeting was held on the 17 September 2013. This included presentations from three companies, a presentation on EU trade policy and services and a detailed discussion of the draft report. This meeting focussed on the identification of policy options.

The working group identified seven key questions that are considered to be critical for firms trying to enhance their international footprint. These questions should inform the development of European policy intended to facilitate the internationalisation of European business services:

1. How can business service firms create value for their foreign clients?
2. How can business service firms collect and utilise customer data more effectively from overseas clients?
3. How can business service firms anticipate the needs of international customers?
4. How to ensure that business service firms transform international customers into development partners?
5. ALL business service firms must be encouraged to identify their strategic international clients and co-produce new services (product and process) with them.
6. Create a service mindset in European business service firms.
7. Create an international sales mindset in European business service firms.

In this report, we provide an overview of current academic debates regarding services and internationalisation. The intention is not to provide a complete critical literature review of this topic, but to develop an analysis that will support the identification of policy gaps. The policy options and recommendations were identified during discussion that reflected on the academic analysis combined with the experience and expertise of the group's members. These members were drawn from a wide range of services that had experience of internationalisation.

### **Internationalization of Services: A brief Literature Review**

The service sector is large and growing extremely rapidly. It is also becoming much more complicated as radical technological solutions are developed to support the provision of many service functions. Services used to be considered to be local activities that were produced and consumed at the same time and in the same place (Hill, 1977). Technological developments have transformed services by challenging the relationship between place of production and consumption. Many business services involve the creation of high-value added customized services. Recent developments, however, have led to pressures coming from larger client companies to strip costs and profits from suppliers of advanced business services. Technology and especially the ability to create

teams that draw upon experts located in low-cost economies have led to an ongoing commoditization of some business service functions. This is especially the case in relation to accountancy, consultancy and law. Technology including new knowledge management systems combined with intranets is transforming the production of these services. The implication is that European firms will have to engage in continual innovation that will replace services that have been commoditized with new high-value services.

A good can be sold without any direct relationship between the manufacturer and consumer. Many services can also be consumed in a similar way. Nevertheless, the importance of face-to-face contact involved in the simultaneous production and consumption of a range of services plays an important role in differentiating the new world of service work from that of manufacturing. At the centre of interactive service relationships are three important elements: the quality of the client interaction, an individual's or firm's reputation and embodied knowledge. The importance of reputation cannot be over-emphasized for the consumption of services. Many of the outputs of business service firms are hard to assess in terms of quality. The reputation of the provider provides clients with a proxy measure of quality. This suggests that the European Commission should develop strategies that enhance the reputations of key European firms and ensure that these reputations are projected in core target overseas markets.

Producing any product or service requires service expertise to be embedded in different parts of the production process – pre-production, during production and post-production or consumption. Pre-production involves understanding the design process, including market research and the ability to innovate. This may involve the design of a production process or of an actual product or service (Bryson and Rusten, 2011). The development of services may require the creation or modification of a process, for example the systems that support a financial service transaction or the check-in process at an airport. Services incorporated into production are concerned with the efficient management of the production process, for example queue management at leisure parks or call monitoring in call centres. Post-production involves marketing and related services or supporting services, for example finance packages to encourage purchase, servicing agreements for software or content (music, text, pictures).

The production process can be divided into five parts with each part requiring different forms of service knowledge and expertise (Bryson et. al., 2004):

- Pre-manufacturing – product development, research & development, design, product testing, market research, finance
- During manufacturing – finance, quality control, stock control, purchasing, safety, management, continuity/contingency planning etc.
- Selling – logistics, distribution networks, marketing, finance
- During product and system utilization – maintenance, leasing, finance etc.
- After product and system utilization – waste management, recycling etc.

Each of these service inputs into the wider production process may involve service internationalisation.

International trade in services is growing rapidly, but research and policy development is not keeping up with these developments. There is a dearth of empirical research on the size, scope and potential impact of all forms of service trade. Some of these impacts will benefit European companies as they provide possibilities to enter new markets with new service offers, but other developments will challenge European firms through the development of new and extremely competitive foreign service providers. It is noteworthy that four types of services must be considered in any discussion of services and internationalization:

- The private sector provision of public services (data processing, health care, cleaning, catering and security).
- The provision of private sector business and professional services that can be purchased by both private and public sector clients.
- Services provided by manufacturing companies to support the purchase and consumption of their products. Such services include training, updating existing products, the serving of products and various forms of products that are sold as services rather than as goods. In the latter case, consumers do not own the product but acquire rates to services provided by the product, whose ownership is retained by the manufacturer.
- Services provided by specialist service firms to support manufactured goods.

