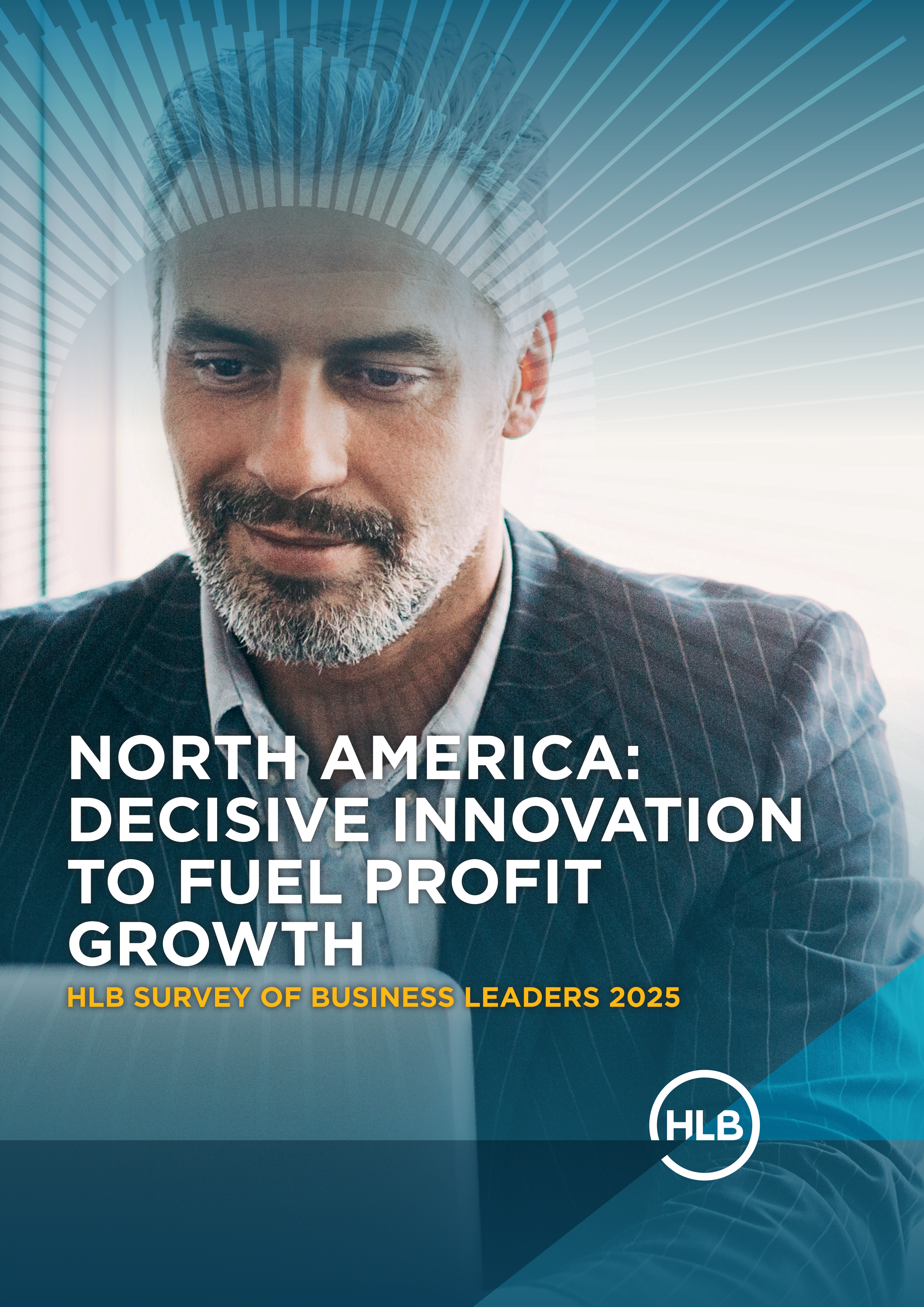


# NORTH AMERICA: DECISIVE INNOVATION TO FUEL PROFIT GROWTH

## HLB SURVEY OF BUSINESS LEADERS 2025

HLB

# CONTENTS



The research methodology is based on data collected from the HLB Survey of Business Leaders 2025, along with the analysis techniques and key assumptions used in the main report. For a detailed overview of the methodology, please refer to the full report here.

