



LATAM: BUSINESS CONFIDENCE, DRIVEN BY INNOVATION AND AI

HLB SURVEY OF BUSINESS
LEADERS 2024





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UNWAVERING CONFIDENCE AMID ECONOMIC CHALLENGES

Despite continuing macroeconomic challenges, LATAM leaders continue to demonstrate a positive outlook. At the start of this decade, 91% expressed confidence in their ability to grow revenues. In 2024, 92% believe the same, of which 51% are very confident – the highest percentage in our survey. For comparison, only 31% of European leaders and 44% of North American leaders also maintain the highest levels of confidence.

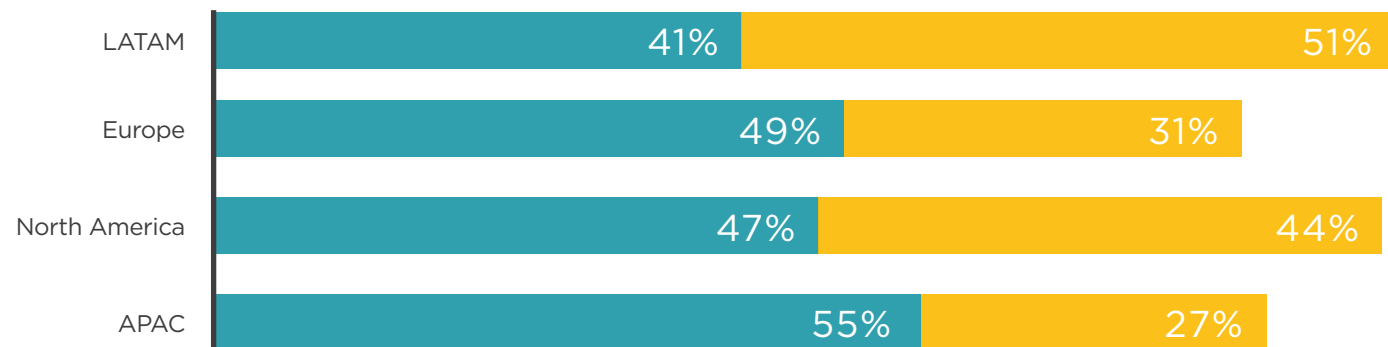
LATAM has experienced a strong post-pandemic rebound, demonstrated by a remarkable 4% economic growth in 2022¹. Ongoing supply-chain relocation in the US has driven an investment boom in countries like Mexico, Panama, and Costa Rica. Major initiatives are underway in the semiconductor and electric vehicle (EV) manufacturing sectors. Critical minerals development and large infrastructure projects are also bringing new partners to the region. “The global recovery of the economy always opens possibilities in the context of integrated supply chains. Foreign direct investment, development of economic zones, and technological development are generated. For example, the US nearshoring strategy represents a great opportunity for Mexico in particular, and for other countries in the region that have the capacity to integrate into supply chains”, says **Gustavo Solis**, CEO at Cynthus (HLB Mexico).

As of 2023, Mexico became the US’s largest trading partner, surpassing China, with a volume of \$462 billion². The Biden administration has been pushing to increase trade volumes with Latin America further. After pandemic-prompted delays, the European Commission is looking to finalise the EU-Mercosur trade agreement, which will progressively phase out about 90% of tariffs between the 27 EU member states and the Mercosur bloc: Argentina, Brazil, Paraguay, and Uruguay. Among our survey respondents, 68% believe that changes in trade agreements will create new opportunities for their businesses.

Positive market developments translate to a positive market outlook. 59% of LATAM leaders are certain that the economic growth will increase this year, which makes it the most optimistic region in our survey. LATAM leaders appear to be well used to navigating through the perfect storm, taking every challenge in the region (of which there are plenty) as an opportunity to evolve, innovate, and thrive.

LATAM LEADERS DEMONSTRATE THE MOST POSITIVE OUTLOOK

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



■ Somewhat confident ■ Very confident

Still, the operating conditions remain complex. Inflation is a top-of-mind concern for 76%. Headline and core inflation, however, are receding in most countries in the region (excluding Argentina and Venezuela). The Banco do Brasil expects inflation to lower to 3.5%³. In Chile, inflation is expected to reach 3% in the second half of 2024⁴.

