

NORTH AMERICA: PREPARING FOR AN AI-LED GROWTH CYCLE

HLB SURVEY OF BUSINESS LEADERS 2024





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BUSINESS LEADERS ARE CONFIDENT AND RESILIENT

North American leaders are optimistic after a year of stronger-than-expected macro-performance. 91% are confident in their ability to grow revenues this year – the most positive sentiment globally. Only 22% of respondents expressed the highest confidence level last year, compared with 44% this year.

The US recorded a 2.8% real GDP growth in 2023, while Canada’s was 1.3%¹. For 2024, a more modest expansion is expected at 0.7% and 0.9%, respectively². Positive tailwinds for business leaders include a strong labour market, labour cost compression, and decelerating inflation. High interest rates continue to constrain economic activity but also alleviate inflationary pressures as both countries aim to reach a 2% target in 2024.

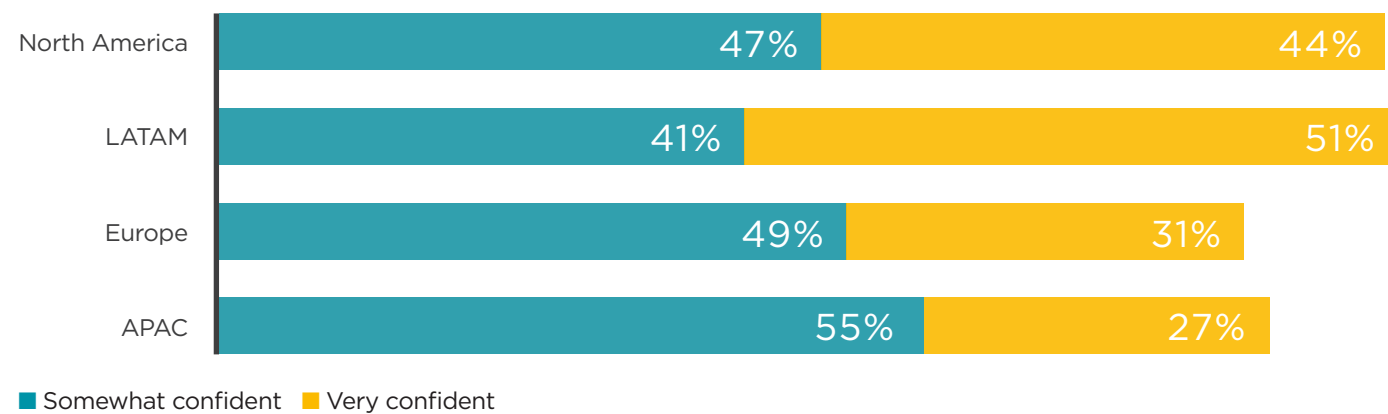
Confidence in the global economic rebound increased from 25% in 2023 to 42% this year. Half as many North American leaders expect a slowdown in economic growth compared to last year despite ongoing stressors.

Risks to growth persist with over half of the leaders concerned with seven risk vectors. Inflation (74%), geopolitical risks (72%), and cybersecurity issues (71%) are the top three stressors. High levels of concern over rising resource costs, lingering economic uncertainty, and rising interest rates are, to an extent, reinforced by the top risk factors.

The Federal Reserve has adopted a ‘higher for longer’ interest rate approach to control headline inflation. The hiking cycle appears to be over with interest rates likely to hold at 5.25%- 5.5% until mid-2024. Under tight fiscal measures, inflation has been decelerating, with rates hovering between 3% and 4% through mid-2023 and early 2024. Morningstar expects a further drop to the Fed’s 2% target rate later in 2024 and an average of 1.9% from 2024 to 2028³.

CONFIDENCE LEVEL PEAK IN 2024

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



The Central Bank of Canada has maintained its quantitative tightening policy, keeping the rates at 5% since the start of 2024. Core price inflation eased to 2.9% in January 2024, yet three-month measures of core inflation remain in the 3% to 3.5% range⁴. The Bank of Canada expects a return to a 2.5% target by the end of the year and a potential decrease in interest rates by summer 2024⁵.