# INTRODUCTION

North American leaders enter the new year with high confidence. 55% expect global growth to increase in 2025 compared to 43% of their global peers. Similarly, 91% are bullish about growing their business revenue in the next 12 months.

The US economy grew at 3.1% last year[1], surpassing tempered expectations, thanks to increased service sector activity. Canada's economy grew at a steady 2% through the year, with inflation anchored at 2%.[2] Labor market performance remained strong in both countries, while domestic consumer spending grew at 3.7%[3] and 1.9%[4] respectively.

This year, however, growth may be more challenging. Cumulative risk scores are rising. Three-quarters are apprehensive of lingering economic uncertainty, caused by economic, regulatory, and political factors. Several tax cuts are expiring in 2025, including the Tax Cuts and Jobs Act from Donald Trump's first term. Although the administration is bullish about making changes in tax policies for both individuals and corporations. "From an economic standpoint, the domestic policies from a new administration are likely going to be positive for the economy and businesses," says **David Sternberg, HLB USA.**

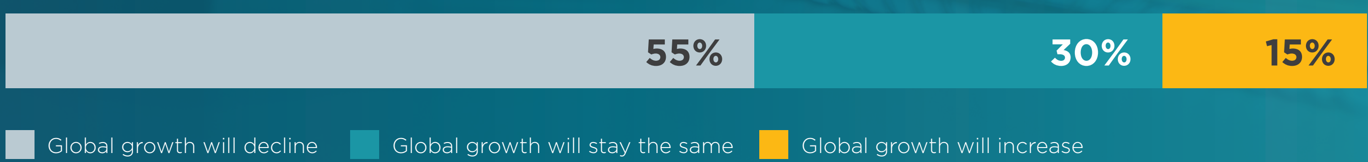
The Federal Reserve has been gradually reducing interest rates through 2024 but may adopt a more cautious approach to reign in core inflation, which 77% of leaders see as a major concern. Q3 "Businesses expected much higher interest rate reductions than what it is now projected, which may tamper the optimism and growth," **adds Sternberg.**

Businesses in Canada face significant economic and political uncertainty with the unpopular liberal government preparing for an autumn election, aggravated by the enforcement of the bilateral tariff. 73% of leaders north of the border are concerned with geopolitical risks (peaking post-US election) and trade flow disruption.

Despite a more challenging landscape, growth opportunities are out there. However, leaders will need to get more prudent with spending to protect profit margins and fund innovation. To accomplish this, leaders are focusing on improvements in three areas: operating model, workforce management, and innovation.

## NORTH AMERICAN LEADERS ENTER 2025 WITH HIGH CONFIDENCE IN GROWTH AND REVENUE

**Q:** Do you believe the rate of global economic growth will change in the next 12 months?




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

# OPERATING MODEL TRANSFORMATIONS

North American leaders are committed to making their businesses more agile, resource-light, and digitally enabled. To grow this year, 62% target operating efficiencies and 55% seek to cut costs and adopt new technologies.

Since the start of this decade, ultra-profitable companies have emerged that strategically leverage new technologies for revenue diversification and rapid market expansion. The technology sector naturally has some of the highest gross profit margins of 71.56% and so do investment services companies (73.27%) and biotechnology companies (72.1%)[5] who combined strategic technology investments with fine-tuning in other operating areas.

Mastercard has built a scalable payment technology, bringing compounding returns as cashless transaction volumes skyrocketed. By not overspending on scaling up, the payment company can maintain relatively low operating costs and strategically reinvest profits into consulting, marketing, fraud, authentication, and security services.

"Still, it's important to remember why these companies are successful, to begin with," **says Giovanna Amantea, HLB Canada.** "It is because they're always pushing the limits to be more efficient and more successful". Survey respondents see areas for refinement. Only 27% consider their operating model to be at optimum, while 70% rate it as such as needing improvement. To bring their operating model in top shape, over 40% plan to upgrade their tech systems, streamline workflows, and improve business agility, and data analytics capabilities.

A good percentage of leaders are turning to artificial intelligence — the most important technology over the next five years — to harness operating model improvements. "North American manufacturers feel increased pressure to be competitive with the rest of the world," **observed Giovanna Amantea, HLB Canada.** "For that, they need to reduce costs and to do so, they need to become more efficient. To become more efficient, they're going to be using AI." The sentiment is shared by the new US administration, which recently announced a $500 billion private sector investment in AI infrastructure[6].