The region’s central banks may also diverge from the Federal Reserve policies and start lowering interest rates early in the year. Central banks of Brazil, Chile, and Peru have already cut rates in the third quarter of 2023. Mexico’s Central Bank plans to lower the rates to 9.25% over the year⁵. Though, fiscal policies may change if inflationary pressures persist during the year. Economic uncertainty preoccupies 70%, although it appears to be more of a back shadow as only 19% of leaders are very concerned, while 51% are somewhat concerned.

LATAM leaders are highly worried about cybersecurity risks (76%). Regional IT services and business process outsourcing (BPO) sectors are expanding as global businesses struggle to grapple with talent shortages with the right technology skills. LATAM also has a thriving startup ecosystem. However, the digital market has also been a prime target for

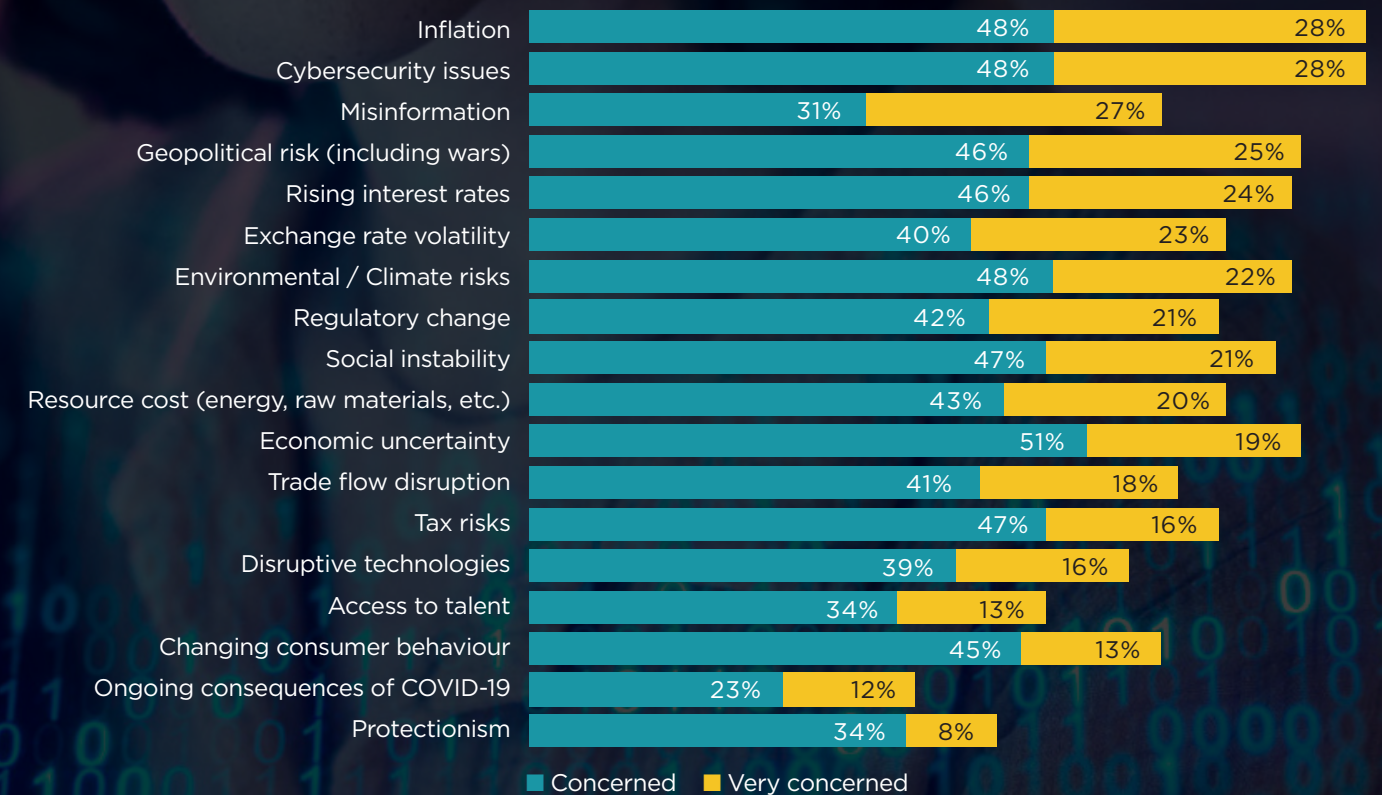
cyber-actors. Last year, 69% of LATAM organisations experienced a security incident⁶. The cyber-risk radar may also intensify with AI adoption, as such systems could be used as another entry point to the organisation.