These four types may include the provision of advanced high-value added customized services, but also more standardized and commoditised services. It also includes the provision of service bundles – bundles of related service or services and products sold by companies to provide the supplier with differentiation in the market place. The working group concluded that it would not consider lifestyle service businesses or services that can only be delivered locally. Europe must focus on the role back offices play in service internationalisation, on low margin, but high turnover, commoditised services and the competitiveness of high value added services provided by European firms.

The dearth of empirical research on services and internationalization reflects the absence of official statistics on the service sector in general and on service trade in particular. Available datasets are limited by industry, geography and time series. Service activities (employment and function) have become a critical element of the European economy both in terms of contributions of gross value added, employment creation and competitiveness. The transformation in the contribution services made to the European economy means that it is critical that Europe understand the implications of increased trade in services. It is critical that barriers to service internationalization are identified and overcome. Due to the difficulties of classification, conceptualization and measurement problems, research on service internationalization is complicated. Traditional international trade theories such as the Heckscher-Ohlin have been used as a

frame of reference for exploring service internationalization. But this analysis concluded that trade theory developed to explore trade in good does not help to explain trade in services (Daniels, 1993; Bryson *et al.*, 2004; Dicken, 2011). Government regulations, cultural differences and language differences are extremely important for service internationalization (Beyers, 2012). The debate about service sector FDI has become important since it is a preferred way for companies to move abroad and is specifically determined by locational factors (Rusten and Bryson, 2010).

Studies of internationalization and services have focused on more specific sub-sectors and have often explored internationalization strategies (e.g. O'Farrell *et al.*, 1998; Jones, 2002; Bryson 2007; Schultz, 2005; Ström and Mattsson, 2006; Faulconbridge *et al.*, 2008). Firms located in major metropolitan areas are more likely to be confronted with various internationalization opportunities. Firms in more peripheral areas also show an interest in working internationally, but activity is more limited.

There are major differences between trade in goods and trade in services (Daniels; 1993; Bryson *et al.*, 2004; Dicken, 2003). Firstly, even though information technology has helped to bring parts of the world closer together, much of the activities within the service industry must take place simultaneously and maybe even at the same location. It is often important to have direct contact between producer and buyer. Secondly, the service industry is still heavily regulated in many countries, which affects the possibilities to trade. In some counties the import of services from foreign providers has been prevented though regulation. Finally, there are many obstacles to trade with services such as non-tariff-barriers. These can be of a very different character, such as licenses for legal advisors, medical doctors, accountants, qualifications, language etc. These play an important role as barriers in preventing international service trade. Cultural problems are evident for any kind of international transaction, but in the case of service industries they may be an absolute barrier (Jones, 2002, 2005; Ström, 2005). These barriers have their greatest impact on verbal and media-based services, but standardized and highly technological services may be exceptions to this general rule.

Another important issue for the internationalization of service production is the complexity of value-added in relation to manufactured goods (Daniels, 2000; Daniels and Bryson, 2002). The question of value-added is both valid in relation to where this is produced but also how the value added is traded in relation to the indirect contribution made by services in the exports of goods. In relation to the classification and conceptual difficulties associated with service trade, empirical findings show that the direct contribution of services to national exports is growing slowly and the pattern of trade is highly concentrated. Instead it might be useful to acknowledge and nurture the indirect contribution of services to overall national export activity. Service firms provide functions that support the export of many manufacturing sectors and this enhances total export competitiveness. Specialized services may become embodied in goods leading to the production of goods/service bundles for export (Daniels and Bryson, 2002).

These bundles may provide firms with a source of inimitability – a source of competitiveness that provides differentiation in global markets (Bryson, 2009).

The lack of service research in Asia and other emerging markets such as Eastern Europe and Latin America has attracted increased attention (O'Connor and Hutton, 1998; Ström and Yoshino, 2009; Harrington and Daniels, 2006; Daniels et al., 2012; Di Meglio et al., 2012; ADB, 2012). The interconnectedness of mature economies in Europe and emerging markets in East and Southeast Asia has created a complex economic network of production and knowledge networks where services are playing an increasingly important role. It resembles to some degree the economic geographical transformation in Europe where the new members states of the European Union have been connected through market widening and increased FDI, but where the economic integration of the service economy has yet to materialize in Asia (Alvstam et al. 2009; Ström and Yoshino, 2009; ADB, 2012). It is noteworthy that China is developing policies to enhance the effectiveness of Chinese business services and this might lead to the development of Chinese service competitors that may challenge European and American service providers.

More research, of a case-oriented character, in fields such as engineering and management consultancy, advertising, facility services and design or other business services is needed in order to establish how these services are organized, compared with western counterparts. The empirical data leaves much to be desired as regards the operations of western service providers in Asia. It is most likely that Asia can be a very attractive market for western service suppliers with long experience and strong competitive advantages, because of their reputation (Jones, 2005).