Practically, 79% of leaders seek to unlock greater analytical insights with AI. A Manufacturing CEO shared they're using AI to "track customer lead time requirements to better be able to utilize capacity for future projects". In a publicly listed Healthcare company, "AI is having an impact on supply chain prediction allowing us to streamline the number of suppliers and resources being used within the procurement phase. We are also seeing an impact on profitability in diagnostics costs". A Retail CEO admits that "AI has been most effective thus far for its Business Intelligence unit. "The technology has increased productivity by reducing the time it takes for a BI analyst to translate analytics into digestible formats, like a PowerPoint deck".

"The use of AI was the most impactful at our company because we increased performance by 13% in 4 months due to data being available in a shorter amount of time.".

**CTO at a Healthcare Company**

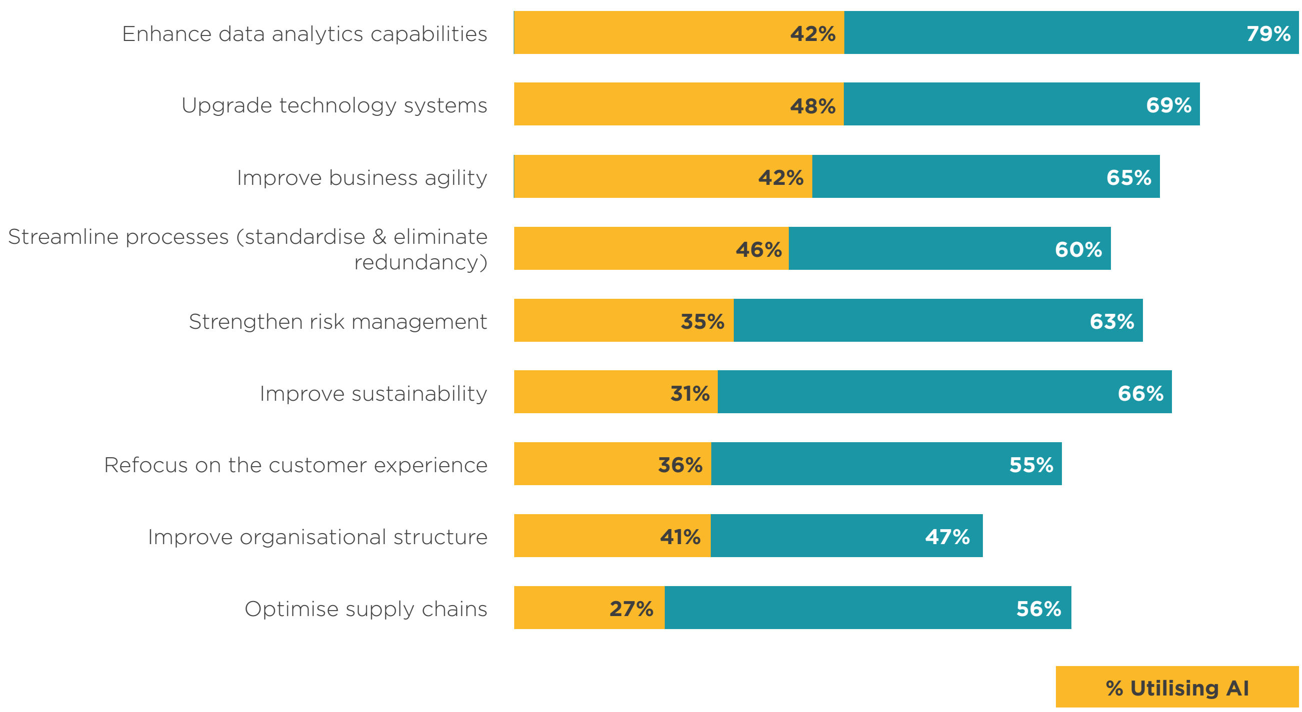
Curiously, 66% apply AI to improve their business sustainability. The Trump administration has frozen future disbursements from Biden's Inflation Reduction Act and Infrastructure Investment and Jobs Act, designed to boost jobs, reduce energy costs, and support new infrastructure projects in clean energy. However, renewable energy has been cited as one of the most important technologies by a quarter of business leaders in the region and climate change and carbon emissions data are key factors that 78% of institutional North American investors consider when making decisions[7].