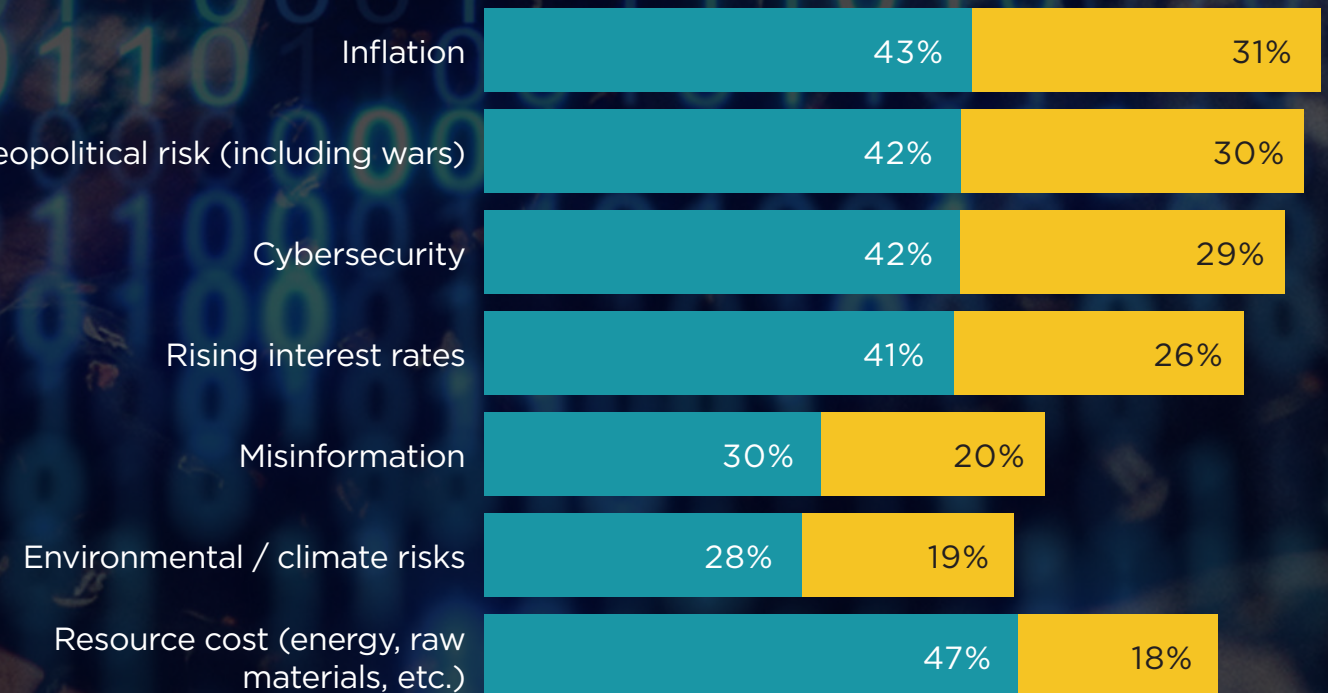
US credit card interest rates will likely stay at the elevated levels of 20%-24% despite rate cuts. Coupled with a restart of student loan

repayments, this will likely reduce consumer spending. This may also explain a higher concern over changes in customer behaviour, up by 10% compared to 2023.

A tight labour market may dampen some of these fiscal impacts. The US unemployment rates stayed between 3.4% and 3.8% for almost two years, despite layoffs in the tech sector⁶. This year, leaders are 19% less concerned about access to talent.

