



# EUROPE: A CAUTIOUS PATH TO AI MATURITY

HLB SURVEY OF  
BUSINESS LEADERS 2024





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# EUROPEAN BUSINESS LEADERS REMAIN RESILIENT IN A DIFFICULT YEAR

Inflation and interest rates proved taxing in 2023. Energy prices also remained high, while the macro growth slowed as expected. As businesses look to 2024, confidence is slow to recover in Europe: Only 28% of leaders expect an increase in economic growth this year versus 41% globally.

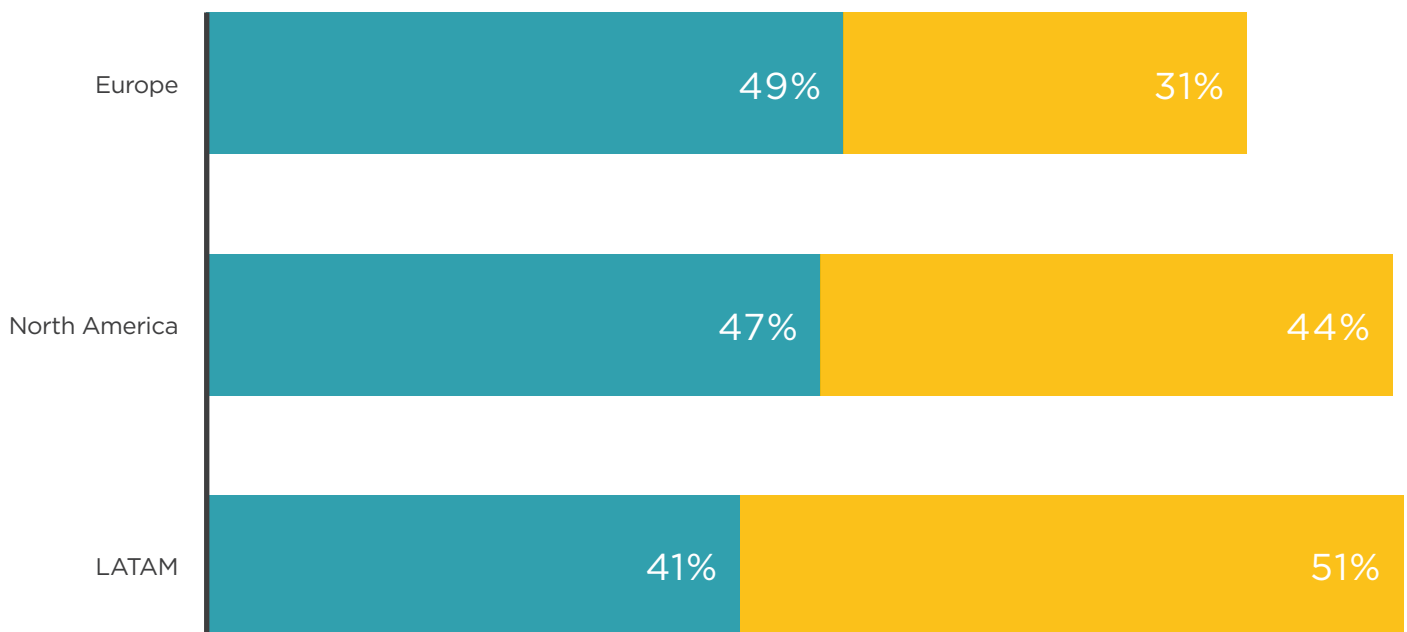
Yet first signs of optimism are emerging. When asked last year, 69% of European business leaders expected a decline in global economic growth. This year twice less (31%) respondents expect the same outcome. Stabilising energy supply and progressive transition to renewable energy, paired with more moderate weather, kept the demand for energy low, fostering stronger economic growth in 2023 than expected. The headline inflation has slowed and is projected to fall to 2.7% year-on-year by mid-2024<sup>1</sup>. The unemployment rate remains relatively low and the normalisation in wage growth continues.

Perhaps reassured by early signs of recovery, 80% of European leaders express confidence in their company's ability to grow revenue this year. Although their sentiment is much more muted, compared to peers in North America (91%) or LATAM (92%).

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## EUROPEAN LEADERS HAVE LESS CONFIDENCE IN THEIR ABILITY TO GROW REVENUES THIS YEAR, COMPARED TO PEERS

Q How confident are you about your company's ability to grow revenue over the next 12 months?



■ Somewhat confident ■ Very confident

Confidence is bound to be dampened by the unceasing and overlapping poly-crises that continue to hit leaders in Europe. The top three concerns this year are inflation (78%), economic uncertainty (73%), and geopolitical risks, including war in Europe and the Middle East (71%). Though the concern levels for each of these have reduced substantially, compared to last year.

Inflation has been steadily decelerating. In the second half of this year, the European Central Bank and Bank of England are expected to gradually start reducing interest rates. Combined with a growth in real wages and a tight labour market, these factors should lead to moderate regional growth in 2024.

