

# Is the AI buzz creating too much noise for CEOs to cut through?

EY CEO Outlook Pulse Survey  
October 2023  
[ey.com/CEOOutlook](https://ey.com/CEOOutlook)



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# Contents

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Chapter 1 – The emerging AI strategy agenda .....	<b>2</b>
Chapter 2 – Potential winners emerging in the new economic environment .....	<b>6</b>
Chapter 3 – Reassessing risks and resetting the talent cost base .....	<b>10</b>
Chapter 4 – Investing now for a clear competitive advantage .....	<b>12</b>

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## The CEO Outlook Pulse – October 2023 finds CEOs investing in AI strategy but with challenges emerging.

CEOs globally recognize the potential of artificial intelligence (AI), but most are encountering significant challenges in formulating and operationalizing related strategies. While over two-thirds see the need to act quickly on GenAI, a similar proportion also report being stymied by uncertainty in this space, making it challenging to respond at speed.

While the vast majority (99%) are planning to invest in GenAI, the investment landscape is complex. Many CEOs recognize AI's potential to disrupt their business models and are starting to initiate their response.

Yet, a surge in companies claiming AI expertise complicates decisions about identifying and implementing credible value-adding ecosystem partnerships and acquisitions. This has likely contributed to acquisition appetite falling to its lowest level since 2014, with only 35% of CEOs planning mergers and acquisitions (M&A) in the next 12 months - although other factors such as geopolitical tensions are playing a significant role in the drop.

Generally, CEOs globally are optimistic as they navigate a fresh phase of the global economy and an evolving external terrain. While they are enthusiastic about the prospects AI offers to create efficiencies and fuel growth, they still find themselves navigating economic headwinds and a complex geopolitical environment.

This edition of our quarterly study of 1,200 CEOs globally, the latest part of [CEO Imperative Series](#), focuses on how they are continuing the journey into an AI-enabled future. It also provides insights on capital allocation, investment and transformation strategies, as the economy reverts to a model with higher interest rates and inflation, more geopolitical headwinds but fewer economic tailwinds.

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### In brief

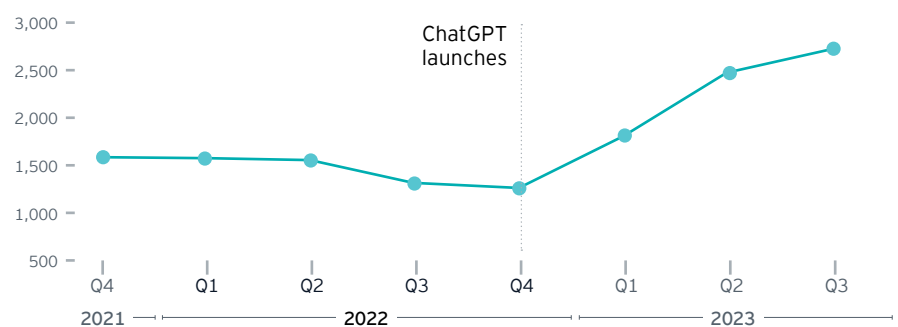
- ▶ At a time when generative artificial intelligence (GenAI) has created an imperative to act, CEOs acknowledge challenges in developing and implementing AI strategies.
  - ▶ Slow-growth companies should reconsider the pace of their investment in AI, since they stand to profit the most from the productivity and efficiency gains it can deliver.
  - ▶ M&A appetite drops to its lowest since 2014, with the surge in AI acquisitions slowing as CEOs have difficulty identifying credible AI acquisition targets.
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# 1 The emerging AI strategy agenda

CEOs are setting their AI agenda within a complex and evolving environment.

The explosion of interest in GenAI is the standout business story of 2023, with mentions of AI or GenAI in earnings calls more than doubling over the past year.

Count of documents mentioning AI or GenAI



Source: EY analysis and AlphaSense

Note: Count of documents includes synonyms for AI and GenAI. Analysis primarily includes transcripts from earnings calls, analyst/investor calls, conferences, and M&A/special announcements.

But CEOs are finding it difficult to cut through all that buzz. They are grappling with a number of AI challenges – from being overwhelmed by potential use cases, to developing a cohesive strategy. Where to invest and with whom to partner is complex as they look to hone in on the specific opportunities within their own business and sector.

Nevertheless, given the pace of developments, CEOs need to quickly understand the implications for their business, operations, industry and end markets to keep up with competitors.

The survey clearly reflects that when it comes to AI, CEOs find themselves acting with urgency. But there is a tension. Seven in 10 (70%) recognize that their organization must act now on GenAI to avoid giving their competitors a strategic advantage. At the same time, nearly the same percentage (68%) agree that the uncertainty around GenAI makes it challenging to move quickly in developing and implementing an AI strategy.

More than two-thirds (70%) of CEOs also acknowledge that GenAI will challenge them to disrupt their own business model to maintain competitive advantage.