Other risks also attract concern. Misinformation, geopolitical issues (including ongoing conflicts), rising interest rates, exchange rate volatility, climate risks, regulatory change, and social instability are all causes of significant concern for more than a fifth of LATAM respondents. Broadly, over 20% of LATAM leaders feel ‘very concerned’ about 10 different types of risks. For comparison, European and North American leaders are very concerned about 5 risk vectors, APAC leaders – about 4, and Africa and the Middle East – about⁷.

LATAM leaders are used to operating in a volatile environment, but this year provides greater political uncertainty. Mexico prepares for general elections in June 2024, which can go either way. Argentinian and Brazilian presidents continue to face strong opposition. Tough economic measures to reduce the fiscal deficit may lead to social unrest. Peru, Ecuador, and Colombia face public pressure against new mining activity.

LATAM LEADERS ARE CHALLENGED BY A BROAD SPECTRUM OF RISKS

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



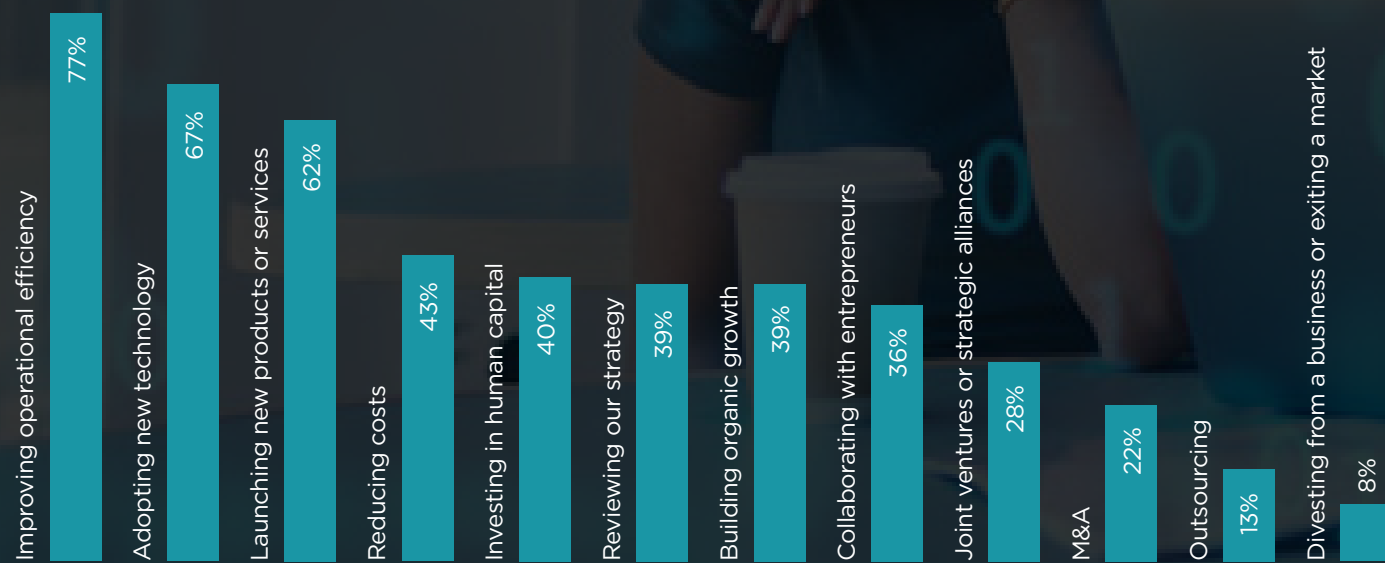
■ Concerned ■ Very concerned

KEY FOCUS AREAS: EFFICIENCY, TECHNOLOGY, AND INNOVATION

To grow in 2024, leaders in LATAM aim to increase operational efficiencies (77%), adopt new technologies (67%) and launch new products or services (62%). Compared to global peers, LATAM leaders are more focused on streamlining operations but are less inclined to do so for the sake of cost reduction. Only 43% plan to cut costs this year versus half of European and APAC leaders. Only 22% view cost management as a weakness area worth addressing.

BETTER OPERATIONAL EFFICIENCY, NEW TECHNOLOGY ADOPTION, AND NEW PRODUCT/SERVICES LAUNCHES ARE THE KEY PRIORITIES

Q Which of the following actions are you planning to take in the next 12 months, in order to grow?