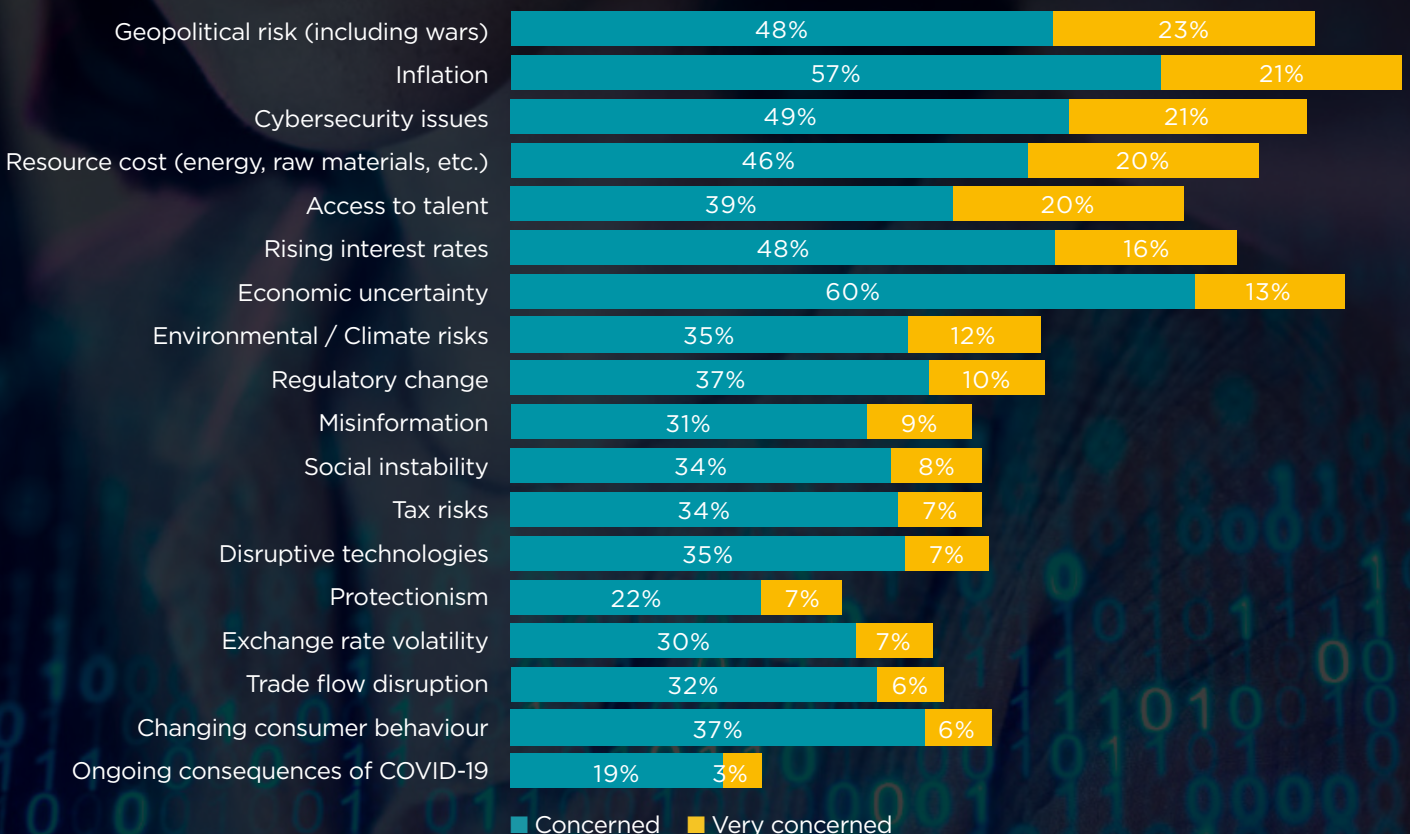
Generally, the risk radar is more clustered in Europe. While over half of global leaders feel stressed about the impacts of at least twelve different risk factors, Europeans' attention is focused on seven stressors: economic (inflation, interest rates, market uncertainty, and resource costs), political (ongoing conflicts), operational (access to talent), and tech-related (cybersecurity). Compared to the global cohort, fewer leaders are concerned with climate risks (47% vs 52%) or regulatory change (47% vs 51%).

Short-sightedness in both areas, however, may prove to be problematic. "Understanding and mitigating risks, particularly in cybersecurity, is not a one-time exercise but a continuous journey. Working with trusted tech partners who understand tech, appreciate the commercial benefits and risks, and assist in managing both is critical", notes **Mark Butler**, Managing Partner at HLB Ireland.