In this context, how can CEOs maximize their chances of capturing value from GenAI? [EY previously outlined guiding principles](#) for how CEOs can place GenAI in the context

# 70%

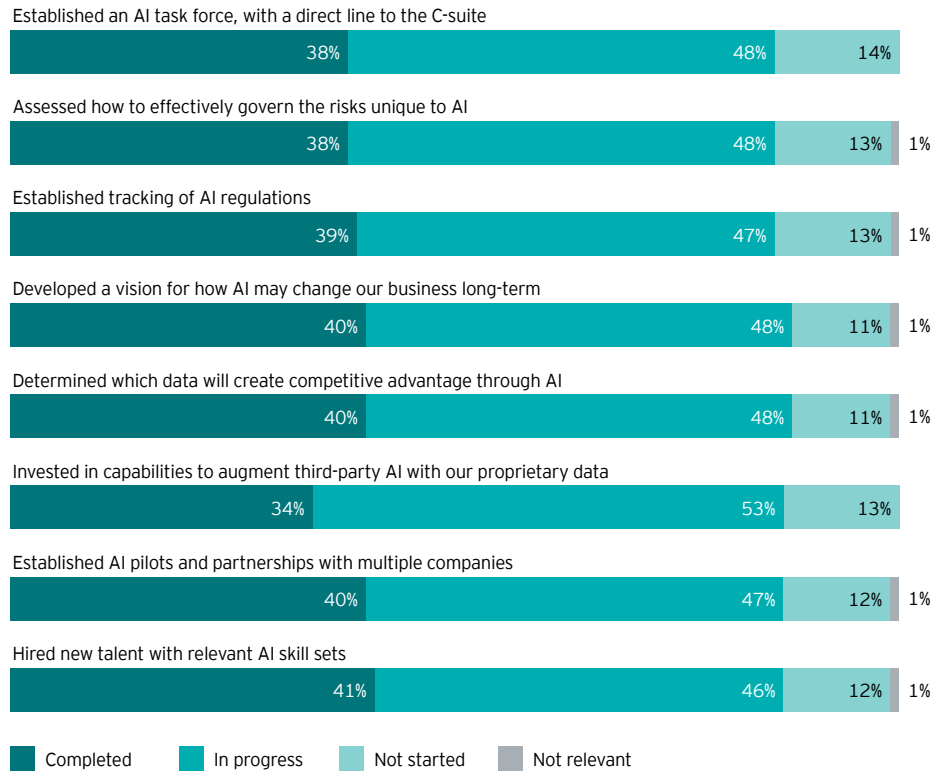
of CEOs recognize that their organization must act now on GenAI to avoid giving their competitors a strategic advantage.

of a broader AI strategy and the key initiatives they should pursue in the near-term to establish foundational AI capabilities.

This survey finds that while progress is being made across these initiatives - 92% of CEOs report having completed at least one - only 17% have completed more than half of the eight initiatives assessed. While this means there is still time for CEOs to establish the AI capabilities necessary for long-term growth, that window to get ahead of the competition may rapidly close given continued focus and investment in the space.

**Q** What is the current state of the following actions relating to AI in your organization?

The respondents were allowed to select one option for each statement.



The survey also shows that the companies most in need of gains from AI - those anticipating declining revenue growth in 2024 compared with the prior year - are the furthest behind on adopting AI and least likely to be increasing investment.

Compared with CEOs expecting higher revenue growth, they have completed fewer initiatives to establish AI capabilities (1.9 vs. 3.4 on average) and are less likely to be increasing investment in research and development (R&D) in 2024 (35% vs. 80%).

While it makes sense that these companies have fewer resources to invest in AI, they may need to reconsider their approach. Some of the quickest gains from AI deployment are improvements in efficiency and productivity that can boost the prospects of slower-growth companies. In a separate EY survey<sup>1</sup>, three-quarters (75%) of senior executives globally agreed that the capabilities and productivity of their employees would be enhanced by GenAI.

75%

of senior executives globally agreed that the capabilities and productivity of their employees would be enhanced by GenAI.

<sup>1</sup> Global survey of 800+ executives across business functions, including 50% from the C-suite. Respondents represent companies with \$1 billion or more in annual revenue, across 15+ sectors, and headquarters in 20+ countries across the Americas, EMEIA, and Asia-Pacific. Data was collected from June to July 2023.

64%

of companies that have already experienced a significant impact from GenAI expect that it will redefine their entire business and operating model in two years or less.

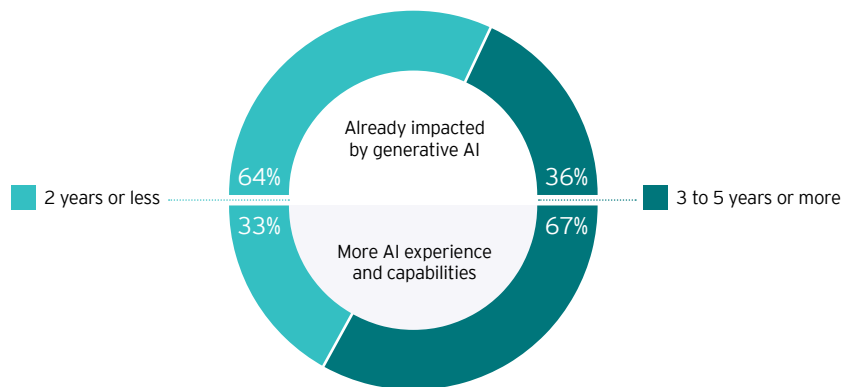
As CEOs define their AI strategy, they also need to be mindful of the expectations they set with stakeholders. This survey suggests that CEOs experiencing early success with GenAI may be overly optimistic about how quickly it will transform the rest of their business.

The majority (64%) of companies that have already experienced a significant impact from GenAI expect that it will redefine their entire business and operating model in two years or less – an impact that is significantly harder to achieve than early wins in revenue or efficiency.

Conversely, the majority (67%) of companies with deeper experience in AI - defined as having completed five or more initiatives to establish AI capabilities - expect it to take three to five years or more to achieve similar impacts.