The report at hand gives special focus to the following business services as they are considered to be of special importance for building sustainable competitive advantage within the European single internal market for services. These services are also important in relation to growth in the emerging markets both through internationalization and the interconnectedness to global production networks.

#### *Service Offshore and Different Types of Service Internationalisation*

Service offshoring occurs when firms shift production to foreign locations. The objective may be to reduce costs, to service a foreign market, to reduce exposure to country risk, or to access skilled labour. An additional factor influencing the location of offshore service centres is the requirement to provide a 24-hour service to customers or an extended service beyond standard working hours. The cost of providing such services can be high as late shift workers must be attracted by higher wages or extended holidays. Advanced call-routing and networking technologies enables companies to get around this by implementing a 'follow-the-sun' geographical policy. Companies can link two or more call centres together with each open from between 8 to 12 hours per day. Country risk is removed when a company is able to shift the provision of a function between facilities located in different countries.

Service offshoring is not easily analysed because service tasks can be traded in four ways (United Nations 2002: 1):

**Mode 1:** *cross-border supply* occurs when suppliers of services in one country supply services to consumers in another country without either supplier or consumer moving into the territory of the other.

**Mode 2:** *consumption abroad* refers to the process by which a consumer resident in one country moves to another country to obtain a service.

**Mode 3:** *commercial presence* occurs when enterprises in an economy supply services internationally through the activities of foreign affiliates.

**Mode 4:** *presence of natural persons* describes the process by which an individual moves to the consumer's country to provide a service, whether on his or her own behalf or on behalf of his or her employer.

Three of these modes are concerned primarily with service transactions between residents and non-residents. Mode 1 involves the provision of services that require no direct contact with customers but procedures must be developed to overcome cultural and language barriers that exist between countries. Recently, there has been a particular interest in Mode 3, whereby enterprises supply services internationally through the activities of foreign affiliates (Bryson et al. 2004). For services, the Mode 3 'method of serving foreign markets is particularly important because it is often the only method that permits the close and continuing contact between service providers and their customers necessary to compete effectively with indigenous firms' (United Nations 2002: 54). In this instance the provision of services through foreign direct investment represents a type of *captive offshoring* or offshoring without outsourcing. Captive offshoring enables a firm to retain control over its assets, intellectual property and core business processes (Bryson, 2007). But captive offshoring creates value for the home of the service provider, but not necessarily local employment. The implications for Europe would be that service FDI by European firms will create employment opportunities in host economies and not in Europe. Europe would provide by FDI being undertaking foreign service providers. It is noteworthy that the development of the internal market for services will create new employment opportunities within Europe.

Trade in services must address cultural differences between countries that restrict the ability of service providers to export standardized services. Modes 3 and 4 enable service providers to localize provision to take into consideration local cultures and client expectations. Modes 1, 3 and 4 involve what is commonly termed 'service offshoring' or more correctly 'service global sourcing'. This is encapsulated by the concept of a 'second global shift' (Bryson 2007). The first global shift involved the relocation of manufacturing employment to low-cost production locations while the second implicates services in this process. There have been three distinct phases to the second global shift. First, during the early 1990s IT programming, testing and network support activities were

outsourced and then globally sourced. Second, during the late 1990s global sourcing diversified into the provision of back office and call centre functions and also the development of computer applications. Third, during the early years of this century full service centres emerged that provide a wide range of administration, process, contact and support functions.

The development of service offshoring represents a new type of international division of labour, but with a difference. It is various forms of service activity, ranging from call-centre-based work to back-office administration that is being relocated to low-cost locations rather than manufacturing or assembly activities. This new form of trade involves low-value call-centre-type activities as well as high-value services such as legal work, accountancy, design, business analysis and equity research. Data scanned in Europe or America is transmitted to a low-cost offshore location along high-speed fibre-optic cables and undersea telephone lines to be processed in back offices or used in call centres. A number of factors influence the decision to send a particular service activity offshore. First, it must be capable of some degree of standardization that does not require face-to-face interaction with consumers or clients. Secondly, the inputs and outputs required to deliver the service must be capable of being traded or transmitted with the assistance of ICT. Thirdly, some service activities are not fixed in space and can be provided either as a form of foreign trade or by the temporary relocation of a service worker to a client's premises, for example, management consultancy or various forms of auditing. Fourthly, specialist services can be provided from central locations with consumers travelling to avail themselves of the service. In many cases such services would be provided within the confines of a nation-state, but some of these services are being consumed by a form of service-based travel, for example education (secondary and tertiary), plastic surgery and a whole range of other surgical procedures.