TOP SEVEN OPERATING RISKS FOR NORTH AMERICAN LEADERS

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



Concerned Very concerned

30% of leaders are also very concerned about geopolitical risks, up 16% from last year. War in Ukraine and new tensions in the Middle East sent shock waves through global markets. Ongoing trade rivalry with China and pandemic-induced supply chain challenges continues to propel the transition to near shoring. Over half of leaders are changing their sourcing strategies to focus on sourcing closer to home. According to the US Chamber of Commerce, one in four American businesses currently manufacturing in Asia plans to move out of the region in the next five years⁷. A fraction of businesses that aren't yet manufacturing in Mexico (14%), South America (11%), or Central America and the Caribbean (6%) are planning to move to these regions.

Supply chain restructuring is prompting greater optimism. Over 50% of leaders believe changes in trade agreements will create new opportunities for their businesses. Trade relationships also remain strong between the US and Canada. Exports in 2023 were \$427.7 billion; imports were \$481.2 billion⁸. However, the trade flows may be hampered by an ongoing dispute over digital service taxes (DSTs).

Canada has now moved ahead with the implementation of its domestic DST, as no multilateral agreement was reached by the end of 2023. Canada's DST scheme plans to collect a 3% DST on revenue above CA\$ 20 million from digital businesses using Canadian user engagement, data, and content contributions. The scheme is retroactive with effect to 1 January 2022 and disproportionately affects US-based ecommerce multinationals, leading to strong opposition from the US Trade Representatives. The matter will likely be settled on mutually beneficial terms to avoid further disruption. Generally, concerns over trade flow disruption dropped by 10% compared to last year. 63% of leaders also believe technological advances will help them overcome future cross-border challenges.

North American leaders continue to worry about cybersecurity issues, which have consistently scored about 70% over the last three years. The flip side of rapid digital transformation on the continent is greater exposure to cyber threats. In 2023, US businesses faced over 420 million cyber attacks, equivalent to 13 attacks per second⁹. Federal agencies and private companies were frequent targets of international cybergroups, seeking access to sensitive personal information of users and employees or takeover of operated infrastructure.



A DUAL FOCUS FOR 2024: BUSINESS OPTIMISATION AND REVENUE GROWTH

In response to ongoing market volatility, North American leaders aim to balance optimisation against growth. Increasing operational efficiencies is a top priority for the next 12 months, followed by new technology adoption, new product and service launches, and strategy reviews.

LEADERS PUT THE MOST EMPHASIS ON AI AND CLOUD

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



Cloud continues to maintain a second position for the second year in a row. Peak interest levels in cloud computing were in 2021-2022, likely indicating the company's push for the adoption of digital business models. The importance of robotic process automation (RPA) saw the second sharpest increase compared to last year, up 10%. RPA has proven to be an affordable and effective technology for business process automation. Macros-based bots can perform linear business processes, requiring data entry, cross-checking, and validation with high accuracy rates. Low-coding platforms like Microsoft Power Platform allow business users to automate standard workflows using graphical tools and pre-made connectors between systems. Globally, companies now have 77 RPA processes in production, while 25% of enterprises have over 250 process automations in their estate¹⁰.

Business leaders in North America view technology adoption as a critical lever for agility and growth. 71% agree that emerging technologies (including AI and machine learning) are key to driving innovation, creativity, and productivity for the business. ChatGPT amassed millions of leisure and business users within months, handling tasks from meal planning to consumer sentiment analysis. Harvard Business School and The Wharton School researchers estimated that generative AI models improve highly skilled workforce performance by 40% on business tasks like preparing a new product presentation¹¹. However, the study also showed that some employees may rely fully on AI recommendations, leading to suboptimal outcomes.

Gen AI (and other emerging technologies) can undeniably help leaders address their top weaknesses in operational efficiency (38%) and cost management (38%). However, technology is a tool that still requires skilful operators. AI may not match human cognitive effort and expertise in analytical judgments and strategic decisions. What the technology does well is streamline menial and manual workflow steps, freeing human talent for strategic tasks requiring logical reasoning and creativity.