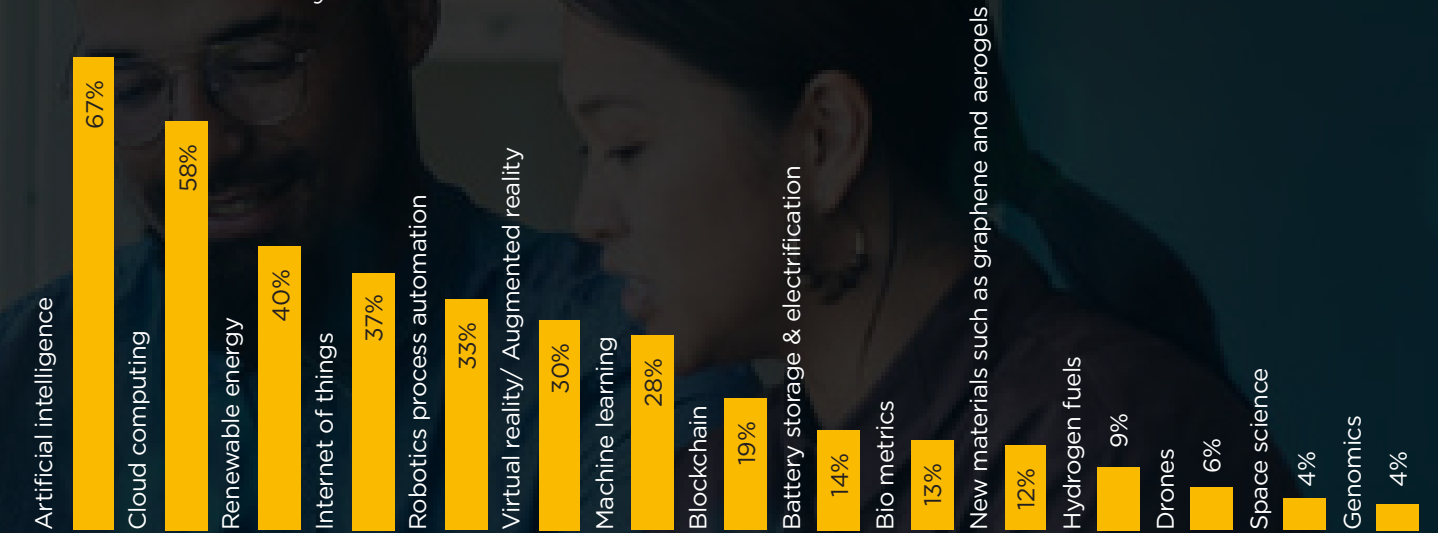
It appears that LATAM leaders are more eager to invest funds into new operational capabilities to maintain their growth streak. Given the increase in trade volumes, extra investments in transportation and logistics solutions may be warranted. IMF estimates that by improving trade infrastructure, LATAM businesses can increase export volumes by 30% and lower the trade costs with neighbouring countries⁷. Over 70% of leaders in our survey believe that technology advancements will help them overcome future cross-border challenges.

Beyond trade, 79% agree that emerging technologies (including AI and machine learning) are key to driving innovation, creativity, and productivity in business.

As of 2022, Internet penetration rates in LATAM (78%) surpassed those of China (74%), with Chile leading the pack at 90%, followed by Argentina (87%), Brazil (84%), and Mexico (77%)⁸. Greater connectivity has led to the rapid adoption of digital products and services by consumers and businesses alike. The digital commerce market stood at US \$510 billion in 2023 and is expected to almost double by 2026 to US \$944 billion⁹.

AI HOLDS THE MOST STRATEGIC IMPORTANCE

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



Young and internet savvy LATAM consumers have quickly adopted digital financial services, business SaaS apps, and ecommerce shopping platforms, which comprise most of LATAM's burgeoning startup ecosystem. Over 60 unicorn companies (with a valuation of US \$1 billion and above) now operate in LATAM, including one of the fastest growing global IT brands, Globand, specialising in B2B software products, FinTech companies Stone and Nubank, and Ascenty — a cloud computing and data centre services provider.

In the next five years, 67% of LATAM leaders believe that artificial intelligence (AI) will be the most important technology for their businesses — it tripled in significance since 2021. Cloud computing comes second, steadily ranking highly since 2020.