Outsourcing services to companies located in other countries comes with a number of risks attached to language, culture and the quality of the provided service. Unlike the first 'global shift', the geography of the second global shift is determined by the educational and language abilities of service workers located in foreign locations that may also perhaps, but not always, be lower-cost locations (Bryson 2007). For the English speaking world this means that potential suppliers must be able to provide English speaking employees in other countries, for example France, Norway or Sweden require a pool of staff with fluent French, Norwegian or Swedish. Language and culture play a much more important part in this global shift than they did during the development of an international division of manufacturing labour. This means that countries with relatively localized languages may be protected from the global sourcing of services whilst countries with more widely spoken 'global' languages (such as English, Spanish, or French) will almost certainly participate in the second global shift. This means that the geography of the second global shift is also different from the first; it is more constrained by language as well as cultural nearness, that is, the ability of foreign service suppliers to relate to customers located in other countries.



## **Analysis of the Current Situation**

This section includes a SWOT analysis (Table 1) of the current position regarding services and internationalisation. The SWOT analysis identified many areas of strength in relation to the internationalisation of European services. These included the diversity of services provided by European firms, the ability to exploit niches, a reputation for the delivery of services and the ability to innovate. Weaknesses included low margins in some areas related to the on-going commoditization of services, difficulties in pricing bespoke services, problems with European firms in not developing a customer perspective and difficulties in finding the right partner to work with in a foreign market.

*Table 1: SWOT Analysis of European Service Firms and Internationalisation*

<p><i>Strengths</i></p> <ul style="list-style-type: none"> <li>• The diversity of European services – many firms have already developed a strong international footprint.</li> <li>• SMEs exploiting niches in rapidly moving markets. Larger firms able to focus on more stable markets. SMEs need to be nimble and fleet of foot as the market alters. This includes entering new markets and also exit strategies (Energy firm).</li> <li>• Critical importance of reputation and heritage. Development of international strategy based around major projects. Targeted approach to bidding.</li> <li>• Working with local partners with the foreign firm providing the added value and the local dealing with building regulations, etc.</li> <li>• Contracts and legal practices in specific subsectors.</li> <li>• Some parts of Europe have a reputation for the provision of business services.</li> <li>• Innovative capacity through services.</li> <li>• Diversity driven innovation.</li> </ul>	<p><i>Weaknesses</i></p> <ul style="list-style-type: none"> <li>• Need to follow clients overseas and also to provide an integrated approach to services.</li> <li>• Working with local partners is a challenge in emerging markets.</li> <li>• Finding the right local partner.</li> <li>• Many SMEs provide services without benefiting from the co-ordination of linked services provided by other firms. There is fragmentation in the provision of business services.</li> <li>• Low margins in some areas and increasing commoditization of business services.</li> <li>• Move beyond conceptualising service trade as flows of activity between countries and to explore trans-local or trans-place relationships and activities.</li> <li>• Pricing mechanisms. Difficulties in pricing bespoke services.</li> <li>• The development of a customer perspective in firms. Poorly developed key performance indicators (KPIs) prevent many business service firms from maximising their competitiveness.</li> </ul>
<p><i>Opportunities</i></p> <ul style="list-style-type: none"> <li>• Web-based platforms and the positioning of local firms for international business. This can work both ways in internationalization. Role of interns and the development of an alumni network.</li> <li>• Focus on the interaction between advanced manufacturing and services. Importance of political support in markets beyond the EU (contract signing events with key political leaders).</li> <li>• Working with larger firms.</li> <li>• Bilateral trade agreements with the US and Japan.</li> <li>• Services in relation to the ageing society</li> <li>• Services and the green economy; building sustainable growth</li> <li>• Trade agreements</li> <li>• University link and movement of students and faculty</li> <li>• Manufacturing and services; as a combined driving force</li> <li>• Clusters and agglomeration effects.</li> <li>• Big data.</li> <li>• The provision of service bundles of ‘manuservices’ or bundles of linked services.</li> </ul>	<p><i>Threats</i></p> <ul style="list-style-type: none"> <li>• Facilities management – more project-based business. Strategy shifted to the provision of service bundles.</li> <li>• Size matters in several of the business services sub-sectors, in order to be able to follow clients abroad; all about the provider and the global footprint.</li> <li>• Missing out on standards and procurement possibilities. Different standards apply in different national contexts.</li> <li>• Competition from emerging multinational, India, China.</li> <li>• Lack of trade liberalization</li> <li>• Transparency and corruption</li> <li>• Visa restrictions</li> <li>• Loss of IPR</li> <li>• Cultural differences</li> <li>• Skills; regulatory aspects</li> <li>• Race to the bottom for the provision of low value services. Increasing commoditization of services.</li> <li>• Limited sharing of knowledge between firms.</li> </ul>

The key threats included on-going commoditisation in some service areas, problems with the working of the European Single Market, the emergence of new competitors, limited co-ordination of service internationalisation between European firms and difficulties related to non-tariff and tariff barriers. Many opportunities were identified. It is considered that an effective European Single Market provides firms located within individual member states with an opportunity to develop capabilities in relation to the provision of services across Europe.