This longer - and arguably more realistic - timeline suggests that AI and GenAI are unfamiliar territory for many CEOs. Setting and failing to meet lofty expectations may erode the confidence of employees and shareholders, making it more difficult to transform in the long run. To avoid this, CEOs should work closely with their Chief Technology Officers (CTOs) to ensure their expectations and strategic plans around AI are feasible given their current resources and capabilities.

**CEOs already seeing an impact on their business from GenAI may be overly optimistic about how quickly it will redefine their entire business and operating model**

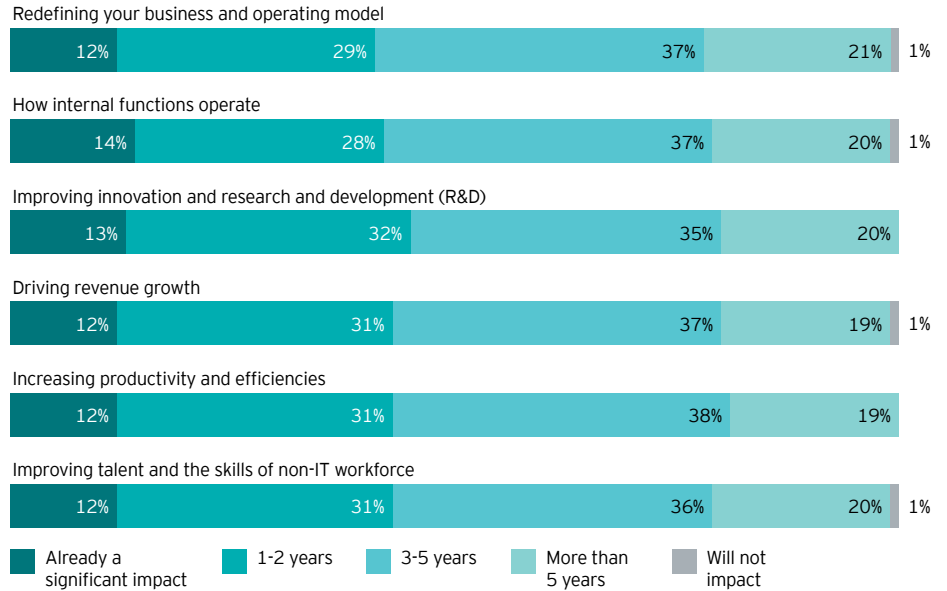


Note: "Already impacted by generative AI" is defined as those already reporting a significant impact from GenAI in at least one area of their business (e.g., revenue growth, productivity) – 45% of CEOs are in this category. "More AI experience and capabilities" are companies that have completed 5 or more initiatives to establish foundational AI capabilities (out of 8 initiatives assessed) – 17% of CEOs are in this category. Excludes the less than 1% of respondents who say GenAI will not impact their business. Categories are not mutually exclusive.

As CEOs and companies gain deeper insight into the technology, their perspectives become more grounded, increasing the likelihood of investors and other stakeholders aligning with their long-term vision and strategy.

**Q** When do you expect generative AI to have a significant impact on the following aspects of your organization?

The respondents were allowed to select one option for each statement.



There is also a clear recognition that GenAI is here to stay and will fundamentally disrupt and reshape current operating models and competitive landscapes.

# Potential winners emerging in the new economic environment

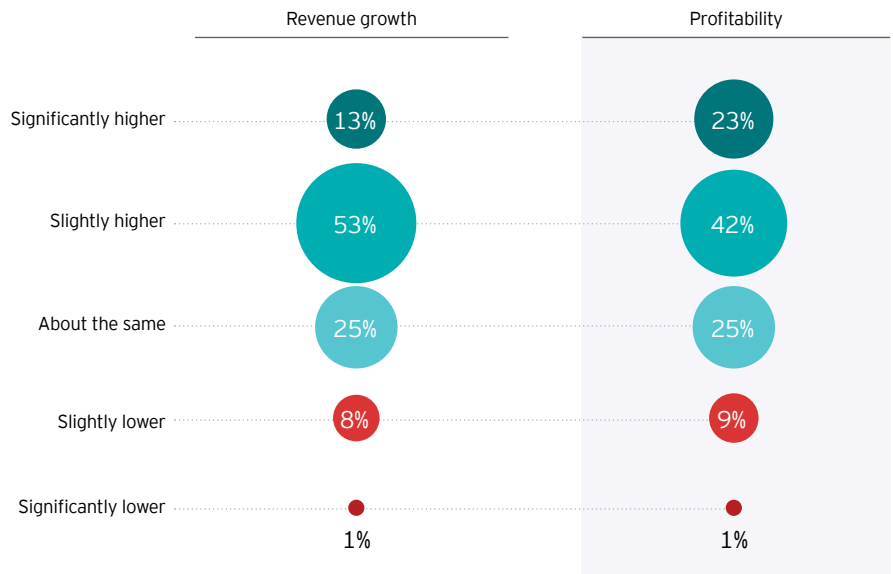
CEOs that feel more confident about their prospects are looking to extend their lead.

In the past four years, business leaders have had to respond to repeated shocks. These include quickly shifting consumer behaviors, resetting and reconfiguring supply chains, an upended global energy market, and rapid changes in the growth, inflation and interest rate environment.

However, most respondents anticipate higher levels of revenue growth (66%) and profitability (65%) in 2024 compared with 2023.