Since the start of this decade, we have been introduced to the increasing capabilities of AI — from autonomous vehicles to large-scale industrial automation and, more recently — accelerated knowledge management, instant content generation, and more accessible analytics thanks to generative AI. However, as with any emerging technology, the gains are almost as high as the risks. IBM had to abandon its multi-million Watson's IBM project for healthcare. Facebook had to shelve several chatbot projects, while Amazon scrapped an AI resume screening tool that delivered biased results.

LATAM leaders, however, are ready to face the complexities head-on to secure a competitive advantage. In the context of emerging tech and AI, 63% are prepared to take on more risk given the potential benefits of success. However, they're also planning for disruption. This year, leaders want to address weaknesses in cyber security (34%) and risk management capabilities (28%).

More so than peers, LATAM leaders are also wishing to improve their innovation capabilities (34%). "Innovation is not just the adoption of new technologies in an organisation. Innovation means the adoption of new ways of working, new ways of thinking of people and, of course, the use of new technologies", notes Gustavo Solis. "This transformation requires several underlying elements. Aspects such as risk management, information security culture, and organisational change management methods. Historically, these elements have shown deficiencies in LATAM countries, which, in the minds of senior management, translates as a weakness. However, it is not specifically of innovation, but of the means to manage transformation properly within their companies".

These commitments are understandable, given that new product or service development is the third focus area. Although natural resources exports and agriculture will remain important economic sectors in the region, local leaders are also diversifying to offer higher value-added services. Mexico is becoming a new EV manufacturing hub, housing production plants for BMW, GM, Ford, Jetour, and Tesla.

Among respondents, 40% also named renewable energy as the most important technology in the next five years. Renewables, led by hydropower, already account for 60% of the region's electricity supply, twice the global average¹⁰. With some of the world's best wind, solar, and hydrocarbon resources, as well as some critical rare minerals, LATAM makes a significant contribution to global energy security and the transition to green energy while also generating benefits for the local communities.

CHALLENGES AND OPPORTUNITIES IN AI ADOPTION

LATAM leaders are early adopters of AI: 32% are already using AI in their business operations, while 30% are actively exploring how AI could give an edge to their operations. Moreover, 26% are willing to try AI technologies for the right use-case. Compared to global peers, LATAM leaders are the least cautious of AI, with only 11% being wary or opposed to using the technology vs 21% of European leaders and 20% of APAC.

Regional policymakers have implemented favourable regulations for the technology sector. Since 2020, the Government of Colombia has proposed over 30 AI initiatives, ranging from ethical frameworks for AI development to guidelines on data protection. Brazil has published a national AI strategy and has an extensive bill on AI under discussion in Congress. Costa Rican officials signed a letter to develop a national AI strategy using UNESCO's 'Recommendation on Ethics in Artificial Intelligence' and are working to formalise the first set of laws.

Favourable legislation, paired with high connectivity and a digitally savvy workforce, results in high AI adoption. LATAM leaders are further on the AI maturity curve than their global peers. 57% say they're integrating, optimising, or leading in certain areas of AI adoption. Only 16% of LATAM leaders have not yet started their AI journey vs 21% globally and 30% in Europe.

In particular, over half have already completed the 'baseline' adoption steps of data cleansing and quality reviews, plus completed technology readiness, compliance, ethical, IP and legal assessments. LATAM leaders are racing ahead compared to their peers in Europe, where half of the leaders have either not started or are preparing to perform the above assessments and data management activities.

This puts LATAM leaders on par with North American counterparts and, in some cases, ahead of them. 55% of LATAM leaders report completing technology partnerships and vendor evaluations vs 50% of North American leaders. Similarly, more LATAM leaders have already delivered AI-specific staff training and upskilling.

A CISO in a telecommunication enterprise says that they're feeling secure "in terms of staff training, implementation, and technical support and that we are also continually preparing talent to strengthen various departments related to this technology". However, the company could still benefit from "advice from brands/suppliers of various resources to identify the need and decide which [AI] product fits our needs."

An admirable 57% of leaders also already identified appropriate use cases. 58% have also adopted AI tools into their business models, of which 22% identify as leaders.

LATAM businesses are using AI to automate and enhance operations in a variety of ways, focusing first and foremost on customer analytics (40%), sales and marketing (36%), and Research & Development (R&D) (34%) Only 15% are not experimenting with either of these use cases vs 32% in Europe and 20% in APAC.