In the context of emerging technologies and AI, over half are prepared to take on more risk, given the potential benefits of success. "Artificial intelligence technologies — generative AI, in particular — have proliferated around the world and in countless capacities over the last year. They've put seemingly infinite possibilities for efficiencies and easy execution at everyone's fingertips — not just those of computer programmers, engineers, and the like," says Stacie Kwaiser, Chief Executive Officer, Rehmann (HLB USA). "On the other side of the coin, however, AI's accessibility also makes the work of threat actors easier and more efficient,

which has compelled all of us to adopt ever-better technologies to protect our organizations". AI adoption exposes businesses to novel threats: attacks against AI models in production and AI-enabled exploits. Both can carry substantial operational risks and require better cyber defence mechanisms. 34% of business leaders already flagged 'cybersecurity' as a weakness area to address this year, up by 9% compared to 2023.

LEADERS SEEK TO ESTABLISH LEAN, SECURE OPERATIONS

Q Which of these areas do you consider weaknesses within the business that you need to focus on in the next 12 months?



ENTERING THE ERA OF AI-LED GROWTH

The US economy defied market expectations last year, showing greater expansion despite the growing inflation, high borrowing costs, and geopolitical complexities. Labour productivity has increased 2.7% year-over-year, outpacing the 25-year average¹².

A substantial fraction of the economic and productivity gains were driven by tech companies. The seven biggest US stocks, all from tech businesses, now make up the same proportion of the global market as Japan, the UK, China, France, and Canada combined. Rapid adoption of AI can further increase the magnitude of value creation. Goldman Sachs estimates that AI can drive US productivity growth by 1.5 percentage points annually over a 10-year period and start directly influencing GDP by 2027¹³.

This year, 56% of business leaders in North America indicate that they plan to launch new products or services, up 23% from 2023, possibly encouraged by the tech-driven market expansion and increased consumer confidence.

The real consumption spending grew almost 2.4% through 2023, against the initial 0.5% forecast¹⁴. Thanks to a strong labour market, the personal consumption expenditures price index continued increasing in Q1 2024 despite the high borrowing costs and persisting inflation¹⁵.

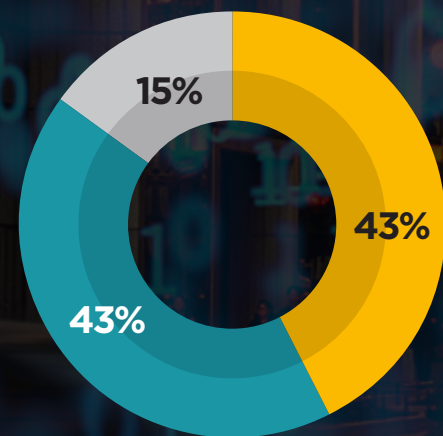
Emerging technologies are also changing how companies build new products. Some embed AI models into existing products to unlock new capabilities. The Royal Bank of Canada (RBC) has operated the Borealis AI Research Institute since 2016, working on R&D and commercialised AI applications in finance. RBC's AI-powered products include Aiden trading platform, NOMI personal finance assistant for retail customers, Prism stock market simulator, and Turing natural language processing data analytics tool. RBC ranked in the top three for AI maturity among 50 global financial institutions in the Evident AI Index for the second year in a row, with JPMorgan Chase and Capital One taking the first and second positions, respectively.

Others are using the technology to improve how they approach product design, manufacturing, sales, or post-customer support. General Motors (GM) uses generative artificial intelligence algorithms to create more durable parts and optimise vehicle design. Using the software, GM engineers improved the design of a seat bracket, making it 40% lighter and 20% stronger. Procter & Gamble (P&G) relies on combining industrial automation technologies and AI algorithms to improve lead time for new products. After a series of successful pilots, P&G plans to digitise and integrate from over 100 manufacturing facilities. Then, leverage AI to support operating and product development decisions.