Competitive energy pricing remains a policy concern in Europe, but so does advancing towards net-zero energy. The EU's Carbon Border Adjustment Mechanism (CBAM) came into effect in October 2023, mandating new disclosures on carbon emissions generated in the production of certain goods, imported into the EU. The EU's Corporate Sustainability Reporting Directive (CSRD) also starts taking effect for larger enterprises in the fiscal year 2024. In 2024, the EU plans to further reduce the number of CO2 permits, which allow companies to emit a certain volume of greenhouse gases. All of these changes may have substantial impacts on business operations.

## EUROPEAN LEADERS MOST CONCERNED BY SEVEN RISK VECTORS

Q To what extent do the following risks to your business concern you?



# KEY FOCUS AREAS: PEOPLE, PROCESSES, AND TECHNOLOGY

Given the ongoing challenges, European leaders are laser-focused on further business improvements: Improving operational efficiencies (66%), and adoption of new technology (58%). Cost reduction and building further organic growth come as a joint third priority for 51%.

This year, 47% plan to review their strategy to achieve growth, compared to just 35% in 2022. New product development, however, appears less of a priority. Only 44% plan to release new products or services this year versus 53% in 2022.


Compared to the start of the decade, European leaders are almost twice more committed to using technologies as a lever for growth. Moreover, they are ten percentage points more inclined to invest in human capital than in 2021.

Europe has a long history of innovation in engineering, biomedical research, and telecommunications. However, there's been a growing 'digital' divide between Europe, North America, and China. Since the start of this decade, both the US and China have substantially increased investments in tech R&D, especially in the hardware sector. In Europe, the levels of R&D investments, on the contrary, have been declining over the last 15 years. R&D in the tech sector receives five times less funding in the European Union than in the United States<sup>2</sup>. Although Europe and the UK have a segment of high-performing tech companies and unicorn startups (valued at above €/£1 billion), the sector is more modest when compared to the US or China.

## EUROPEAN LEADERS PRIORITISE EFFICIENCY AND NEW TECHNOLOGY ADOPTION

Q Which of the following actions are you planning to take in the next 12 months, in order to grow?





European business leaders already recognise the strategic importance of investing in new technologies. However, their progress appears hampered by gaps in talent and strategy, paired with turbulent economic conditions.

Actions planned by leaders in Europe suggest a commitment to further transform their business models, by both optimising short-term costs to secure extra funds for more long-term, innovative projects. To do so, however, European leaders will need to address weaknesses in operational efficiencies, cost management, and talent acquisition.

Europe continues to face a shortage of skilled workers. Over three-quarters of small and medium enterprises in the EU struggle to recruit workers with the right skills<sup>3</sup>. This holds them back from expanding their business activity. In the UK, only five out of 97 skilled occupations don't experience any talent shortages<sup>4</sup>. Vacancies in the healthcare, science, technology, and STEM sectors often remain unfilled. In 2024, 42% of European leaders want to improve their talent acquisition. In contrast, only 27% of North American and 24% of LATAM leaders consider talent acquisition a weakness.

To an extent, ongoing talent difficulties are linked with the countries' inability to attract and retain workers. For some sectors like healthcare, the challenging working conditions are also a major deterrent. In other cases, lack of highly specialised skills is the defining factor. According to a 'Digital Economy and Society Index' by the European Commission, 4 out of 10 adults in Europe lack basic digital skills<sup>5</sup>. In the UK, nine in ten employees will have to reskill by 2030 to meet the evolving employer needs<sup>6</sup>.

Emerging technologies like artificial intelligence (AI) could provide business leaders with new opportunities to overcome their workforce challenges. Although technology adoption in itself requires new skills, it also encourages wider workforce transformations. Intelligent automation solutions and generative AI tools can act as force multipliers, taking over routine tasks and providing your team with more headspace to perform creative, value-added work. **Mónica Bové** of Bové Montero (HLB Spain) recommends business leaders to focus on cultivating employee skills like 'data literacy', 'cybersecurity awareness', 'adaptability', as well as wider proficiencies in technical skills like programming languages and data analytics.

# RISKS WORTH TAKING: AI ADOPTION





Business leaders in Europe are more conservative about the international business environment than their global peers. They know that long-term competitiveness involves embracing emerging technologies and maintaining a ‘digital’ mindset. However, they are also cautious about pursuing ambitious transformations.