"LATAM countries have a long history of unstable economies. Economies that are greatly affected by political changes that sometimes range from radical right to left-wing politics or vice versa. This has meant that, except in cases where there is a clear leadership position, companies must compete in markets with aggressive players and very price-sensitive customers," says Gustavo Solis. "This means that most technological innovations, including AI, of course, are oriented towards commercial, marketing and customer knowledge issues."

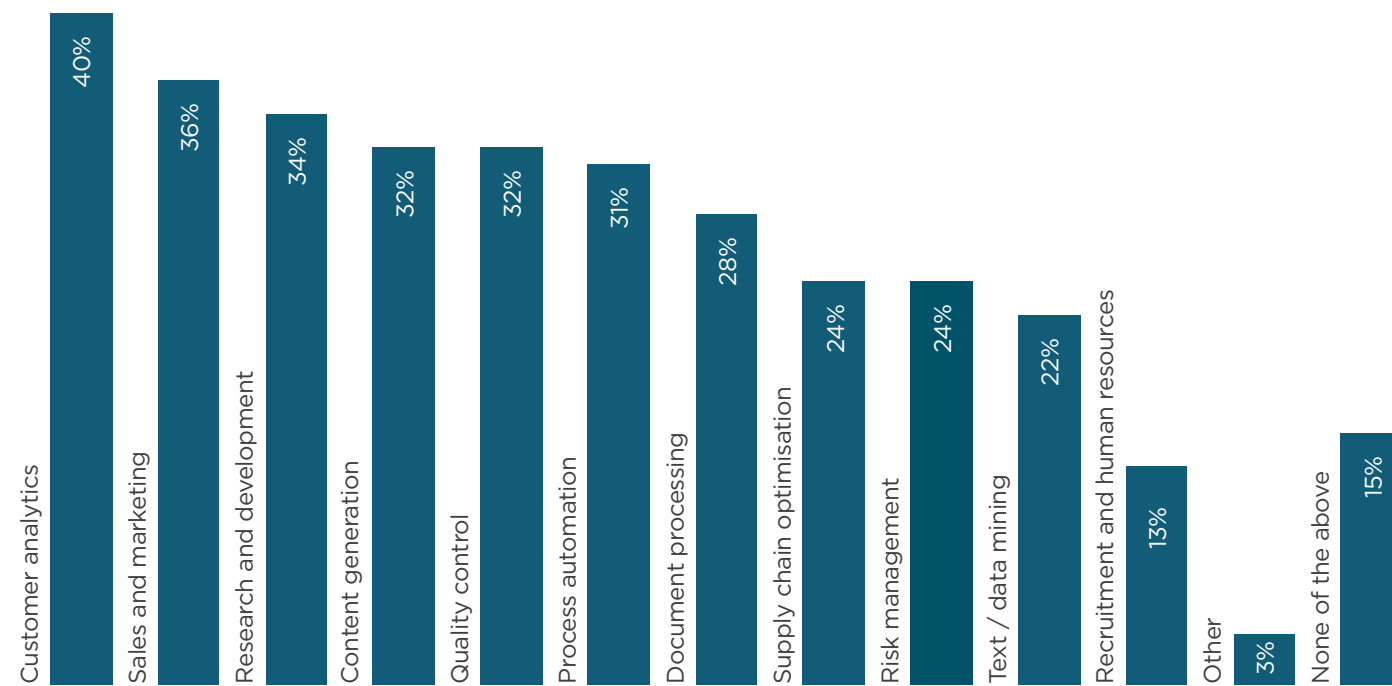
LATAM LEADERS DEMONSTRATE HIGH AI MATURITY LEVELS, LEADING IN SEVERAL ADOPTION AREAS

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



AI ALREADY DEPLOYED FOR CUSTOMER ANALYTICS, SALES, MARKETING, AND R&D.

Q Where has your company used AI technologies to automate or enhance operations?



However, LATAM leaders are also held back by greater perceived barriers to adoption. 40% named lack of ‘digital transformation skills’ the top barrier to adopting and integrating AI. Several CEOs mentioned that they’d like to “recruit new talent” and “focus more on retaining professionals in the area.” 47% of LATAM leaders are worried about access to talent, although to a lower extent than leaders in North America and Europe.

LATAM leaders are also open to strategic collaborations with entrepreneurs, which 36% intend to do this year. “We need strategic partnerships to develop custom AI solutions and ongoing technical support for efficient integration”, one tech sector CTO cites.