The effective and efficient operation of the Single Market provides firms with an opportunity to develop systems and approaches to the delivery of services across distances that would facilitate service internationalisation beyond Europe. Opportunities include the development of new web-based platforms, to enhance the interactions between services and advanced manufacturing, European trade negotiations and the provision of support by the European Commission to assist European firms as they consider internationalisation opportunities. Companies should be encouraged to share experiences. This sharing could occur across sectors to avoid problems with competitors.

Different strategies that firms can deploy to internationalise their activities were explored and the following were identified that had been implemented by firms participating in the Working Group:

1. Firms followed clients as client companies had developed international operations. European service firms also established offices close to major client's investments in foreign direct investment in core markets.
2. Established relationships with local service firms to support the delivery of services to clients based in foreign markets. This strategy eventually led to mergers and acquisitions as the local foreign partner was often acquired by the European firm.
3. Identify local affiliates that can be used by the European firm to cover some foreign markets.
4. Focus on developing a European brand that enables a European firm to internationalise their products and services.
5. Major projects are often used to establish offices in foreign markets.
6. Fund interns from foreign markets with the interns being based in European for six to twelve months. The interns then return to their home countries. Many will eventually obtain positions of responsibility and power which may provide the European service firm with new projects in foreign markets.

The Working Group on services and internationalisation identified a number of key propositions regarding services and internationalisation and these are as follows:

1. Companies are engaged in continual innovation and this level of innovation facilitates the internationalisation of services. Continual innovation is thus an important element of service internationalisation. Continual innovation was required as markets are changing rapidly. Firms need to develop new products and services as existing products experience extreme competition or are destroyed by the introduction of new regulations. Innovation is thus critical.
2. If an internationalisation investment is not working then the firm needs a rapid exit strategy.
3. Many business service firms are lifestyle businesses and the shift towards the development of a growth-led business is difficult. Many business service firms are satisfiers. This suggests that the European Commission should undertake research to identify which business service sectors are most likely to engage in internationalisation activities and to focus attention on these sectors. At the same time information can be provided and developed via professional bodies to encourage business service firms to consider engaging in international activities.
4. Business service firms entering Asian markets need to appreciate that these markets are radically different to European markets. The Commission should encourage EU firms to work together to share expertise on China and to enable shared international activity.
5. Asian markets appreciate political support and photo opportunities with VIPs. This type of support can speed-up contract negotiations and should not be under-estimated.
6. European firms that have broken into Asian markets should be encouraged to share expertise with other firms. This could be co-ordinated by the Commission through a series of targeted workshops that would provide opportunities to identify and disseminate learning.
7. Finding the correct Asian partner is difficult, critical and time consuming.
8. The movement of employees between countries is a critical aspect of service internationalisation. Restrictions on the movement of employees are a critical constraint on service internationalisation.
9. The harmonisation of service standards is a critical aspect facilitating and also preventing service trade.
10. There are well-known problems with service intellectual property rights (IPR) that still need to be addressed through international negotiation.
11. Develop a European chamber in core target markets to support firms wishing to internationalise. Also develop country specific groups in member states, for example, each Member State could have a business service group that focuses on knowledge exchange regarding core Asian markets.

12. EU could establish a network of European business centres in core target foreign markets. This would provide a physical presence for firms exploring entry routes into core markets. These European centres need to be very visible both within European and within the host economy.
13. Develop strong European brands to support the internationalisation of services. A good example is the emergence of Scandinavian Design as a regional service brand in the 1950s. This type of branding enhances international visibility and overcomes some of the difficulties of assessing the quality of services.
14. Bundled services are critical for competitiveness. The shift from single to bundles of services is a critical trend.
15. The internationalisation of service can occur through green field FDI or via mergers and acquisitions. Thus, what are the barriers to organic growth in target foreign markets versus mergers and acquisitions? These approaches may be different depending on whether the service is low-skilled or high-skilled. Low skilled services are cost driven while high skilled involve more added value.
16. The importance of having people on the ground in the target foreign market to develop contacts and to convince potential consumers.
17. Pressures on margins are becoming an important aspect of business and will continue in some service sectors.

## Exploring Future Scenarios

Four future scenarios were explored, in which the internationalisation of European services takes different directions (Table 2). The future scenarios analysis highlights the importance of developing an integrated approach to services and internationalisation. Such an integrated approach would highlight the importance of services that are embedded within manufacturing products as well as services that are not directly connected to manufacturing. This is to highlight the importance of the services duality (Bryson, and Daniels, 2010) in which services play two roles within national economies. First, services that support the production process of clients. These contribute to the production of both goods and other services. Second, the provision of services that support manufactured goods – these are services they may be embedded in physical goods or supporting services (training, servicing, product upgrades, etc).