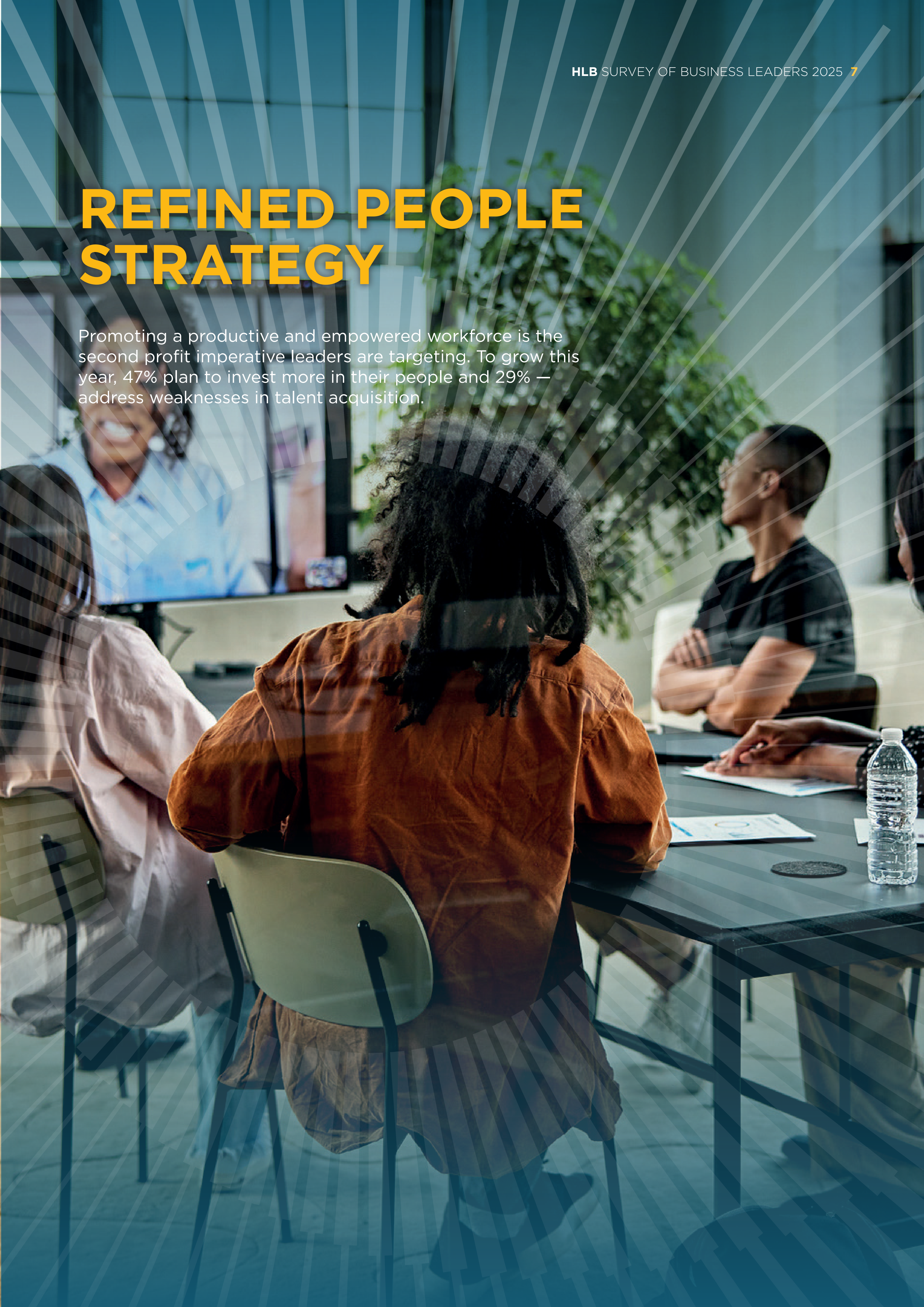
AI models have already proven their utility for carbon footprint measurement, waste reduction in the supply process, energy consumption monitoring, and logistics optimisations, among other use cases. UPS uses an AI algorithm to adjust delivery routes in real time, using traffic, weather, and package volume data. Since deployment, the model has saved the company over $300 million in miscellaneous operating costs, while also cutting emission levels by about 100,000 metric tons per year.

Water company Xylem developed digital twins of its water treatment facilities to detect and diagnose performance anomalies in real time and model efficient resource usage. With this technology, the Cuxhaven treatment plant reduced aeration energy usage by 30%, saving 1.2 million kWh per year, while ensuring regulatory compliance.  These case studies demonstrate that sustainability and profitability aren't mutually exclusive objectives. On the contrary, they're often connected and drive better outcomes both for the business and the society it services.