**Q** How do you expect your organization's revenue growth and profitability will change in 2024 compared with 2023?

The respondents were allowed to select one option for each statement.



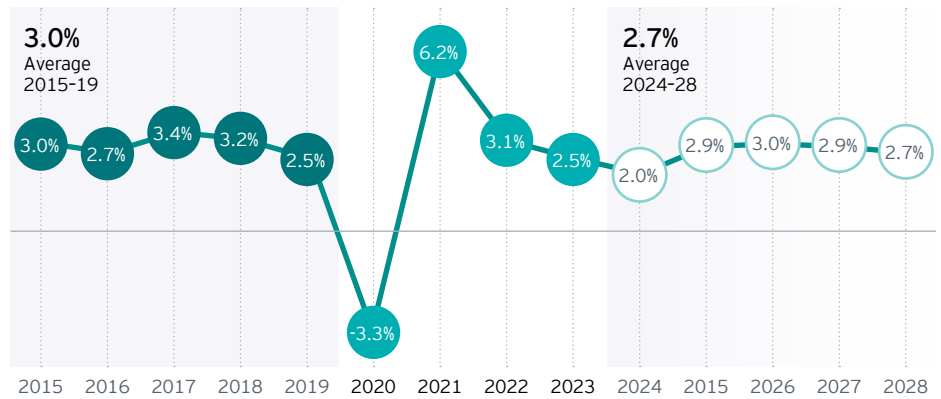
But while these headline figures look promising, they are set against a backdrop where real global GDP growth is expected to be 20% lower in 2024 than in 2019. Analysis of actual and estimated global GDP growth data<sup>2</sup> shows there has been a structural stepdown in global demand and output, with the next five years being on average 0.3% lower than in the five years pre-pandemic. This equates to US\$300b of lower aggregate output.

<sup>2</sup> EY analysis of Oxford Economics data, accessed on 13th October 2023.



With growth expectations more likely to be revised on the downside in the near term, CEOs should consider whether their own growth expectations reflect the slower global market projected over the next five years. Any strategy relying on the assumption that growth and customer behaviors will settle back to pre-pandemic patterns is unlikely to be successful and will put that company at a disadvantage against its competition.

### Global GDP year-over-year change



Source: EY analysis and Oxford Economics

The survey finds a clear split between companies anticipating growth in the next year and their ability to generate the free cash flow to fund investments in AI or other priorities and those not feeling as confident about their prospects in this new environment.

For companies expecting higher growth, more than two-thirds (72%) also expect higher levels of profitability, with only 3% anticipating a decline in profitability. Conversely, for those expecting lower levels of growth, more than two-thirds (68%) are also planning for lower levels of profitability. This will impact their ability to invest to reshape their business in the new cycle.

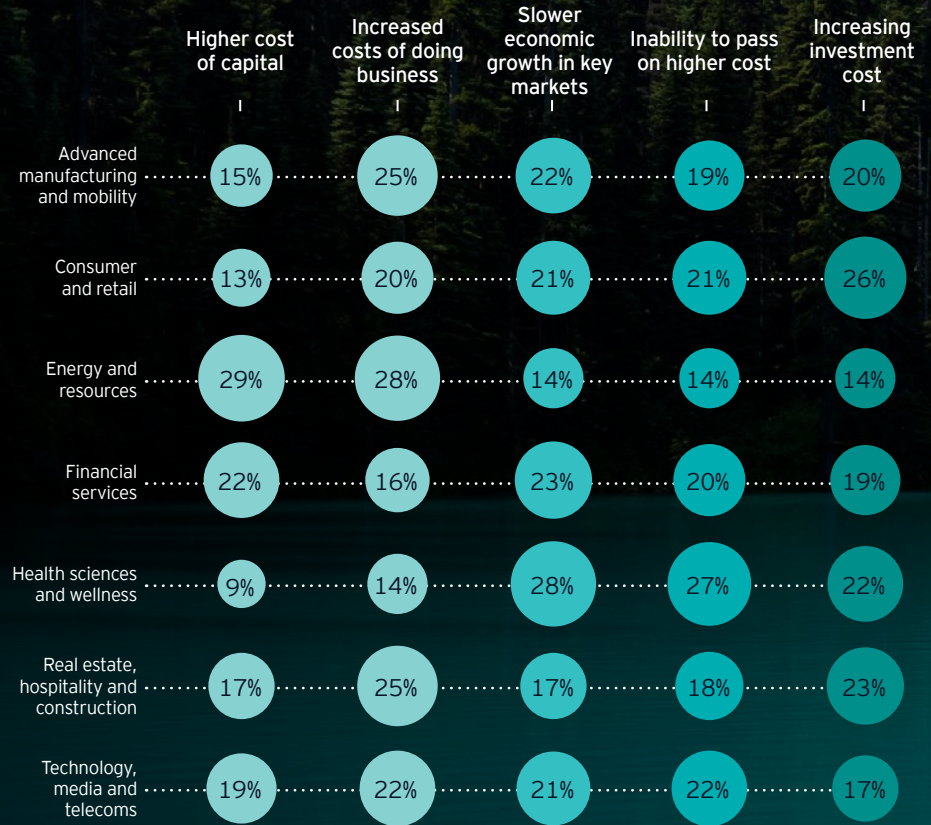
This new economic cycle is reflected in CEOs' perceptions of the biggest barrier to maximizing growth and profitability in 2024, with slower economic growth topping the list of barriers, if only slightly ahead of the others.