Table 2: Scenarios and Service Internationalisation

<b>Scenario</b>	<b>Best outcome</b>	<b>Worst outcome</b>	<b>Most probable alternative</b>
<i>Business as usual</i>	EU services continue to develop and the best firms engage in FDI and the export of services.	EU service providers challenged by new foreign competitors entering the European and other markets.	Patchy development of the internationalisation of EU services based on strengths in individual member states.
<i>Enhance the relationship between services and manufacturing</i>	Enhancing the competitiveness of European manufacturing through the provision of services to increase productivity and innovation, but also supporting services that provide manufacturing firms with differentiation in the market place.	Business as usual – no intensification of the relationship between advanced manufacturing and a set of supporting in-house and external services.	Patchy development based on localised smart specialisation and also activity in specific sectors.
<i>Development of an active approach by the European Commission to the Internationalisation of European Services.</i>	Significant growth in the internationalisation of European services leading to an increase in the European balance of trade. This includes services that are integrated into manufactured products. Effective EU trade negotiations lead to new opportunities for European service firms.	Policy interventions that have limited impact as they do not focus on key sectors.	Policy intervention more effective in some member states and also in some sectors.
Policy interventions to support services and internationalisation, but these ignore services that are hidden within manufacturing firms	Growth in European service activities that are not directly linked to manufacturing.	Development of unbalanced economies in which manufacturing continues to decline.	Other governments recognise the importance of services that are embedded in products and this places European firms at a disadvantage.

## Policy Options

The working group identified and discussed many issues related to services and internationalisation. During the meeting held on the 17 September the working group identified and discussed the following policy options:

- The development of a European prize for the most innovative business service firms that have contributed to the internationalisation of European services.
- The development of Europe's reputation for the delivery of business and professional services. This is about showcasing European business service firms.
- The formation of networks or clusters of firms targeting the same country. These would not be based around a sector, but be about sharing best practice and avoiding problems as European firms try to enter a foreign market through 'opening the same window'. Services will become increasingly conceptualised drawing upon multi-agent frameworks in which clients, providers and all kinds of agents interact and cooperate and compete in new ways.
- Financing opportunities for enabling internationalization.
- E-commerce and the tourist platform. This approach could also be developed to provide information about local business and as a method to disseminate information about local firms, but also marketing the area as a possible FDI location. The e-commerce platform could also link to the firm-orientated platform as returning tourists could purchase products consumed whilst away on holiday.
- The issue of promoting joint projects between manufacturing and services. What areas are most promising, and can we build on established strengths?
- How can regional policy be developed to promote the growth of advanced services outside the larger metropolitan areas in Europe? This can help facilitate growth in other sectors.
- Innovation as a tool of building service competitive advantage outside the EU.
- Enhancement of the measurement and classification of services in national statistics in general and in particular in relation to value-creation.
- Use of services for regional resilience.

- Trade negotiations must not isolate negotiations over manufacturing from services. The negotiations must acknowledge the enhanced importance of manuserService bundles as a key element of the competitiveness of European manufacturing.
- Data development and measurement. Many firms are accumulating big data sets, but have limited ability to exploit these datasets to enhance their competitiveness. Big data is a fashionable topic amongst computer scientists and some companies and there may be an opportunity to develop European capabilities in this area through the strategic alignment of European research funding.

Ten key issues for policy consideration by the European Commission have been identified. The most critical concern issues 10 and 7. These are deemed to be critical for the future competitiveness of the European economy.

1. *The development of an effective single market across Europe for the provision of business services plays a critical role in internationalisation of services.* Thus, measures to improve the effectiveness of the single market for the supply and demand of business services will play a critical facilitating role in enhancing the ability of European business service firms to internationalise. This includes open and consistent means to access public procurement markets. There are evidently some non-tariff barriers that continue to make intra-European trade in services difficult. These barriers require further research.
2. *Manufacturing has been transformed into the provision of solutions and many of these solutions include the provision of services combined with products.* This means that the internationalisation of manufacturing firms also includes the internationalisation of supporting services. This has important implications for industrial and service policy. A service policy must be simultaneously a manufacturing policy and manufacturing policy must include strategies to enhance the effectiveness of supporting service. Many of these manufacturing related services are provided by within manufacturing firms.
3. The shift that has been occurring within manufacturing highlights the importance of the provision by both service and manufacturing firms of solutions. *This suggests that policy interventions must focus on enhancing the ability of European firms to create solutions to client problems.* This shift from services as experiences to services as solutions highlights the importance of customization in the provision of services to clients. This reflects a shift towards the provision of “manuserService” bundles – products that blend or hybridise manufacturing and service solutions (Daniels and Bryson, 2002; Bryson, 2009; Bryson and Daniels, 2010).
4. It is well known that services are a heterogeneous sector of the economy. The emphasis placed on heterogeneity should not be over-emphasised as manufacturing is also heterogeneous. *For services it is important to differentiate between services that have been heavily commoditised with a focus on value and the efficient delivery of services in highly competitive markets.* These highly commoditised services are, for example, facility