## NORTH AMERICAN LEADERS ENTER 2025 WITH HIGH CONFIDENCE IN GROWTH AND REVENUE

**Q:** Which of the following actions are you taking this year to adjust your business / operating model? Are you deploying AI and algorithms to enhance your business / operating model in these areas?





# REFINED PEOPLE STRATEGY

Promoting a productive and empowered workforce is the second profit imperative leaders are targeting. To grow this year, 47% plan to invest more in their people and 29% — address weaknesses in talent acquisition.

Many North American companies have just undergone another restructuring cycle, discharging over 5.1 million people as of November 2024[8] — a knee-jerk reaction to the post-pandemic hiring sprees and lingering fears of recession. Still, the labour market remains tight. The US unemployed to job openings ratio was 0.9 to 1 at the start of the year[9]. Companies also continue to face specialised skills shortages in AI, big data, cybersecurity, and overall technical literacy.

With fewer people in the talent pool, leaders are looking inward to cultivate missing capabilities. Half plan to improve their training and development programmes for continuous learning. With ongoing demographic shifts and massive technological changes, companies need to address skill mismatches between employees' skills and the top competencies needed in their roles.

Today's roles and responsibilities go well beyond a narrow, itemized list of duties. Most require cross-functional expertise and a high degree of flexibility. Over a quarter of business leaders in the region are conducting skills audits and responsibility reviews, and 60% of these leaders turn to AI and data analytics to get these done. Over half also deploy the technology to support staffing models, performance management, and L&D initiatives.

For one business leader in a publicly listed healthcare company, AI has been "very helpful with assisting with the training and onboarding of new workers". Private large language models, fine-tuned on corporate data, can provide new employees with a personalised onboarding path and on-demand access to any relevant information throughout the day. Effectively, Gen AI assistants transform the tedious process of manual documents, policies and data lookups across various file storage systems into a quick spoken-language query.

> "AI in workflow automation brought the biggest impact, as it allowed front-line staff to use found time and devote toward customer-facing work".
>
> **CISO, Healthcare Company**

AI technologies can provide faster onboarding and more proactive day-to-day support to improve workforce engagement. 45% consider their people to be high-performing and engaged, but 50% rate the workforce as productive depending on the circumstances. The transition to remote and hybrid work further aggravated the productivity issue, with employers questioning performance outside the office. This has culminated in a flurry of forced return to office mandates and rising levels of 'productivity paranoia' — with many businesses now deploying employee monitoring software to glean productivity metrics.

Yet, tracking employee desktop activity hours or late clock-ins isn't really the answer to higher workforce productivity. Instead of worrying about whether their people are working enough, leaders should help them focus on doing high-impact work. Manual steps, knowledge silos, and other low-value activities undermine profitability more than an occasional early clock-out.

Emerging technologies can help unlock greater staff productivity. Half of the most profitable companies in our cohort are working to improve workflow and workload management and over 80% of them are deploying AI in this pursuit.

"Since AI adoption, we've been able to manage work schedules more efficiently which helps our employees tremendously and they become very productive. It's also helped us to predict our staffing needs and optimise staff deployment successfully," shared a Technology company leader.

To retain their best workers and continue attracting high-calibre talent, leaders need to think holistically about the experiences they create. Workplace technologies can be a great conduit of innovation and process efficiencies. However, obsession over the wrong metrics can cast the opposite effect, encouraging 'productivity theatre' over meaningful work. Respondents seem to recognise this as 47% plan to improve their company culture and purpose to ensure better support and empower their people.

# AI-ENABLED, CUSTOMER-CENTRIC INNOVATION

Half of regional leaders consider themselves successful innovators — the highest percentage globally. "Leaders are feeling successful at innovating because there is so much new technology coming into play at this point," says **Israel Tannenbaum, HLB USA.**

AI and Cloud computing remain the most important technologies for business. Interest levels in machine learning, blockchain, battery storage and electrification have also grown compared to last year.

46% of regional leaders identify as AI Innovators — already widely using or eager to deploy the technology in their business. However, a quarter of leaders are in the opposite camp — concerned about the AI risks or doubtful of the technology's impacts.

