EY Center for Executive Leadership

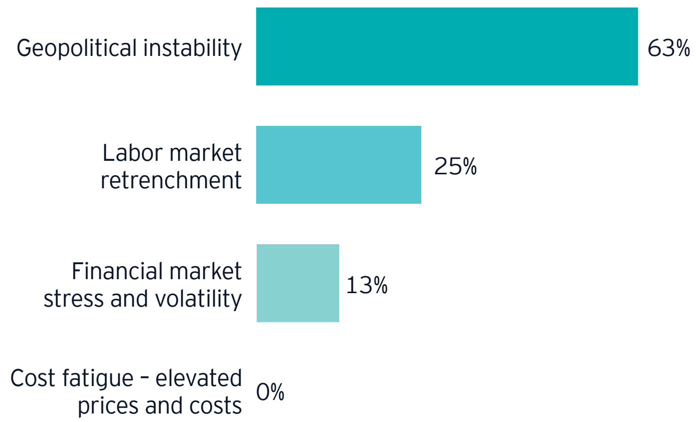
Takeaways from February 2024 virtual CEO roundtable

Will 2024 mark the return of normalcy, after a topsy-turvy economic recovery that, until recently, kept feeling like a recession? CEOs have reason for cautious optimism, but persistent questions come with the job — including geopolitical, macroeconomic and financial markets uncertainty (particularly with regard to China), as well as productivity hurdles in new ways of working and the complex disruptive potential of generative AI.

"CEOs always have to run looking over our shoulders," noted one participant in the most recent CEO Roundtable sponsored by the EY Center for Executive Leadership, which centered on key leadership priorities for this year. The roundtable allows CEOs from across sectors to hash out the pitfalls and the possibilities they're seeing, informed by EY participants including Janet Truncale, the incoming EY Global Chair and CEO; Julie Boland, EY Americas Area Managing Partner and EY US Chair and Managing Partner; Gregory Daco, EY Chief Economist; and Frank Giampietro, EY Americas Chief Wellbeing Officer.

Truncale had recently returned from the World Economic Forum in Davos and affirmed that geopolitical uncertainty and GenAI were top of mind. She added: "A third of the CEOs we met with discussed M&A, and they expected an acquisition or divestiture in 2024, probably toward that second half."

What do you see as the top risk to global economic activity in the next 12 months?



When polled, nearly two-thirds of CEOs cite geopolitical instability as the top risk to global economic activity in the next **12 months**, followed by labor market retrenchment (**25%**) and financial market stress and volatility (**13%**).

Economic outlook

This year is likely to be marked by economic rebalancing and reaching a more sustainable equilibrium on costs, wages and interest rates, Daco predicted. Cost fatigue is constraining consumers and businesses as prices remain elevated compared with before the pandemic. But in the US, the economy remained resilient in the face of recession fears, with growth of 2.5% last year and a labor market delivering over 3 million jobs. Unemployment is near a 50-year low, and inflation has come down much faster than anticipated.

"This is the soft landing that everyone had been praying for," Daco said. "We had been saying that inflation would decline, but it's been a surprise to see the strong disinflation momentum without the pain of higher unemployment. This is due to rebounding supply conditions and stronger productivity growth."

Despite market expectations for early and rapid rate cuts from the Federal Reserve, it's more likely that an easing cycle would start more cautiously around May or June, with cuts of around 100 basis points in the second half of 2024, Daco said. Another aspect to watch amid higher-for-longer interest rates: fiscal sustainability for the public sector, particularly in the US, driving pressure to curb government spending amid rapidly mounting debt servicing costs.

Topic No. 1: Geopolitical tensions and uncertainty

Geopolitical conflicts continue to roil the global economy, including tensions in Ukraine and the Middle East. But there is perhaps no greater source of uncertainty for CEOs than China. In a time of rising nationalism, Chinese companies are reorienting around serving domestic consumers with domestic goods, and the Biden administration has implemented new measures on semiconductors, for instance.

"Domestic consumption is down in China," one CEO noted. "And there are serious structural issues beyond office space. It won't be the powerhouse it once was in the foreseeable future." Another participating CEO, who had recently been forced to abandon a Chinese acquisition, noted: "It's not a good thing for the No. 1 and No. 2 economies to be fighting with each other. All the CEOs I talk to, many of the big global players, are looking at whether they do investment in China."

Pharmaceutical industry CEOs emphasized China's vast aging population as a significant market. But to be prudent, one said he is trying to "re-create a China" by targeting other Southeast Asian nations such as Indonesia, Malaysia, Thailand and the Philippines without adding manufacturing there, amid concerns about territorial disputes in the South China Sea.

Concerns about supply chains weighed heavily across sectors. One CEO said his company's supply chain has mostly healed aside from one area where China is a focal point: new US government priorities on energy efficiency for transformers prioritized a type of steel made in China, making it difficult to fulfill demand.

"Whether in China or elsewhere, geopolitical developments have material effects on supply chains and, in turn, inflation," Daco said. "We're in a globally fragile environment on the supply side. This means we should be focused on different macroeconomic and geopolitical risks and developing scenarios that incorporate potential supply shocks."