management, contract cleaning and security. It must be recognised that many high-value business services are also suffering from commoditization. This is the case for accountancy firms who have to shift towards a business model that highlights the importance of relationship building between accountants and their clients. Europe needs to be careful with the development of service standards as this may encourage the shift towards the provision of commoditised services. Generic standards are important for clients, but too tightly defined standards could restrict innovation and lead to further commoditisation. A standardisation platform for services must leave room for flexibility that enables rather than constrains innovation.

5. *Key performance indicators (KPIs) used by business service firms need to be reviewed.* Many business service firms use simple measures such as: chargeable hours, utilisation, fee recovery, lock up (the amount of unbilled time) and unpaid fees. These KPIs restrict innovation amongst European service firms and need to be challenged as they prevent firms from maximising their competitiveness. Alternative KPIs would include new measures to support the quality of client relationships, penetration rates (how many of a firm's service lines have been sold to a client) and client feedback that is used to improve the quality of the service relationship. Developments in appropriate KPIs would potentially transform the performance of many European business service firms. The relationship between the performance of services and the use of inappropriate KPIs is an area that requires further study to inform policy interventions.
6. It is recognised that *people are one of the most critical assets of a service firm. There are two difficulties.* First, many service firms are established and remain small and predominantly focussed on the provision of services for local clients. This reflects the technical rather than managerial capabilities of business service professionals. Many of the service entrepreneurs have excellent technical skills but underdeveloped management capabilities. This provides an opportunity to work with professional and trade bodies on strategies to enhance the management capabilities of European service firms. Second, restrictions on the mobility of service workers are a critical constraint on service internationalisation. Thus, European service firms need to be able to temporarily relocate key service professionals to deliver contracts overseas. There are both restrictions on such movements combined with complexities related to taxation. Establishing an overseas office initially may require the temporary location of European workers to establish the office or the relocation of non-European nationals to Europe for training.
7. *Europe's role in service internationalisation should be focussed on trade negotiations combined with the added value of showcasing European service in target foreign markets.* There are thus a number of critical tasks: i) services and international trade agreements; ii) showcasing European services, iii) providing firms with support as they try to enter new

overseas markets and iv) building on the establishment of an effective European single market for the supply and demand of business services. *Trade negotiations must not separate services from manufacturing as this strategy may undermine the ability of European firms to export manusevice bundles.* Companies are concerned about 'forced localisation' in which they are forced to share intellectual property rights (IPR) with local partners in order to enter a foreign market. The Commission should also provide political support in facilitating overseas business and in signing contracts. In some target markets signing contracts is considered to be an important event that can be facilitated by the presence of VIPs.

8. The importance of a *single point of contact that service firms can approach* to obtain information about transacting business in core foreign markets. Such a single point would facilitate the exchange of best practice between firms. It would assist firms in the identification of suitable partners in foreign markets. Such a one-stop-shop could act as a knowledge centre that would assist the internationalisation of large and small European services firms. This would lower the barriers that prevent firms from internationalising.
9. Role of foreign interns within European service firms. European firms would recruit graduates from target foreign markets and provide an intern opportunity within Europe for a limited period of time. This could be a longer term strategy which would include maintaining contact with the interns and bringing them back to Europe for an anniversary event after 10 years. The interns could become key decision-makers in their home economies that would link European business service with companies located in key target foreign markets.
10. The European Commission needs to place considerable importance on the export potential of European business services. This includes trade negotiations, but also the identification of a group within the Commission who would have direct responsibility for overseeing European activity intended to enhance and facilitate the internationalisation of services.

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## Annex III – TERMS OF REFERENCE

### Scope, organisation of work, timetable, and procedure

In 2010, the Commission announced in two flagship Communications the action to set-up a High Level Group (HLG) on business services:

- An Industrial Policy for the Globalisation Era, COM(2010)614: *"The Commission will set up a High Level Group on Business Services to examine market gaps, standards and innovation and international trade issues in industries such as logistics, facility management, marketing and advertising;"*
- A Single Market Act I, COM(2010)608: *"Given the importance of business services, the Commission will set up a HLG to study the shortcomings of this particular market."*

The rationale for setting up the HLG is that in the course of the last decades, performance of business services has been sub-optimal and the sector has been identified as one having a high untapped potential. The HLG on business services will provide a new impetus to policy development in this important sector. The purpose of the HLG is to help policy makers better understand the current challenges in the sector and to identify ways to improve the level of productivity and innovation of business-services. The group is expected to deliver concrete recommendations which can guide the further development of policies for business services. The HLG specifically looks at the link between business services and manufacturing.