Perhaps the latter is discouraged by the inevitable Trough of Disillusionment — a phase of waning interest and adoption complexities in every new technology adoption cycle— after the first proof of concepts failed to deliver anticipated value. "Hone in on where everybody else is seeing some quick wins. Prioritise well-documented and feasible best use cases first and wait a bit on the longer-term, riskier implementation," recommends **Holly Shier, HLB USA.**

Among those using AI, investment choices have become more strategic and narrowly focused on achieving operational improvements. Top AI use cases include customer analytics (44%), process automation (41%), content generation (37%), and employee training and development (35%).

"AI has really helped us with our marketing initiatives, especially targeting the most productive steps to improve revenues," shared a CHRO in a Hospitality business. "The data produced by AI enables us to narrow our focus to the most productive areas, which has resulted in improved efficiencies". For a COO in

"AI has been very impactful for Product/R&D as it lets us prototype and fail faster so we can learn and deliver great products".

**Leader at a Technology Company**

the transportation sector, the biggest benefits have stemmed from AI "analysis on received inventory from the vendors and creating streamlined processes for our contract customers.

Beyond new technology adoption, 43% of leaders are also taking two other important steps to improve how they innovate — encouraging a culture of innovation and analysing customer behaviour data.

It appears that some businesses in the region see AI as a conduit for building a more customer-centric operating model: instead of launching products hoping to find a market, they are working with customers to orchestrate growth. Among those focused on improving their innovation capabilities, an impressive 81% use predictive analytics to track future trends. About three-quarters also use AI for customer data analysis, segmentation, and deployment, as well as rapid product prototyping.

When building out its award-winning electronic trading platform Aiden, the Royal Bank of Canada (RBC) adopted a customer-first approach to development. After launching the first interaction of the reinforcement learning algorithm for volume-weighted average price trading, the team sought customer feedback for subsequent product development. Listening to their audience, they prioritise the next R&D use case — liquidity-seeking — which is then implemented in the next algorithm generation. By proving the demand first, RBC avoided sinking resources into costly algorithm development.

Listening to the market is an important first step for successful innovation. The second is ensuring that your internal capabilities can deliver on the customer expectations. Oftentimes, great ideas fail to materialise when the company doesn't allocate enough funding and resources to support the initiative. Perhaps this is the case for 44% of leaders in North America who rate their innovation efforts as variable.

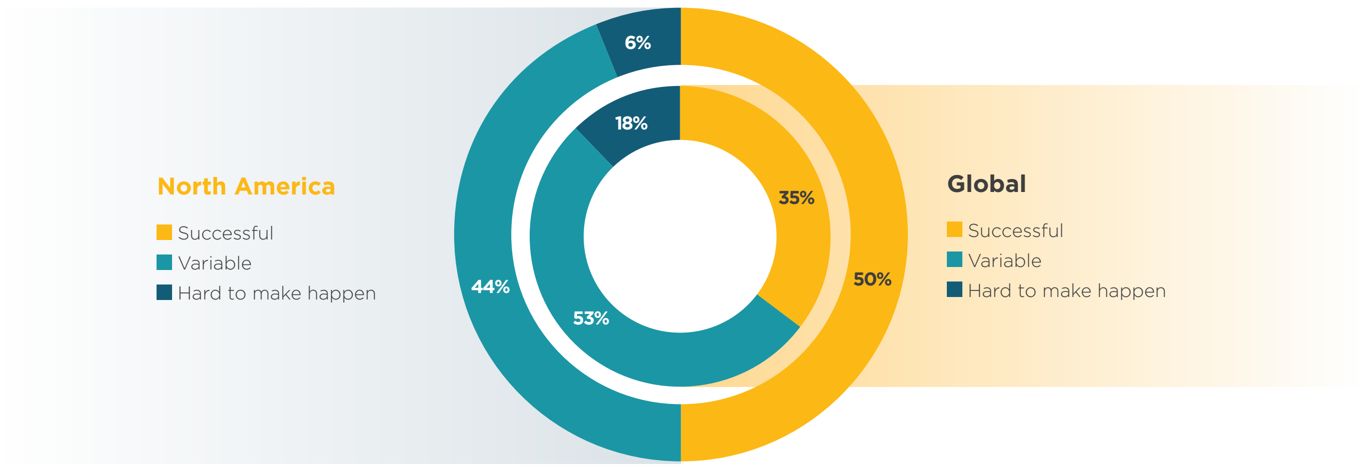
Among the most profitable companies in our survey, 36% plan to set aside time, resources, and a dedicated budget for innovation this year, versus 24% of companies whose profit margins remained stable or decreased. Similarly, the most profitable companies are more committed to breaking down organisational barriers with 44% placing a greater emphasis on cross-functional collaboration to improve how they innovate.