Data security and privacy concerns (40%) and data quality and quality concerns (35%) also prevent leaders from advancing faster on their journey. Argentina, Brazil, and Panama have data protection laws strongly inspired by the European Data Protection Regulation (GDPR), which

regulates the usage of personal consumer data for commercial purposes. Chile plans to modify its data protection laws in 2024 to introduce new security obligations and better regulate international data transfers. Mexico, Ecuador, and Peru, among others, also have personal data protection laws in place. High rates of cybercrime also warrant air-tight data protection and wider security mechanisms for preventing AI-targeted attacks.

Unlike European leaders, ‘lack of use cases or unclear ROI’ and ‘lack of time’ are less of a concern, and neither are budgetary issues. LATAM leaders appear decisive and eager to innovate. As a CFO in the Education sector says: “We want to define more clearly the strategy that we could follow to take advantage of AI with greater astuteness and tenacity and, derived from it, an investment and action plan”.



INNOVATORS SPRINT AHEAD IN AI ADOPTION

The majority of LATAM leaders are eager to use or are already widely using AI to build a competitive advantage. In this cohort of AI innovators, 60% are very confident in their ability to grow revenue this year — twice as many as those who consider themselves to be cautious when it comes to AI. In fact, 26% of AI cautious leaders aren't sure they'd be able to achieve growth this year.

So, what drives confidence among AI Innovators? Compared to AI Conservatives, Innovators are less held back by operational efficiency and fundraising weaknesses. However, AI Innovators are more concerned about weaknesses in their cybersecurity and plan to address these this year. The AI Explorers, in turn, view 'risk management' as the main weakness area to improve this year, followed by operational efficiencies.

Indeed, AI adoption exposes companies to new risks — security and compliance-related. Planning is important. Yet, the impacts of innovative technologies often become evident only in retrospect. The path towards AI maturity requires a good degree of controlled experimentation — proof-of-concept (PoC) model tests on limited datasets and beta testing of new AI tools with a limited group of internal participants.

“By embracing AI, companies not only optimise their internal operations but also actively contribute to the technological advancement of the region, strengthening the business ecosystem of Latin America as a whole,” says **Eduardo Vaz**, Transaction Services & Forensic Leader at HLB Brazil.

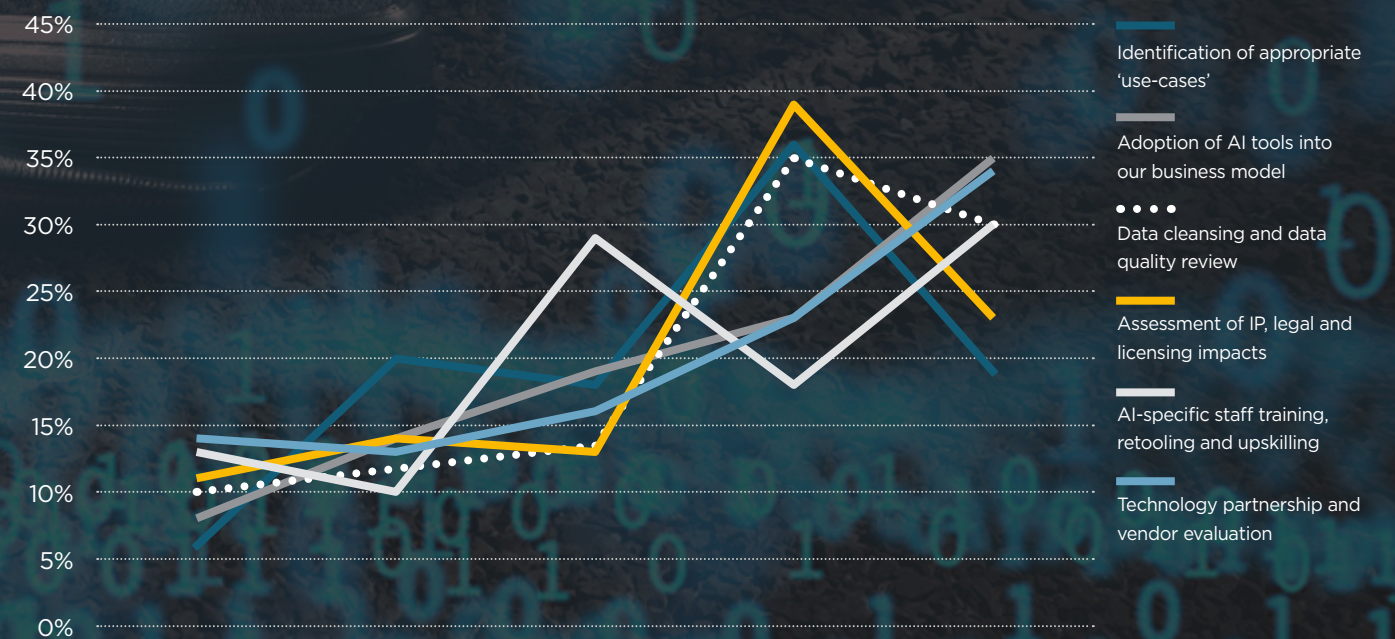
“At HLB Brasil, we recognise that AI is not just an optimisation tool, but rather an essential catalyst for business transformation, allowing us to anticipate market trends, customise solutions for our clients, and, above all, maintain leadership in an increasingly digital business environment”.