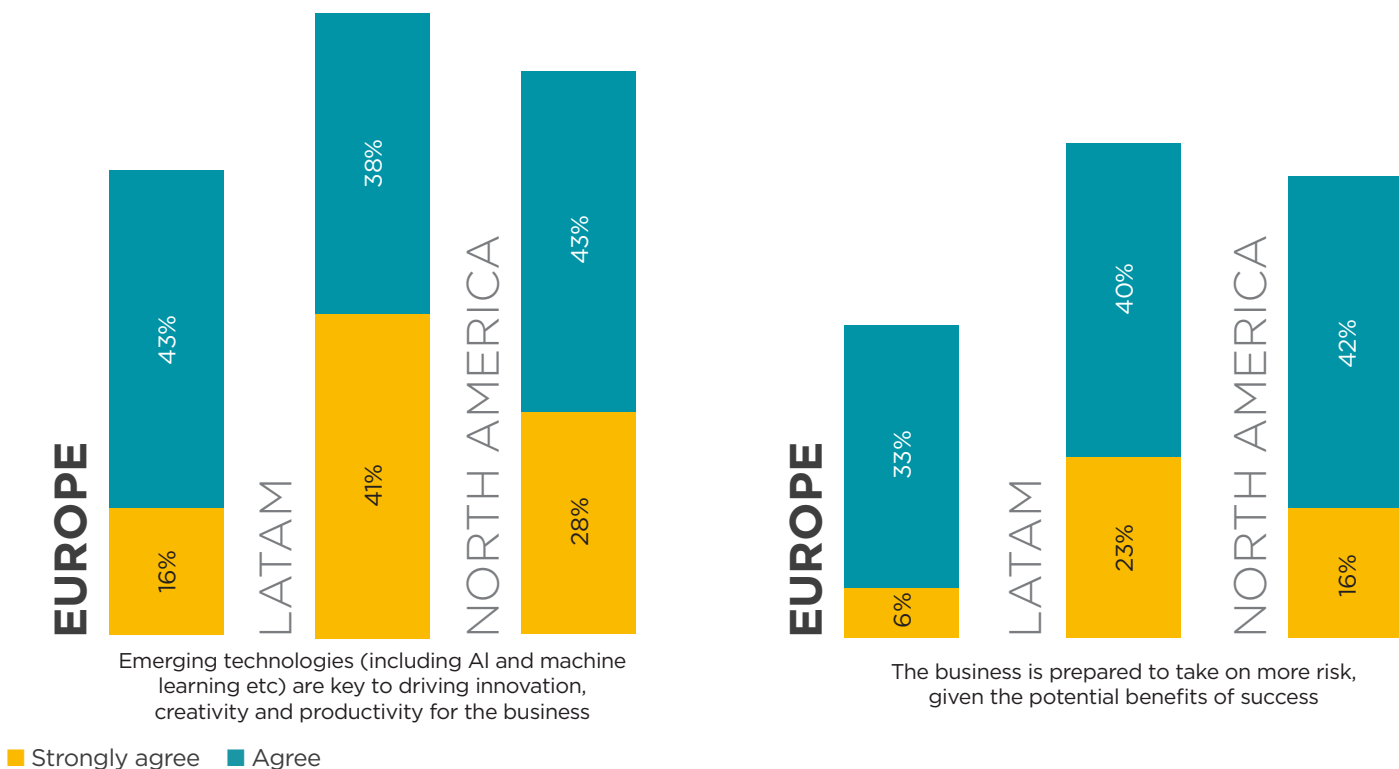
Although 59% agree that emerging technologies are key to driving innovation, creativity, and productivity for the business, only 39% are prepared to take on more risk in this area, given the potential benefits of success. In comparison, leaders in North America and LATAM are much more eager to embrace both the risks and the

gains new technologies could generate for their business. Trade disruption has also been ongoing, but only half agree the tech advances will help overcome future cross-border challenges vs 63% globally.

Curiously, however, European leaders are less likely to cite short-term priorities and unexpected market disruption as barriers to new technology investments, compared to peers in the Western hemisphere.

## EUROPEAN LEADERS ARE MORE CAUTIOUS ABOUT EMERGING TECHNOLOGIES

Q To what extent do you agree with the following statements in terms of integrating AI technologies into the business?



For European leaders, technology adoption appears to be a long-term, paced goal, rather than an immediate action item. In the five-year perspective, artificial intelligence (62%), cloud computing (54%), and renewable energy (44%) ranked as the top-3 most important technologies.

The importance of AI has increased by almost two times since 2021, alongside a greater focus on renewable energy, battery storage, electrification, and biometrics. Curiously, most other emerging technologies have decreased in importance compared to previous years, namely robotic process automation (RPA), the Internet of Things (IoT), and blockchain.

European leaders have determined their key technology priorities. However, they don't plan to rush into action and appear to be taking a more cautious, yet systematic path to AI adoption.

European businesses appear to not have AI as an immediate priority. Instead, they're more focused on cost optimisation, workforce management, and immediate (geo)political concerns. The "EU AI Act", proposed in June 2023, and due to pass a final vote in March 2024, may also deter some leaders from taking immediate action.