In other words: They not only track the market pulse and capture customer feedback but also take proactive steps to improve their internal innovation capabilities through investments in people and processes.

Successful innovators appear to be constantly asking: Are our strategic objectives and innovation efforts aligned with our customers' needs? Are our product development and deployment capabilities configured based on customer-provided inputs? Are your resource allocation plans and organisational setup aligned with customer commitments for mutual success? By periodically asking these questions, you can determine whether your innovation strategy is customer centric.

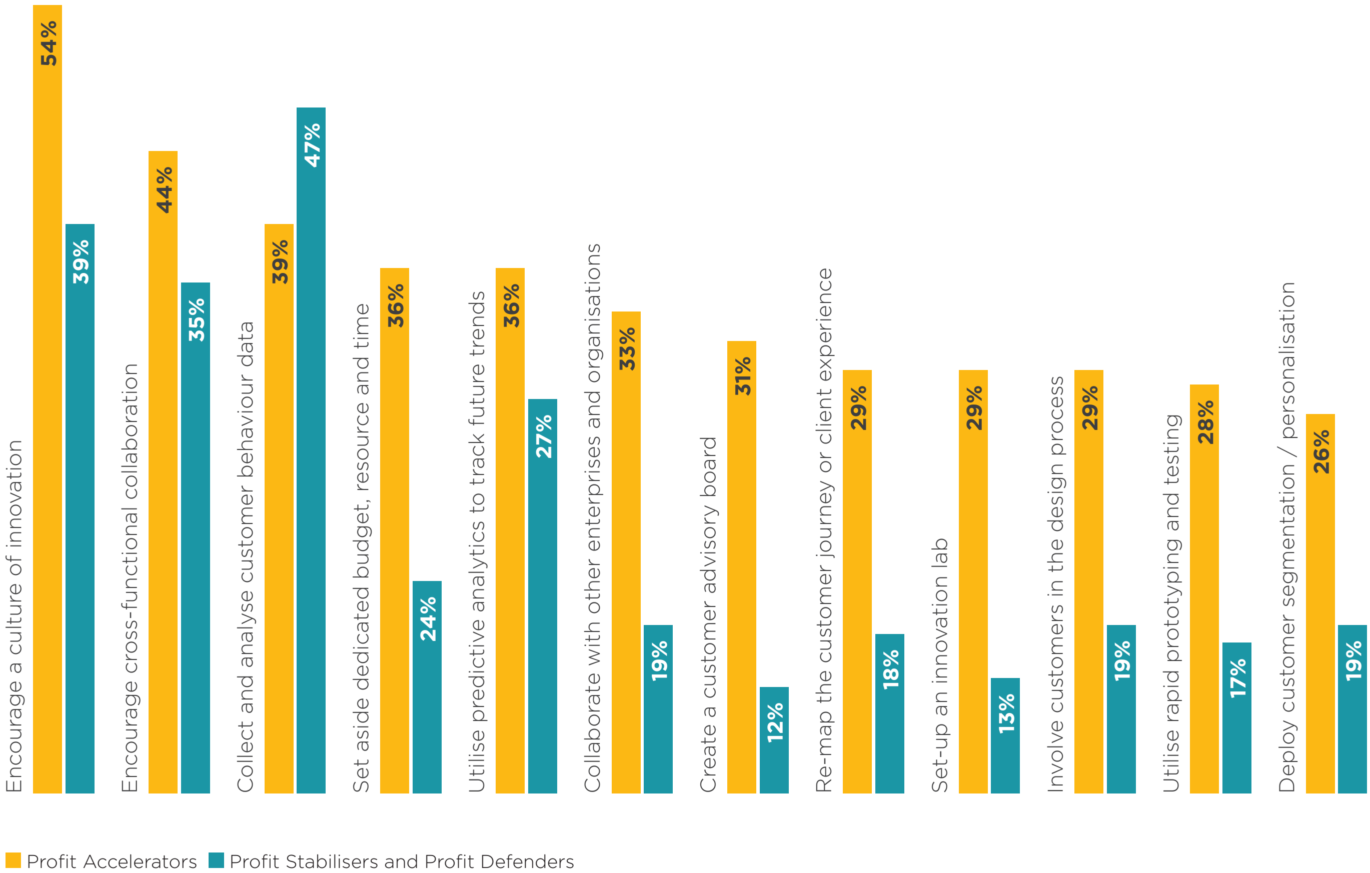
## NORTH AMERICAN LEADERS LEADING THE WAY IN INNOVATION CONFIDENCE