Among North American respondents, 43% are eager to use or have already adopted AI. Of these, 18% are widely using AI for a competitive advantage, twice the rate in APAC and Europe. "We are leading with AI and have done a partnership with NVIDIA Corp for developing LLM," a leader from the technology sector shared.

SENTIMENT TOWARDS AI IN NORTH AMERICA VARIES

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



■ AI Explorers ■ AI Innovators ■ AI Conservatives

An equal proportion (43%) are willing to try AI technologies for the right business case. Yet, 13% are also cautious about deploying AI, considering that the risks outweigh the benefits, while 2% are averse and doubt the impact. A degree of realism, however, is necessary when evaluating maturity levels. "In many cases, the rapid advancement of technology is outpacing the actual utilization and understanding of what is possible," says Dayton Benway, Managing Principal, Baker Newman Noyes at HLB USA. "In my opinion, technology adoption increases may sometimes be an acknowledgement that companies have been investing in new tech but not the adoption and are now focusing on the adoption phase".

Indeed, North American leaders are at various AI adoption stages: 16% haven't started, 29% are learning, 21% are integrating AI into business operations, 22% are optimising, and 11% are leading in AI adoption.

Over half of the leaders (54%) have completed data quality checks and technology readiness assessments. 46% have also identified the most appropriate use cases, while 37% actively evaluate different options. "Our business needs access to AI experts and consultants to ensure that we are utilising the most up-to-date technology and developing effective AI strategies. We also need the financial resources necessary to ensure that our AI initiatives are well-resourced and supported in the long run", said a CFO at a publicly listed food and beverages company.

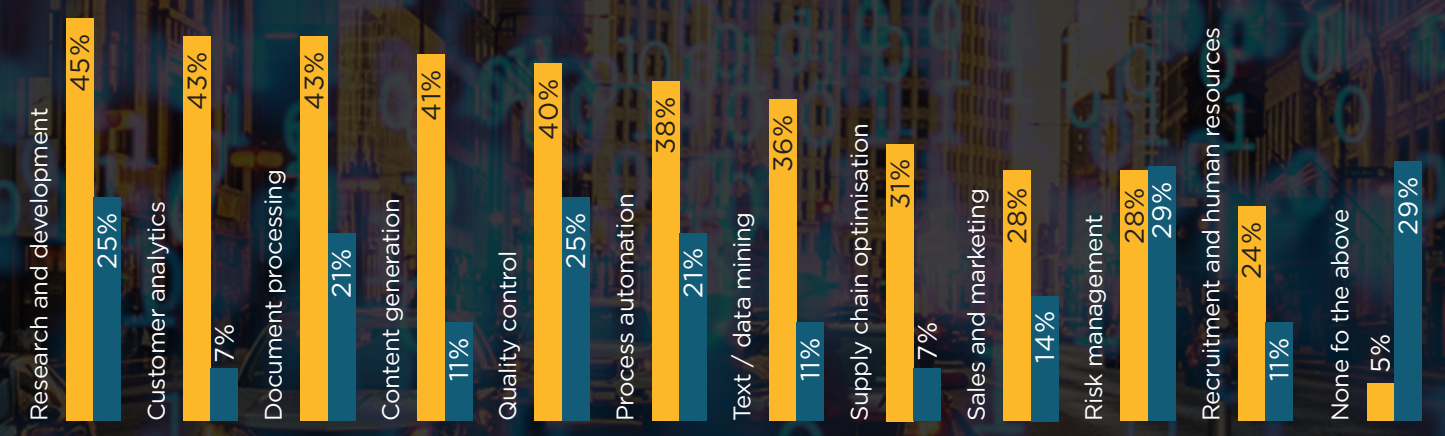
North American businesses are using AI to automate and enhance operations, focusing first on document processing (34%), then research & development (30%), followed by customer analytics and process automation — both at 29%. "These use cases are the easiest to transform into a workflow that leverages AI capabilities," observed Baker Newman Noyes. "These are also the areas that allow for a formal inspection of the output to gain confidence in the effectiveness of an AI enhancement before deploying full AI automation. Additionally, these use cases are an obvious candidate for efficiency by replacing nonvalue-added effort with AI-infused processing".