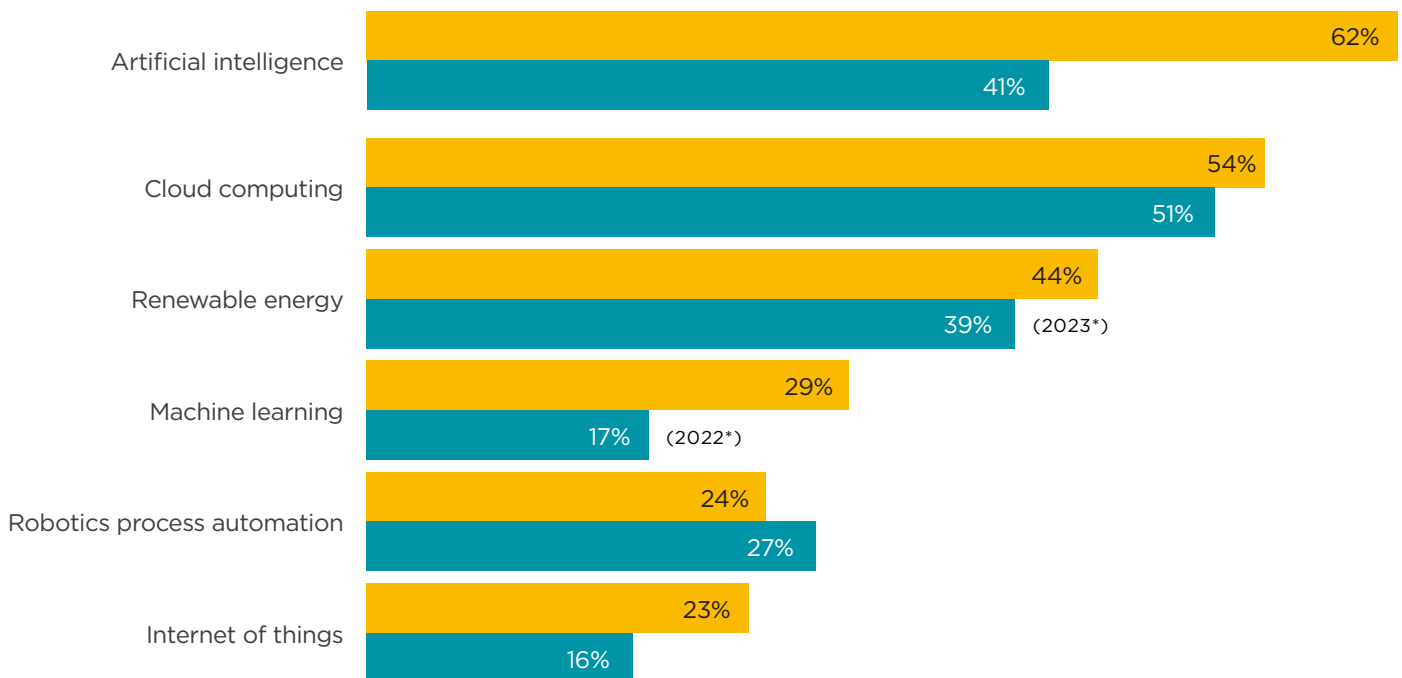
The landmark 'AI laws' have a good cohort of critics and supporters. On the pro side, the AI Act aims to provide a shared legal framework for developing ethical AI applications, protecting user rights and data, alongside EU-funded infrastructure to support AI projects.

It also aims to facilitate collaboration on AI projects between the government, private companies and research institutions in the block.

On the downside, the AI Act has been criticised for extensive supervision from government bodies, which may hinder the speed of innovation and global competitiveness of EU-based companies. The complexity of implementing certain requirements may also deter new market entrants and delay the time to market for new products — the type of action AI leaders prioritise. Globally, companies that identify as AI innovators are 1.3 times more confident in their ability to grow revenues this year compared to their peers. They are also more likely to launch new products (56%) this year, seek strategic alliances with other businesses and collaborate with entrepreneurs (32% vs 13%) to grow their business.

## IMPORTANCE OF AI AND CLOUD COMPUTING HAS BEEN RISING YEAR-ON-YEAR

Q Which of these technologies will be the most important to your business over the next 5 years?



■ 2024 ■ 2020 \* year this option was added to the survey

**EUROPEAN LEADERS ARE IN THE 'LEARNING PHASE' ON THEIR AI JOURNEY**

European leaders are still at the start of their adoption journey: 30% haven't yet started with adoption (vs 21% globally), 45% are learning about the opportunities (vs 37% globally), 15% are integrating AI into their operations, while 8% are optimising and leading in this area.

The majority of European leaders (41%) identify as Explorers. They're willing to deploy AI technologies if there is a convincing business case for them. Another 38% are Innovators, who are either already using AI to an extent or eagerly preparing a business case for adoption. Compared to all regions, Europe also has the largest fraction of AI conservatives. 21% of European leaders are cautious or even averse to using AI.