Topic No. 2: Talent

As the pandemic fades from memory — while the workplace changes have not — hybrid working models remain popular with employees. Roundtable CEOs were much more wary. Among the problems they are balancing:

- "I struggle with the inequity of white-collar desk workers being able to work from home while others in our frontline cannot and how that may undermine morale."
- "If my office workers are ever forced to come back in five days a week, they will go work for someone else. The same on the IT front. Even those who work in health care clinics who recognize that they need to be at work, they want to figure out how to do it at home."
- "We do have people who want to be in the office. If their peers aren't there, it's discouraging."
- "I have noticed, for eight months now, that Thursday afternoon is the new Friday. The parking lot is emptying out."
- "We're paying for five days of work for four days of productivity. All the CEOs I speak to would hope for a mild recession to sober everyone up."

Giampietro studies these challenges and notes that research supports a hybrid model with teams deciding when and how to get together (vs. a top-down mandate). It's the least prevalent option among employers but drives the best outcomes: for instance, you set a standard that our workforce is in person two or three days a week, but at the team level the managers determine the cadence. Yet each company is different, and in-person interactions can be better at facilitating technical feedback, learning and collaboration.

By and large, CEOs felt strongly in favor of getting everyone back into the office if they could. "If someone wants to build a career, they have to show up in the office or they won't be promoted," one said. "That reduced 90% of the appetite for people working remote." Another who told everyone to return to the office five days a week said that the objections eventually abated: "I latched onto the equity piece — that's the one that was difficult to pierce a hole through."

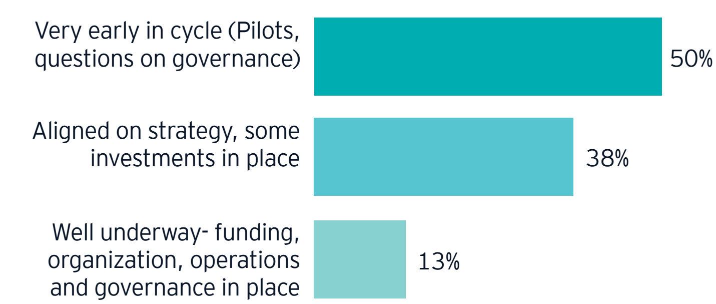
These are familiar discussions for Giampietro. "The inequity you mention has existed pre-pandemic," he said. "We don't pay everyone the same or with the same bonus structure. That's how many have gotten comfortable with it, even in a health care setting, where some of workers never worked remotely. It's the right question to ask." His advice: be deliberate and intentional about your rationales and put in the extra effort to communicate them transparently.

Topic No. 3: GenAI

The discussion around hybrid and remote work centers around productivity, and technologies — particularly GenAI — are being looked at as key solutions. Daco previewed EY research showing that over the next decade, investment in GenAI and subsequent productivity gains could fuel a 3.5% increase to US GDP in a base-case scenario or, more optimistically, reach up to 7%. Many CEOs framed GenAI as a way for them to do more amid labor constraints, and to use their labor more wisely.

"There are 3 million available jobs in health care," one CEO in the sector noted. "We're going to struggle to fill the void. AI is an imperative to us. We're not going to be able to deliver the care we need to deliver without it." Another said: "This is not just call center improvements. I think there's a case to be made that AI strengthens governance rather than undermining it," as the technology, when used thoughtfully in proper use cases, may uncover what humans do not notice, with a lower rate of error.

What are your plans and investments in generative AI?



When polled about the plans and investments in GenAI, half of CEOs said they were very early in the cycle, while **38%** said they were aligned on strategy with some investments in place. Just **13%** said their plans and investments were well underway, with operations and governance.

In contrast to their response that they were early in the cycle, many roundtable participants were deep into testing GenAI applications and were very positive about early results. It was clear that the pace of pilots and adoption were moving fast. As one CEO remarked, "Every time I have a GenAI conversation, I feel we are behind everyone else at the table." Some of the use cases discussed included:

- Recommending next best actions and responses for those in customer-facing roles
- Reviewing contracts and addressing regulatory compliance topics
- Capturing notes in customer or patient interactions
- Helping answer common questions for service technicians in the field
- Reviewing dental and other X-rays (always validated by a human)
- Verifying incomes and packaging loan files in financial services (within the bounds of regulation)

But while executives agree that GenAI will be transformative, research shows that leaders are not using it as much yet, said Boland. "People try it, they're familiar with it, but if it fails for them, they stop using it," she said. "Our organization is training all our workforce, and we're hearing a lot from clients about investments in that space – which will be the real key to drive adoption."

For Truncale, GenAI was understandably a hot topic at Davos, but she noted a disconnect: "I expected the impact on the workforce to be top of mind in the discussions. Our own Head of AI said 100% of jobs would be affected."

Summary

CEOs see signs of economic normalcy on the horizon. Now they have turned their attention to China, where structural weaknesses and US tensions are forcing them to rethink their strategies, investments and supply chains. At home, there is a sense that hybrid working models are delivering only four days of work across five days, and CEOs are balancing how best to get people back in the office, considering employee preferences and a complex labor market. GenAI offers greater productivity potential, and executives are testing new use cases in customer service, regulatory compliance and more.

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