But for those anticipating lower growth, the percentage citing this as a major barrier increases relative to those anticipating increased growth (29% vs. 20%). It is possible that CEOs expecting higher growth have already made difficult choices during the past few years. In terms of competitive positioning and potential growth opportunities, they have likely reoriented their businesses toward areas of greatest success. For those yet to do so, challenging the existing business model based on current and anticipated market conditions is an imperative that needs immediate attention.

There are also differences by sector. CEOs in the energy and natural resources sector cite the higher cost of capital as the main barrier; those in health sciences are most concerned about slowing growth and ability to pass on costs; while those in the automotive and manufacturing sectors are most worried about the increased cost of doing business.

**Q** Which of the following will be the biggest barrier to maximizing your revenue growth and profitability in 2024?

The respondents were allowed to select one option only. Totals within an industry may not add to 100% due to rounding.



Companies need to be able to understand how the dynamics for their business have evolved and to anticipate future shifts, including their competitive position within their target markets. They should adeptly adjust, integrating economic considerations, customer demand projections, and dynamic pricing strategies to alleviate these challenges. In a slower-growth environment with greater costs of doing business and a higher external cost of capital for investment, funding ongoing and future transformation will likely hinge on internal operational rationalization and cost takeout initiatives. This is one area where AI may be best positioned in the short-term to help CEOs make better use of their own data, supplemented with external sources, to have a clearer view of their addressable markets.

CEOs need to scrutinize every area of their operations, from both a product and a geographic angle, and decide which underperforming areas to jettison. Maximizing growth and profitability to fund this transformation will be the key to unlocking long-term value creation.



# Reassessing risks and resetting the talent cost base

Understanding shifts and changes will be a key to success as CEOs look toward a new landscape for business.



The [EY 2023 Work Reimagined Survey](#) reveals a “next normal” of work, detailing the contours of a rebalance in workforce realities and what factors contribute most to better outcomes. It finds that companies are no longer purely driven by the lingering consequences of the COVID-19 pandemic. Rather, employers now see their challenges through the lens of economic, labor and geopolitical pressures.

These pressures are reflected in the responses from CEOs in this survey. Most CEOs (93%) are making changes to their talent strategy to manage costs, with a majority aiming to do so without reducing headcount. That number drops for those expecting significant revenue growth. While it feels obvious that number would decline, it still feels surprisingly high; with growth on the horizon, why make workforce cuts - this may suggest anticipated profit hikes will likely stem more from curtailing talent than from improved efficiency.

Nearly all of companies are planning a mix of approaches to their talent strategy. More than a third are restructuring or reducing the employee base. For others, it is a mix of actions to reduce costs. But labor markets remain tight in many major economies. There is a clear gap between CEOs in the Americas and those in the Asia-Pacific region, with the Americas CEOs planning more restructuring (42% vs. 27% in Asia-Pacific), reducing bonuses (33% vs. 23%), and shifting to contract work (41% vs. 31%).

CEOs will have to carefully balance the risks of reducing employee-related costs at a time when the ability to attract and retain talent is restricted, particularly in high-demand technical and technology roles.

Companies need to position themselves to deal with cyclical market challenges, while understanding structural changes in employee priorities around total rewards, hybrid work, and resilience. Legacy talent strategy models were not built for this new and dynamic environment.

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## 36%

of CEOs are restructuring or reducing the employee base.

## Reassessing risks in a recast global landscape

CEOs are becoming more wary of the risks developing in the new environment.

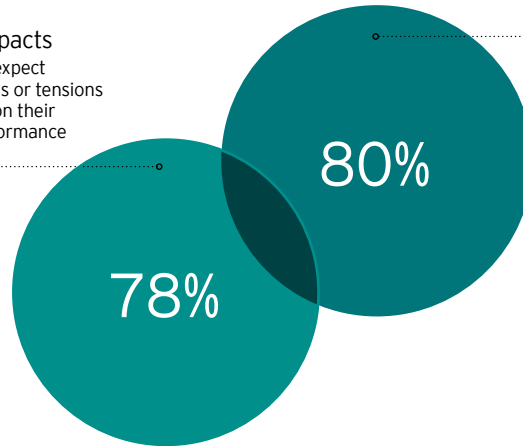
More than two-thirds expect a moderate to significant impact to their business across a range of risks, from geopolitical, macroeconomic, regulatory, sustainability and technology challenges.