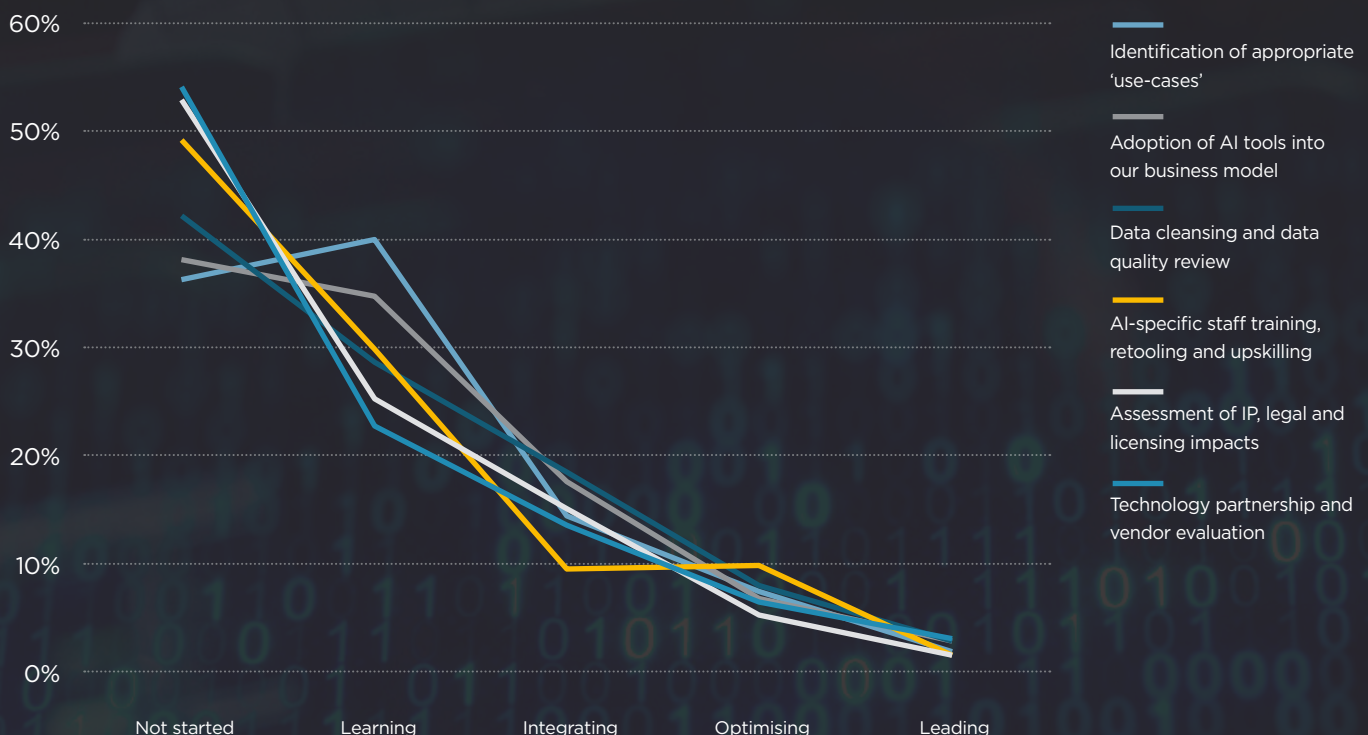
European leaders have made the most progress in the baseline tasks for AI adoption: 29% have completed data cleaning and quality reviews, 26% did technology readiness assessments, 23% identified appropriate AI use cases, and 22% performed assessments of IP, legal and licensing impacts.

Fundamentally, however, Europeans are behind their peers on the AI maturity curve. In APAC, for example, over 40% of businesses claim to be already adopting AI tools into their business model versus only 28% of Europeans. Similarly, North American leaders made twice the progress with regard to 'use case identification' and assessments of regulatory implications. Fewer European businesses have also completed vendor evaluations or entered technology partnerships than in North America, LATAM, Africa, and the Middle East.

A European CEO in the Real Estate industry expressed what appears to be the general sentiment about AI in the region: "We need to spend time learning the benefits of AI and how to integrate it into our activities"

**MOST EUROPEAN LEADERS HAVE NOT YET BEGUN AI ADOPTION**

Q Where do you rate your own business today on the following aspects of AI adoption?



'Lack of use cases and unclear ROI' was named as the main barrier to adoption by 39%. Almost immediately followed by data security and privacy concerns (38%), with the lack of time (35%) being the top third concern. 'Lack of budget' and 'low executive commitment', however, are less of an issue.

Leaders from several European publicly listed companies also mentioned the "lack of the right human skills set for digital transformation" and "education and opportunity awareness" as current constraints. Small and medium businesses (SMB), in turn, are seeking greater support for formalising their business case for adoption. SMB leaders seek "clear illustrations of how AI works and the benefits the technology can provide", "educational and cybersecurity support", and

