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# How CIOs drive innovation while managing costs and weighing risk

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## Summary

- CIOs weigh in on the four futures of AI and where they are going
- CIOs say IT cost optimization should evolve into a consistent capability, with most citing either shrinking or static budgets.

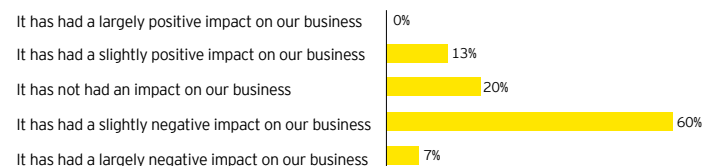
Technology leaders are walking a tightrope, balancing near-term priorities while leading future innovation in an uncertain environment of constant technological change. In this environment, chief information officers (CIOs), chief technology officers (CTOs) and chief data officers (CDOs) must reckon with a turbulent economic and public policy landscape while plotting their next moves on the momentous technology that could make or break companies for a generation: [agentic artificial intelligence \(AI\)](#).

Against this backdrop, the [EY Center for Executive Leadership](#) brought together tech leaders from across industries for the first time for candid conversation. Facilitated by [Mazen Baroudi](#), the center's CIO/CTO/CDO Program Leader, the dialogue centered on how to optimize IT costs today and how to build the AI future that best aligns with organizational strengths and priorities.

In a poll during the session, a majority of participants said that tariffs were negatively impacting their businesses - either to a slight or medium degree (33% for each) or to a large degree

(25%). Separately, 60% overall said current macroeconomic circumstances have been slightly negative.

### How have the macroeconomic circumstances affected your business?

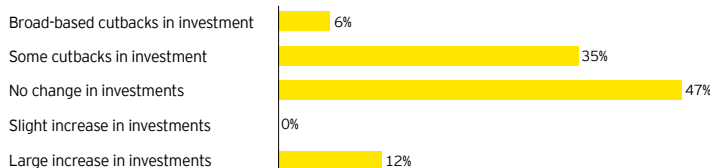


[Gregory Daco](#), EY-Parthenon Chief Economist, cited dimensions of uncertainty weighing heavily on the market and eroding profit margins: trade policy, geopolitical volatility, immigration policy, fiscal policy, energy policy and natural disasters. “These are influencing the cost landscape and in turn the growth landscape,” Daco noted. “You need resilience and robustness to thrive in this uncertain environment.”

In this environment, CIOs tackled the issues that they are dealing with in both the short and long term as they balance costs and drive innovation.

## IT cost optimization: resetting the balance between today and tomorrow

### How have your IT budgets changed since the beginning of 2025?



[Anja Allen](#), Principal, Technology Consulting, Ernst & Young LLP, says that IT cost optimization has historically been prompted by market events – and we’ve seen no shortage of those recently, with an added layer of uncertainty impacting technology decision-making. Coming off a quarter of volatility, CIO participants in the roundtable spoke openly about their uncertainty, with most saying that they face shrinking or static budgets even as the need for technology grows.

For those in consumer products and retail, the hit to consumer spending was immediately noticeable. One CIO with a significant manufacturing footprint in the US was cautiously optimistic, while another whose products are made overseas, often for use in warehouses and distribution centers, was facing “a whole lot more headwinds than tailwinds.”

Allen said the dynamic in IT cost optimization has evolved today because of three trends:

- Focusing not just on the supply side of IT but also the demand side, so that investments are tied to business priorities and provide maximum value to the business
- Creating IT cost optimization as a sustainable focus rather than a one-off event, so that more dollars can be allocated to growth and transformation (at least 30% of the IT budget) rather than on maintaining operations (70% or less, ideally)
- Leveraging agentic AI to bring outsourced capabilities back in-house while still reducing the cost of operations

CIOs discussed how challenging it can be to neatly divide investments between the “run side” of daily operations and the “grow-and-transform” activities for the future, a debate that manifests in the metrics they’re measured against.

“It’s like the saying that ‘a data lake is just plumbing,’ but there’s a lot of value to unlock there,” one noted.

Benchmarking is vital in these conversations. “I get asked: ‘How do we know we’re spending wisely?’” one CIO said. “Forget about the capex side – that has a clear business case. How do we know we’re spending our opex wisely?”

One executive who just stepped into a new role added: “There’s a lot of good people doing good work, but I don’t know if it’s the right work.”

Participants stressed the importance of orienting budget conversations around value, a sentiment aligned with viewpoints that [Juan Uro](#), the Americas Leader, Strategic Relationship Office, has been hearing. “Chief financial officers understand that we cannot cut short the investments that move us in the right direction over the long term,” Uro said. “They describe the importance of a comprehensive assessment to ring-fence long-term investments. But they are seeking flexibility in the budget for the second half of the year through greater efficiencies.”





## Other tactics include:

- Application rationalization to rein in the sprawl that can be difficult or even unnecessary to maintain
- Price protections, especially from vendors that frequently change their pricing models, through more stringent contracts
- Greater standardization and efficiencies through the use of AI capabilities (for instance, surfacing unneeded user access to an application), which has been largely overlooked

## Are you using AI for IT cost optimization?



## The four futures of AI: where are we now, and where are we headed?

From there, the conversation naturally evolved to AI.

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There are a lot of forces or perspectives that differ along the continuum on how ‘real’ AI is going to be.

Dan Diasio, EY Global Consulting AI Leader.

Those discussions were expanded via a scenario-planning exercise that we call the four futures of AI, which are:

- **Constraint**, in which AI doesn’t progress much further along from where it is today
- **Growth**, in which agentic AI becomes more prevalent and succeeds in running business functions
- **Transform**, in which new breakthroughs occur and AI systems become more reliable without hallucinations, radically redefining business models
- **Collapse**, in which the technology reaches an endpoint where one or two companies become the dominant powers, charging prices commensurate with the value they’re creating

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We went through this to evaluate whether we were making the right bets.

Dan Diasio, EY Global Consulting AI Leader.

“It led to us deciding to do things differently and make different investments, assuming that things would not progress linearly.”

Among CIOs at the roundtable, growth was the clear favorite (62%). Interestingly, more participants saw the potential for collapse (23%) than transform (15%) or constraint (0%). These leaders saw the possibility that the capital-intensive powerhouses would eventually settle into a couple dominant players, augmented with startups that deliver niche capabilities.

“Everyone is building AI in everything,” one CIO said. “We’re left with the option of placing a limited amount of dollars in the right place. To make the case to go external with niche players or other startups, that’s going to be rough for us.”

And with budgets likely remaining the same or decreasing, these cost-conscious CIOs are apprehensive of a future in which agentic AI is bundled into licensing whether you want it or not.

One said: “I get nervous about every enterprise app having its own agents and assistants. I know agents can talk together across platforms, but I’m concerned about the sprawl in managing that.” Another touched on the muddy debate about what an “agent” is even defined as: “It’s just a feature they added. We look at them as applications, and we manage them like any other application.”

Using a decision tree can be helpful for getting ahead of this potential evolution. “Is the agentic AI process specific or replacing search, for example?” one CIO asked. “This is one of those instances similar to the previous days of robotic process automation: People are building bots, and the CIO organization has to oversee this, and it becomes a nightmare. We’re curious about what platform is being used to manage all these agents, and how the integrity of the data is maintained.”

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For many companies - and I can speak to this internally - AI has a wealth of potential but is a possible disrupter to our business model. Balancing these perspectives is a critical role for the technology leader.

Dan Diasio, EY Global Consulting AI Leader.

## For additional information, contact:

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