The selection of use cases differs substantially between AI Innovators and AI Conservatives. Companies further on the maturity curve are primarily using AI for R&D activity (45%), customer analytics (43%), and document processing. (43%). This cohort appears to be gearing up for a new growth cycle as they're also planning to launch new products to grow this year and review their strategy.

AI Conservatives, understandably, are less likely to use AI in general. 25% haven't yet explored either of the use cases. While 25% are experimenting with AI for quality control and R&D In terms of growth plans, 43% of AI Conservatives are relying on organic growth. Only 39% plan to launch new products or services (not necessarily AI-related) against 64% of AI Innovators.

AI INNOVATORS VS AI CONSERVATIVES.

Q Where has your company used AI technologies to automate or enhance operations? (Showing answers for AI Innovators and AI Conservatives only)



■ AI Innovators ■ AI Conservatives

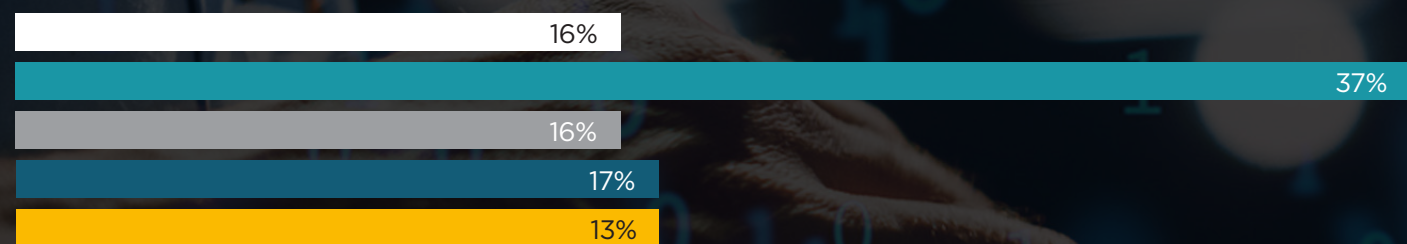
BARRIERS TO ADOPTION

Areas where leaders made the least progress include AI-specific staff training and technology vendor evaluations. Over 30% haven't yet started with either. "We need a lot more training, so a company that can educate and bring along our IT team as to how to best use AI technology to enhance business operations," a CTO at a publicly-listed hospitality company admitted. A leader from the manufacturing sector also mentioned the need for "better training for our technology staff regarding the implementation of AI tools" as a prerequisite for faster progress.

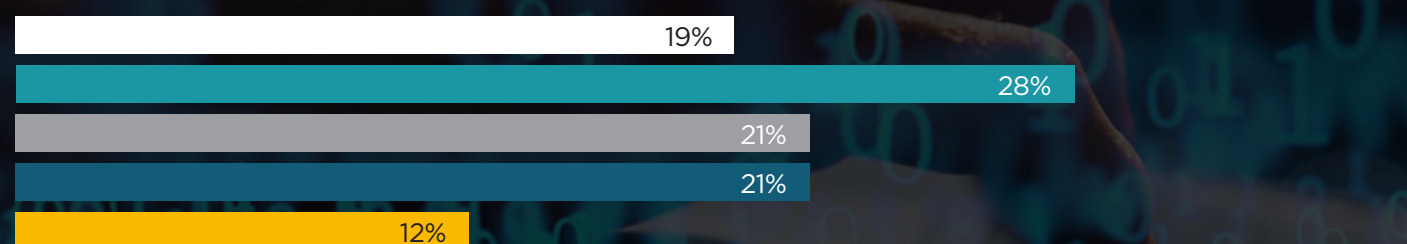
NORTH AMERICAN LEADERS MADE UNEVEN PROGRESS ON AI MATURITY CURVE