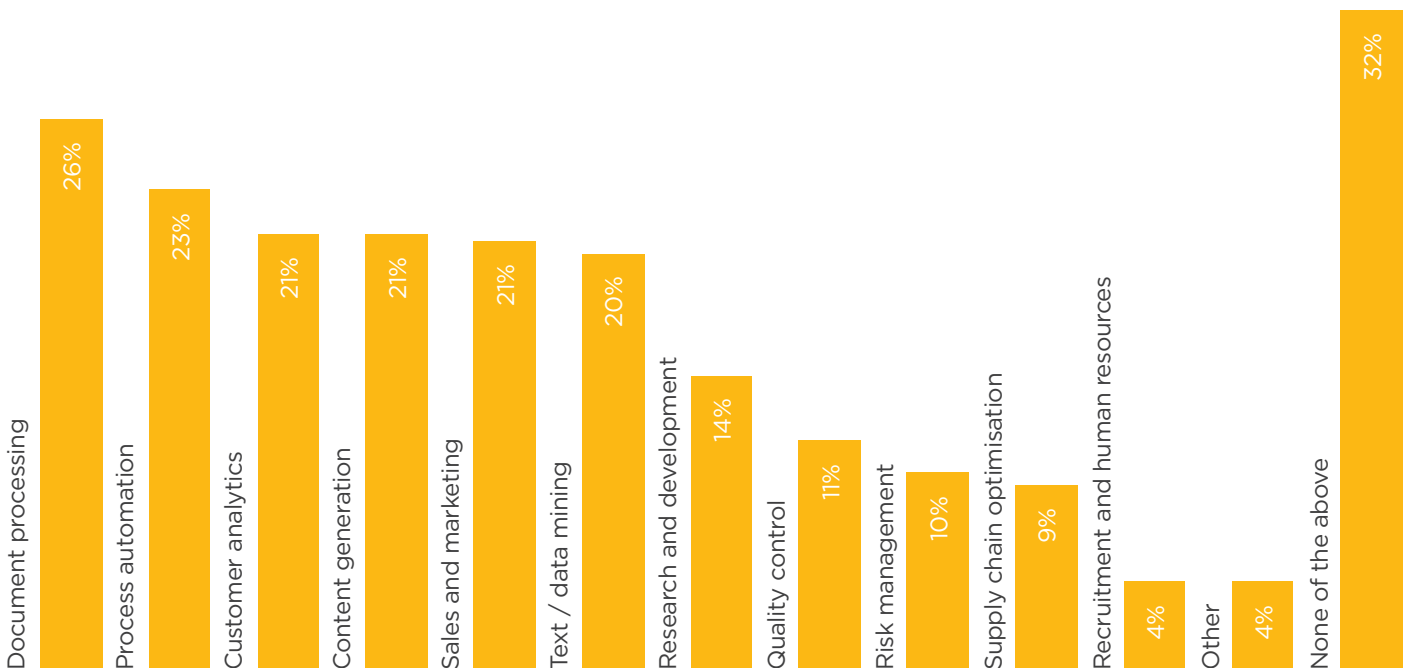
more general guidance on available commercial solutions.

As a CEO from the Retail sector notes, "All businesses are suffering from challenges that could be solved with a simple integration with a third-party AI tool, but they are just not aware of the possibility".

European leaders appear to have most of the internal resources to muster AI transformations. Yet, they're reluctant to dive head-first into the project. Some caution is a good practice as the implications of new technology only look obvious in retrospect. However, "too many of the highlighted concerns could slow adoption", a COO from a technology sector noted.

## DOCUMENT AND PROCESS AUTOMATION TASKS ARE AMONG THE TOP AI USE CASES

Q Where has your company used AI technologies to automate or enhance operations?



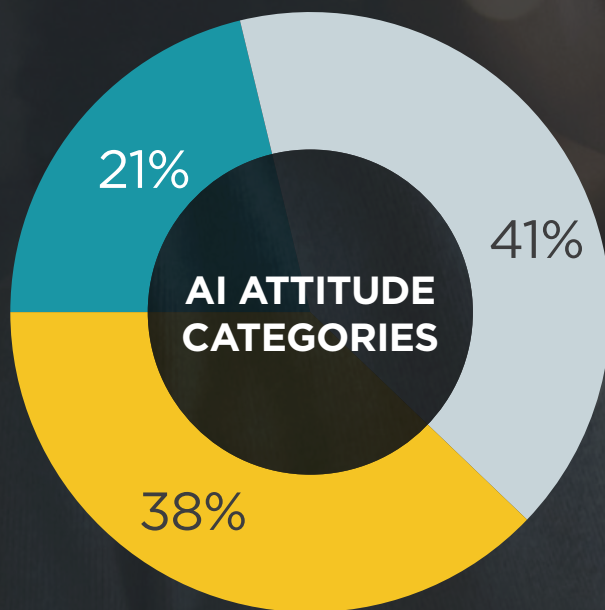
To leaders' seeking a faster, more reliable approach to experimentation, **Mónica Bové** of HLB Spain recommends "engaging cross-functional teams, involving domain experts and technical professionals." Doing so provides a comprehensive perspective on both business requirements and technical feasibility. "Pilot projects can validate feasibility and effectiveness

before full-scale implementation, and implementing a monitoring and iteration plan ensures continuous improvement". Combined with proactive communication on the benefits and impacts of AI initiatives, such an approach allows proactive implementation of use cases that can bring tangible value.