**Q:** How would you describe innovation in your organisation? (North America vs Global)



## PROFITABLE COMPANIES INVEST IN CAPABILITIES TO TURN INNOVATION INTO IMPACT

**Q:** Which of the following actions are you taking this year to improve how your organisation innovates?




# MAXIMISING PROFIT MARGINS - HINTS FROM HIGH PERFORMERS

An impressive 28% of the leaders in North America are 'Profit Accelerators' — companies, whose profit margin increased by 5% or more this past year.

# WHAT MAKES THESE COMPANIES MORE SUCCESSFUL THAN THEIR PEERS IS A GREATER FOCUS ON THE NEXT THREE AREAS:

| LEAN, AGILE OPERATING MODEL | PROACTIVE TALENT DEVELOPMENT | CUSTOMER-CENTRIC INNOVATION |
|---|---|---|
| Highly profitable companies are committed to taking their people out of functional silos and placing them in a self-managed, lean, technology environment. | Over half of the profitable companies in North America rank their people as high-performing and engaged. | While most businesses look to improve their data collection capabilities, 'profit accelerators' are already putting customer data to great use. |
| They're 15 percentage points more committed to improving business agility and deploy AI more widely to battle inefficiencies. 'Profit accelerators' are 1.7X more likely to use AI to streamline processes and 1.4X more to optimise their supply chain. | While their peers focus on optimising organisational and department structures, they're instead focusing on improving team workflow management and their people's strategic capabilities. | Almost a third involve their customers in the design processes. They're 2.5X more likely to set up a customer advisory board and 2.2X more likely to have a dedicated Innovation Lab. |
| Compared to their peers, they are also more committed to developing operational foresight: 48% look into strengthening their risk management and 43% aim to improve sustainability. | They're almost twice as likely to perform skills audits and role reviews to better understand their resource capacity and talent quality. Three-quarters are using AI to help evaluate their workforce competencies. | AI plays a central role in their innovation activity. More than 80% rely on predictive analytics to track future trends, accelerate product prototyping, and testing, and encourage wider cultural transformations. |
| Subsequently, twice as many rate their operating model as optimum. | 'Profit accelerators' are more committed (by 11 percentage points) to improving their succession planning and leadership development. A new generation of competent and empowered leaders is critical for ensuring future competitiveness as generations shift in the workplace. In general, 'profit accelerators' are committed to building better workplace dynamics — and they're actively using AI to help with workload management (+25), people engagement (+27), and performance management (+21 percentage points) compared to peers. | By strategically using AI to build a customer-centric culture, 'profit accelerators' are 1.6X more likely to rate their innovation efforts as successful. |

## HOW DOES YOUR ORGANISATION UNDERSTAND AGILITY?

When seeking operating model transformations, leaders often spread themselves across too many priorities and too many urgent deadlines. Agile companies do the opposite: they focus on a select few priorities, led by smaller, cross-functional teams with high decision autonomy. By parallelising efforts and reducing the layers of rigid oversight, Agile organisations can cultivate better responses to market changes, develop better connections to different customer groups, move faster with execution, and avoid sinking too many resources into unprofitable ideas through rapid validation.

## WHAT IS YOUR APPROACH TO TALENT DEVELOPMENT?

People want and deserve to be working in supportive, collaborative cultures, where they're continuously encouraged (not coerced) to produce their best work. Does your workforce have well-defined goals and transparent measures for performance evaluations?

Do you provide training to help your people evolve their skill sets? Successful companies invest in their people as much as they do in emerging technologies, which have major potential but still cannot fully replace human cognition, creativity, or ingenuity.

## HOW ARE YOU USING CUSTOMER DATA?

Highly profitable companies aren't just using it for 'defence' to maintain competitive pricing and product positioning, but also for 'offence' strategies — to shape new offerings in their portfolios, prioritise the main 'jobs to be done', and build stronger brand marketing.

Rather than reactively responding to shifts in consumer behaviours, they're investing in future capabilities that customers would like to have, evolving in close tandem with their needs and preferences.

# ENDNOTES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