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

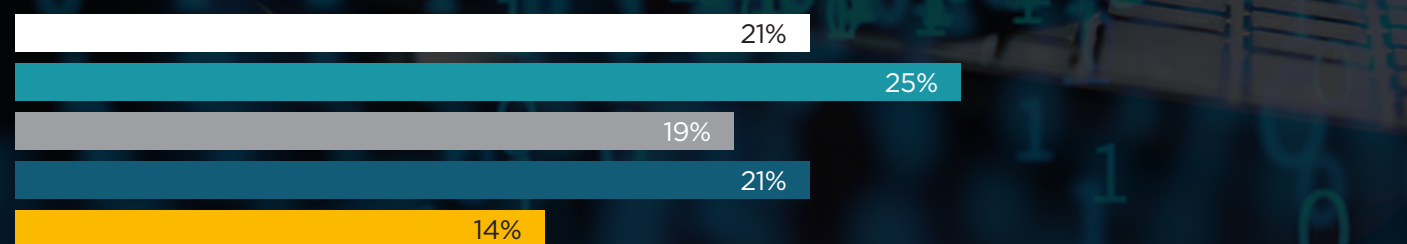
Identification of appropriate 'use-cases'



Adoption of AI tools into our business model



Technology assessment and readiness review



■ Not started ■ Learning ■ Integrating ■ Optimising ■ Leading

Over half of leaders have either not looked into or are still learning about the legal, licensing, ethical, and compliance impacts of AI adoption. In the US, 25 states, Puerto Rico and the District of Columbia already introduced artificial intelligence bills.¹⁶ The recent White House Executive Order on AI provides a further framework for developing regulations. Canada introduced the Artificial Intelligence and Data Act (AIDA) in 2022 to set the foundations for the responsible design, development and deployment of AI systems.

Neither of these changes in legislation call for restrictive measures.

However, this may change in the near future as AI companies are facing a growing number of commercial lawsuits. OpenAI, the developer of ChatGPT, faces several copyright lawsuits for using media companies' data to train its models. Music publishers Universal Music Group, ABKCO and Concord Music Group sued Anthropic for misusing hundreds of song lyrics. Getty Images prepares for a court battle with Stability AI over using copyrighted materials for training its Stable Diffusion. Stacie Kwaiser encourages business leaders to conduct their own due diligence. "Regulators may make up our minds for us on whether we can use Gen AI tools for certain tasks in the future. However, it will take time for the regulators to properly address how to govern — or provide guardrails for — Gen AI and other emerging technologies. In the meantime, organisations are best suited to take an ethical approach, involving people from all parts of their organisation to help develop best practices, policies, and appropriate use."

AI adoption raises a lot of discussions about data ownership. Over half of leaders see data security and privacy concerns as top barriers to AI adoption. AI models can access large training datasets, often containing sensitive information. When accessible via public interfaces, such models can be prompt-injected with malicious commands to disclose sensitive information. Due to a glitch, paid ChatGPT users' names, email addresses, and credit card numbers (the last four digits only) became publicly available for a brief period in March 2023.

To secure new AI products, leaders will also need to substantially update their data management practices ensuring that no sensitive data is used for model training purposes to prevent IP, compliance, and licensing risks. New privacy-preserving machine learning and privacy-preserving federated learning are also helping leaders secure publicly accessible models from targeted cyberattacks.

Other barriers undermining adoption efforts include 'data quality and quantity', cited by 39% of respondents in North America and 'lack of use cases / unclear ROI' (cited by 38%). The latter barrier is the most pronounced among AI Explorers (46%). "I am not sure how AI will help with our business. The only thing I can think of is looking for quality candidates," a leader from the healthcare sector mentioned. A COO at a transportation company also admitted their company lacks "understanding of how we can best use new technology."