### Selected Sectors

Business services encompass a broad range of sectors from technical services, such as engineering and architectural services; computer services to other professional services such as legal, employment services and facility management (Based on the Eurostat definition).

For the HLG to produce concrete recommendations, its work needs to be focused on a limited number of sectors. Thus, the HLG would be able to address a number of issues, which are likely to be relevant also for other business service sectors. On the basis of talks with industry and researchers, the suggested four sectors that cover different stages of the industrial value chain have been selected:

1. Private security services
2. Technical and engineering services
3. Marketing and advertising
4. Industrial design

## Tasks and Deliverables of the HLG

The work of the HLG would start with an examination of the selected sectors and horizontal issues by *ad-hoc working groups* designated by the HLG. The Commission will provide support to the HLG for this work in the form of background material (An analytical study on business services was been commissioned by the Commission and finished in December 2012. The study covers the selected four sectors and linkages between them and other key business sectors).

The *ad-hoc working groups* would provide the HLG with brief interim policy reports. The final report will be adopted in May 2014 and should include a cross-sectoral analysis but can also address other horizontal issues, as appropriate.

## Practical organisation of the work of the HLG

The HLG will hold its meetings in Brussels. Members of the HLG are high-level representatives of stakeholders (see Annex II for the list of members). Members' tasks include the preparation of the draft assessments, analysis and policy recommendations. HLG members are invited to appoint a contact person to cooperate with the secretariat of the HLG on a regular basis. The Commission will provide the secretariat and logistical support of the Group as appropriate.

For the technical work in the *ad-hoc working groups*, experts would be invited to provide concrete advice on the characteristics of the four sectors, existing barriers and recommendations. The purpose of the sectoral work is to provide the HLG with concrete examples (cases) of sub-optimal performance of the sectors and the challenges they are facing: However, to structure the work of the ad-hoc groups, it is proposed to concentrate on a few issues such as:

- Internal market
- Innovation (including ICT)
- Internationalisation
- Skills

Based on the analysis of the ad-hoc groups, a cross-sectoral analysis with horizontal conclusions and policy recommendations should be prepared. The horizontal analysis can also be based on inputs and insights with relevance broader than the four sectors, and it can be extended to any other issues as deemed relevant by the HLG. In particular, the final recommendations should not be restricted to the four sectors.

The chairperson and the rapporteur of the HLG are appointed on the basis of the Commission's proposal. The chairperson will chair the meetings and organise the work of the HLG with the assistance of the rapporteur and the Commission services acting as Secretariat. The rapporteur will draft the final report in cooperation with the HLG members.

Members of the HLG are appointed to be in charge of the ad-hoc groups and will act as *ad-hoc working groups'* chairpersons. The selected members will organise the meetings of the relevant *ad-hoc working groups* with the support of the Commission and liaise between the HLG and the *ad-hoc working groups*. The members of the *ad-hoc working groups* would be proposed by the HLG, with the Commission contributing with proposals from a pool of interested experts.

## Scope of policy recommendations

The HLG is expected to provide policy recommendations that will promote a shared vision of business services and put the business services sector higher on the political agenda.

The scope of the recommendations should cover EU and national policies, as well as relevant regulatory and non-regulatory issues. The HLG recommendations should take into account existing initiatives covering business services.

Without in any way prejudging the future work of the HLG, the Commission is particularly interested in concrete recommendations to boost the development of the EU business services sector. Such recommendations could include:

- Identification of bottlenecks in the functioning of the business services sector in relation to the performance of EU manufacturing; exploring the scope for new business models (service design) and concepts (such as outsourcing or co-production) where service and manufacturing innovations mutually enhance each other;
- Cross-cutting dimensions, such as the uptake of IT services and sustainability, which should be seen as important elements in improving productivity of business services;
- Promoting best practices to reinforce the link between business services and manufacturing in the EU Member States;
- Fostering cross-border supply of business services through identification of the remaining barriers (both regulatory and non-regulatory barriers) to Single Market in services. Success stories should be identified;
- Improving market transparency and enabling easier comparison between service providers across national borders through promotion of standardisation in services. Exploring the feasibility of performance standards and process standards in the services sector;
- Identification of ways to address regional and national labour markets gaps and problems in terms of mobility, skills mismatch, education and training;

- Identification of the potential scope for closer collaboration between public authorities, industry and researchers, including sector-specific support schemes at EU or national level for business services;
- Identify the specificities of the business services sector and study possible measures to address them in order to improve the business environment, especially for SMEs.



HIGH-LEVEL GROUP ON  
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