# EUROPEAN LEADERS ARE MORE LIKELY TO BE EXPLORING THEIR OPTIONS

## SENTIMENT TOWARDS AI IN EUROPE VARIES

Q Which of the following best describes your attitude towards AI technologies?



■ AI Explorers ■ AI Innovators ■ AI Conservatives

The majority of European leaders (41%) identify as Explorers. They're willing to deploy AI technologies if there is a convincing business case for them. Another 38% are Innovators, who are either already using AI to an extent or eagerly preparing a business case for adoption. Compared to all regions, Europe also has the largest fraction of AI conservatives. 19% of European leaders are cautious or even averse to using AI.

AI Innovators appear to be powering ahead to get a better position at the start of the new growth cycle, while AI Conservatives appear to be gearing up for another economic downturn. Counterintuitively, AI Innovators are more concerned about the geopolitical climate, inflation, and cybersecurity risks than AI Explorers and AI Conservatives. Half of European AI Innovators plan to launch new products this year. AI Conservatives, in turn, are mostly committed to cost reduction (49%) and seeking improvements in operating efficiencies (47%).

“This awareness underscores the need for a strategic partnership with experts who can provide the technical know-how and the foresight to anticipate and mitigate emerging threats. At HLB Global, we understand the value of expert guidance in both identifying potential risks through cybersecurity audits and harnessing the power of emerging technologies to drive business growth and innovation,” says **Mark Butler**, Managing Partner, at HLB Ireland.

Emerging technologies are often accompanied by a burst of growth potential. Public cloud computing companies cater to customers in every corner of the globe. ChatGPT amassed millions of users in a matter of days. European AI Innovators express much higher confidence in their ability to grow revenue this year. 40% are very confident compared to 29% of AI Explorers and 20% of AI Conservative companies.

Half of European AI Innovators also plan to invest more in human capital this year. European companies experience a substantial shortfall in both technical skills and soft skills such as critical and strategic thinking, required for AI implementation. 42% of AI Innovators have already implemented AI-specific staff training, retooling, and upskilling vs just 9% of AI conservatives.



# ACCELERATING YOUR JOURNEY TO AI ADOPTION

Since the start of this decade, leadership capacity for innovation has been contracting, not expanding in Europe. Leaders may see AI as the ultimate goal in a five-year perspective, but they must also make measurable progress today to avoid being at the tail of the global race.

We have identified three areas of focus that European leaders should consider gaining a stronger footing with AI and make targeted progress on the maturity curve.

1

## PRIORITISE INVESTMENT IN HUMAN CAPITAL

The labour market in Europe remains tight. If new talent isn't immediately available, consider upskilling and reskilling programmes. Prioritise initiatives that could help improve data literacy, analytics, process automation, and cybersecurity skills. These measures equip staff with the essential skills to navigate the evolving technological landscape.

Try out emerging technology to automate menial, routine tasks to empower your workforce to focus more on creative problem-solving and innovation. Consider bringing external consultants on board to help with employee training and new workplace technology implementation to further accelerate the speed of transformation.

2

## CONSIDER AN ITERATIVE APPROACH TO AI ADOPTION

No one can tell you with 100% certainty which AI use case(s) to prioritise. The answer is rooted in your business goals and available data. Perform a data audit to understand what type of information your company collects, stores, and can use for AI projects, given the applicable regulations.

Start with evaluating the basic approaches. Consider data analytics and statistical machine learning models as potential candidates before sizing up more complex (and expensive to implement) deep learning models. Assess off-the-shelf solutions, offering the business capabilities you seek. Decide whether you want to build up your expert team in-house or partner with an external provider to implement a proof-of-concept project.

3

## SEEK GROWTH IN DIFFERENT AREAS

Elevated risks and slow market recovery prompts 'belt-tightening' behaviours. In this sense, AI adoption can appear as a high-cost and high-risk initiative. Approach the matter from an opposing perspective: How much cost savings and efficiency gains could an AI tool or an AI pilot generate?

That said, not every company needs to become an 'AI company'. Successful adoption of advanced analytics and modern process optimisation tools in several functions can help many leaders achieve meaningful operational impacts. Beyond AI, areas like quantum computing, clean energy production, and green logistics, among others, also offer a substantial potential for innovation and long-term competitiveness.

## ENDNOTES

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## HOW HLB CAN HELP

With technological advancements evolving at an ever-accelerating speed, businesses are looking to understand the competitive advantage new digital technologies such as AI can offer them. Our findings suggest significant differences in potential business outcomes between businesses embracing AI technologies and those more cautious about adoption. A structured approach is needed to effectively reduce risk and gain ROI from digital transformation efforts.

If you would like to explore the findings in this report and how they inform your next phase of transformation and growth, we would welcome the opportunity to discuss these with you.



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