For AI Conservatives, data security and privacy concerns (63%) overshadow all other barriers. They're also more likely to cite a lack of time and budget as ongoing constraints. "Convincing the rest of the organisation that AI is a benefit and not a detriment," a CTO at a technology company admitted. "The largest risk seems to be the unknown of what's to come from AI," agrees Stacie Kwaiser. To overcome such doubts, leaders should "pick the right technology and apply it where it's going to fit your company's risk appetite. Then, cultivate trust with your customers and be transparent about where and how you use their data. If you're going to put their personal data into AI, tell them. If you're going to generate answers for the client with AI, tell them. Transparency builds confidence."

AI Innovators also worry about data privacy and security. However, their advanced stage in the adoption curve, also raises new challenges. 45% cite data quality and quantity as a problem, while legacy IT systems hold back 44%. In such cases, Baker Newman Noyes, recommends prioritizing updates to the data governance approach. "Evolving your data governance model and acceptable use policies to accommodate automated manipulation or ingestion through an AI engine will provide additional logical and compliance-based protection of proprietary and confidential information. Education and awareness of the risks are also critical to the responsible use and adoption of AI."

CAPTURING THE MOST VALUE FROM AI ADOPTION

AI technologies create a new horizon of possibilities for process optimisation, workforce transformation, and new product development. With a strong tech industry, North American leaders have the advantage of being 'close to the source' of the brightest talents and the latest commercial innovations.

To capture the most value from AI adoption, leaders need to deploy a structured process for cultivating the right capabilities in data management, cybersecurity, talent, culture, and organisational strategy at large.

1

DETERMINE THE ROLE OF AI IN YOUR COMPANY

Successful implementations require a clear vision and a decisive approach. Ask yourself: How does AI affect our industry and what are the short- and long-term implications for our company?

Evaluate existing business processes to understand where baseline automation or more advanced data analytics can help unlock greater execution speeds, more informed decision-making, and more productive knowledge. Start with a small set of proof-of-concept projects to validate your assumptions. When possible, set quantifiable KPIs to measure the gains and demonstrate value to different stakeholders.

Wider organisational transformations are also necessary to ensure scaled adoption. Consider establishing a cross-functional group of people from IT, cybersecurity, product development, and other business functions to formulate and collaborate on your AI strategy.

2

EXPLORE NEW APPROACHES TO DATA PRIVACY

AI adoption requires prudence in data storage, management, and operationalisation. First, start by understanding your data estate. Assign sensitivity labels to different types of data assets. Modern data protection solutions help perform automatic scans, tagging, and policy configurations for different asset classes.

Set up automated data pipelines to cleanse, anonymise, and transform all data aggregated to a cloud data lake. Establish strong data governance practices to trace data lineage and usage across different pilot projects.

Synthetic data — computer-generated datasets — are another solution to overcoming training data shortages or privacy-related limitations. Offsetting real data with more synthetic data can also reduce the odds of acquired bias or potential IP breaches.

3

ADDRESS CYBERSECURITY GAPS

Leaders must confront cyber risks to achieve digital resilience. Your cybersecurity function has to become an enabler for wider digital transformations.

Start treating cybersecurity as a core product feature rather than a 'bolt-on'. Leaders are incorporating cybersecurity into every function. They are using design thinking to create secure and convenient online user experiences and educate customers on how to interact with business systems safely and securely.

With proper technological and operational guardrails in place, AI systems won't expose your organisation to extra risks.

Thanks to new privacy-preserving techniques like homomorphic encryption, differential privacy, secure multiparty computation, or federated learning techniques, even businesses in highly regulated industries like healthcare and finance can safely develop and operate AI models without risking unwanted data exposure.

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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TOGETHER WE MAKE IT HAPPEN



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AND ACCOUNTING NETWORK**

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