### Geopolitical impacts

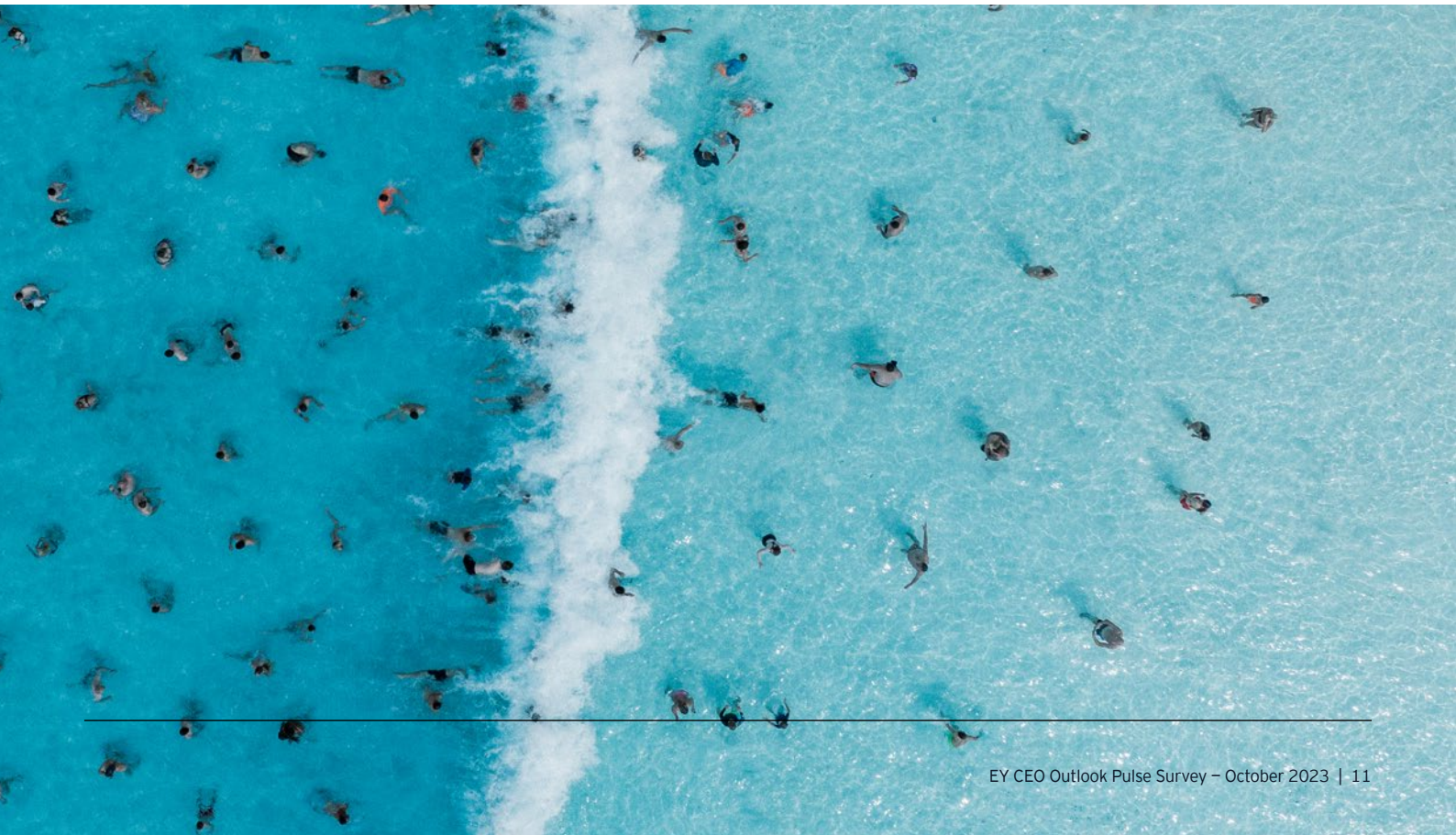
78% of executives expect geopolitical conflicts or tensions to have an impact on their organizations' performance

### Risk of volatility

80% of CEOs recognize macroeconomic or market volatility as a risk impacting their business



It's possible that these leading CEOs, who are expecting significant growth, have helped their companies better navigate the past four years of crises and have laid a more stable foundation to navigate these risks. Companies need to embrace flexible processes, adaptive strategies, cross-functional collaboration and continuous learning from these past crises to better navigate the new environment they find themselves in.

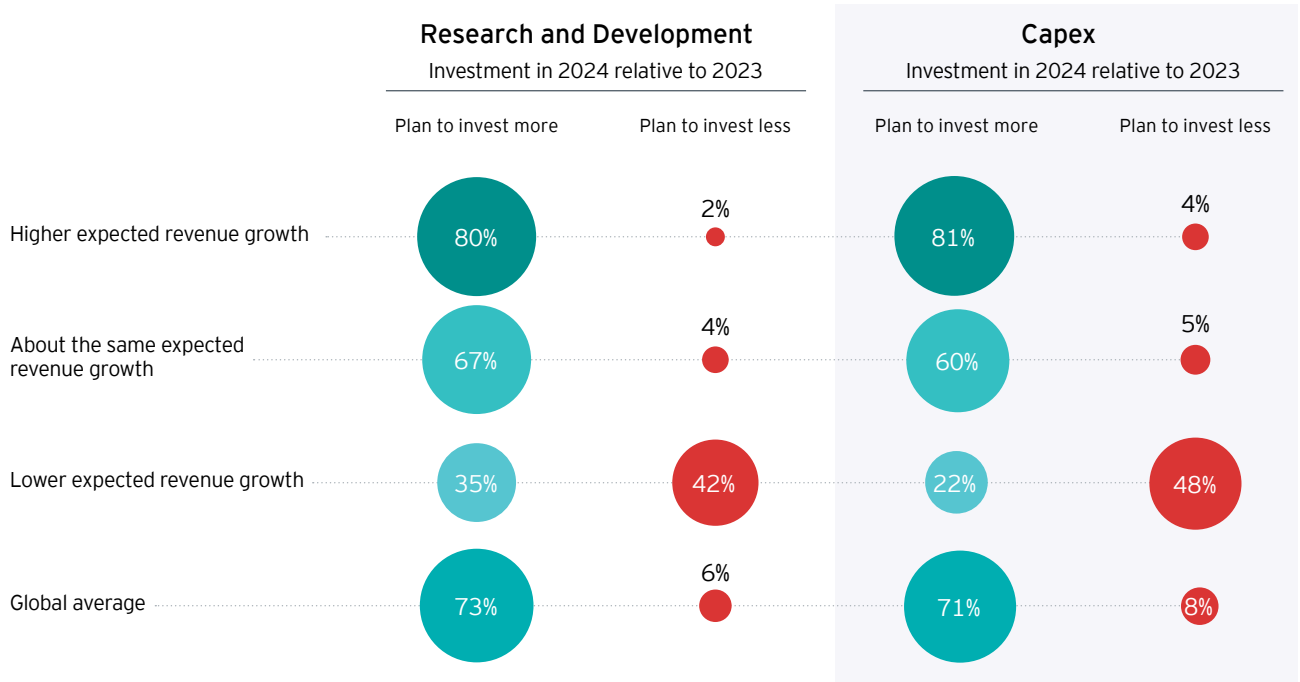


# Investing now for a clear competitive advantage

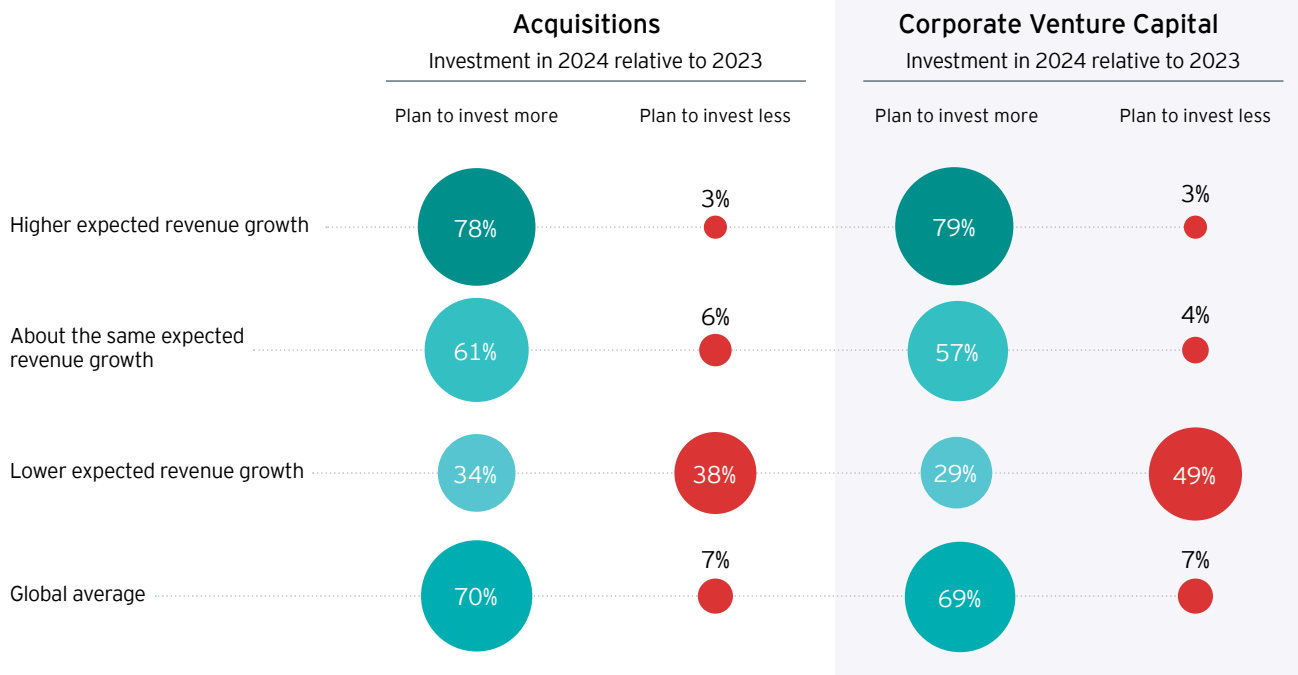
The appetite to acquire may be low, but CEOs are keen to continue transforming across other verticals.

Within this context there is clear recognition among CEOs that the new environment requires enhanced investment across the board, not just in tech and AI capabilities.

Companies anticipating higher revenue growth in 2024 are more likely to be increasing investments in key areas, which may boost their competitive advantage further



Note: Original question was “how will your investments in the following areas change as a percentage of revenue in 2024 compared with 2023?” Excluding the less than 1% of respondents who selected “Not applicable.” Totals may not add to 100% due to rounding.



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Most respondents are planning to increase investment in R&D, capex, M&A, and through corporate venture capital. Across these measures there has been a decline from the supercharged investment cycle that began in July 2020 and slowed significantly after June 2022, with 2021 being a record year for M&A and corporate venture capital, and with higher-than-average growth in R&D and capex spend. These investment levels declined in 2022 and are still to recover. But CEOs are signaling a return to higher levels of investment as uncertainties about monetary policy decrease. With markets now accepting a higher-for-longer rate environment, inflation pressures recede, and the growth outlook becomes clearer, even if at lower levels.

There is a clear difference in intentions between those anticipating higher growth in 2024 than their peers. Across all verticals, more bullish CEOs are planning to invest at higher levels, which will likely boost their advantage even further. As with investments in GenAI initiatives, those companies anticipating lower levels of growth should acknowledge that falling behind in investment now will mean they fall further behind overall. They need to keep pace with more agile competitors. And that will require hard choices to fix, sell or close unprofitable parts of the portfolio, or to exit particular markets.

The wider M&A market has firmly stabilized after the slow first quarter of 2023. The market is currently seeing roughly US\$200b-US\$250b of deals each month, with about 250 deals of more than US\$100m announced.

Expectations are for this to continue. There could also be an uptick in more significant deals, as CEOs become more comfortable with the new environment. Average deal values have been increasing through 2023, and there are recent signs of even larger megadeals in the pipeline.

# 89%

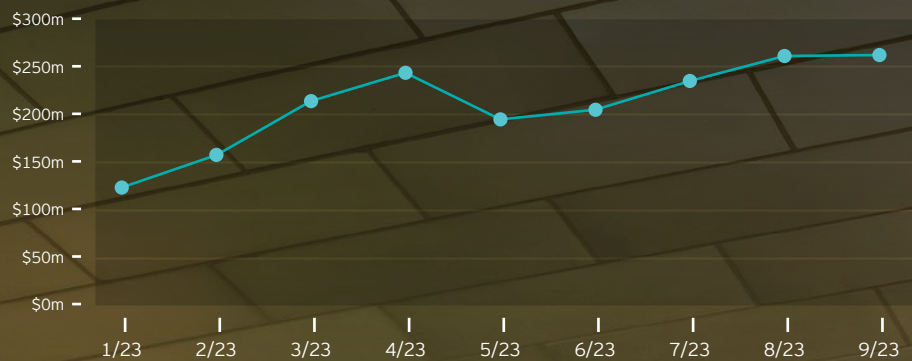
of CEOs are planning some form of transaction over the next 12 months.

The survey finds a clear majority of CEOs (89%) are planning some form of transaction over the next 12 months. But there has been a sharp contraction in intentions to actively pursue acquisitions in the next 12 months, dropping from 59% in July to 35% in October. The major focus is now on joint ventures and strategic alliances, and divestments, which has remained steady since July, indicating a desire to reassess portfolios as well as being boosted by the reopening of Initial Public Offering (IPO) markets.

There are also more CEOs allocating capital to their M&A budgets than are expecting to actively pursue acquisitions in the next 12 months, which points to companies building their reserves in anticipation of the right acquisition target.

### Average deal size climbs through 2023 as companies commit to more transformative M&A

Average deal size US\$m



Source: Dealogic data. EY analysis. Average deal size based on deals with disclosed value.



Reflecting what we see in today's M&A market, US respondents are indicating the highest intention to pursue M&A (52%), indicating that the US will continue to pull global M&A numbers up from the lows seen at the start of the year. Appetite is lower across Europe and the Asia-Pacific region, but previous M&A cycles have shown that the pickup in dealmaking almost always starts in the US first.

The current market for dealmaking is becoming more complex. Two-thirds of CEOs (66%) agree there has been a sharp increase in companies claiming to have AI expertise, making it harder to identify credible suppliers, partners, or M&A targets. Just as CEOs are examining the impact of AI on their business model and operations, they have to view all potential acquisitions through this extra lens. This may delay a stronger pickup in M&A as companies put their AI strategy in place.

But CEOs that look through this uncertainty and accelerate deals that need to be done now - both acquisitions and divestitures - could secure competitive advantage. This is doubly important for CEOs who are less certain about their financial performance in the near- to mid-term, as they look for routes to catch up with their peers.

# CEOs need to understand the new environment and act now

To achieve their maximum potential over the near- to mid-term, CEOs need to consider and act on five critical issues:

## 1

### **Be your own**

**economist** – While overall growth may be decelerating, each company's trajectory is unique. Analyze your own financial and customer demand scenarios for a clearer view of the future.

## 2

### **Build your AI strategy top down and bottom up**

– Formulating your AI strategy is only the first step. Undertaking the initiatives required for your current business model is the necessary next step.

## 3

### **Optimize or exit**

– Given anticipated stagnant economic trends over the next three to five years, there's no room to retain lagging assets or operate in unprofitable markets.

## 4

### **Create your own**

**capital** – With a higher-for-longer cost of capital, the funding for ambitious transformation will be cheaper from internal cost takeouts.

## 5

### **Don't miss out on an advantageous acquisition**

– Even in a time of great complexity, some deals are just too obvious not to do and can yield significant competitive gains.

## Summary

There is a new economic cycle beginning. Growth will be slower and interest rates and inflation will be higher than before the pandemic in the near- to mid-term. Customer behaviors, trade flows and the geopolitical landscape have also shifted. CEOs recognize both the risks and opportunities this new environment offers. But there is also a clear gap emerging between companies expecting growth in the new environment and those at risk of falling behind.

## About the survey

On behalf of the EY organization, in September and October 2023 FT Longitude, the specialist research and content marketing division of the Financial Times Group, conducted a survey of 1,200 CEOs from large companies around the world. This anonymous online survey aims to provide valuable insights on the main trends and developments impacting the world's leading companies as well as business leaders' expectations for future growth and long-term value creation. Respondents represented 21 countries (Brazil, Canada, Mexico, the United States, Belgium, Luxembourg, the Netherlands, France, Germany, Italy, Denmark, Finland, Norway, Sweden, the United Kingdom, Australia, China, India, Japan, Singapore and South Korea) and five industries (consumer and health, financial services, industrials and energy, infrastructure, technology, media and telecoms). Surveyed companies' annual global revenues were as follows: less than US\$500m (20%), US\$500m-US\$999.9m (20%), US\$1b-US\$4.9b (30%) and greater than US\$5b (30%).

The CEO Imperative Series provides critical answers and actions to help CEOs reframe their organization's future. For more insights in this series, visit [ey.com/en\\_gl/ceo](https://ey.com/en_gl/ceo).

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