By being open to experimentation and learning, organisations can collect real-world evidence of different AI investments' impacts, risks, and returns before scaling the solution to wider audiences. This appears to be the strategy AI innovators are deploying, of whom over 70% have already integrated, optimised, and now lead the charge in actions like 'use case identification', 'technology readiness reviews', and 'vendor evaluations'. 77% of AI leaders have also adopted AI tools into their business models and administered AI-specific staff training. Most AI conservatives (56%) have not started work in either of these areas.

Curiously, AI innovators and AI conservatives face different obstacles to AI implementation. Innovators cite 'lack of digital skills' as the main barrier, while AI Conservatives are paralysed by 'business model obstacles'. Perhaps AI Innovators appear to already have leaner business models and greater support for AI initiatives, likely due to several successful pilots. AI Explorers and AI Conservatives need to catch up if they want to benefit from the economic transformation AI will bring to the region.

AI INNOVATORS ARE ALREADY OPTIMISING OR LEADING AT ALL STAGES OF THE AI MATURITY CURVE

Q Where do you rate your own business today on the following aspects of AI adoption? (showing answers for AI Innovators only)



ACCELERATING YOUR JOURNEY TO AI ADOPTION

Productizations of AI is the north star for companies eager to maintain a leading position in the market — and AI Innovators in the region seem closer to this goal than some of their peers, evidenced by higher confidence in their ability to grow their enterprises this year. However, they are also held back by cybersecurity concerns, missing skill sets, and continued market volatility.

AI Explorers and Conservatives can still equalise and overtake today's leaders by addressing key operational constraints. We recommend looking into the following areas to expedite your innovation speed

1

SEEK FRESH IDEAS BY EMBRACING THE CONSTRAINTS

Impaired innovation is easy to blame on familiar constraints like 'lack of budget' or 'regulatory red tape'. However, time and again, companies prove that frugal, lean innovation is possible.

Nubank has secured steady user base growth and predictable revenues by perfecting just one product at first — a credit card. Kavak was bootstrapped, and some of the company's first hires were compensated with free food and housing.

Operating conditions will never be optimal. Treat existing constraints as a motivating challenge to be more resourceful, creative, and inventive with the means already available.

Challenge your people to focus on a more narrowly defined way forward to move in smaller instalments, which progressively build out into the bigger picture.

2

PROTECT YOUR DATA, WORKSTREAMS, AND USERS

Many organisations continue to practise a reactive approach to cybersecurity — fighting fires as they cause operational disruption.

Digital transformations and AI adoption, in particular, require more proactive cybersecurity. This leaner function actively monitors for possible vulnerabilities and threats, then hardens the corporate perimeter to prevent potential breaches.

Practices like data minimisation, anonymisation, and encryption help protect data used for model training and operations from landing in the wrong hands. These practices also reduce regulatory risks in the area of user privacy.

New cybersecurity paradigms like 'zero-trust architectures', 'secure-by-design' and 'integrated security' also help develop and maintain better-protected IT systems. Seek expert advice if you're concerned about your current protection levels.

3

SEARCH FOR THE RIGHT AI FIT FOR YOUR BUSINESS MODEL

There's no universal path to AI adoption. Every organisation aims to determine the optimal fit, based on its current business model and key goals. Adoption of new technologies doesn't always mean a complete overhaul of existing business models and revenue streams.

Innovative companies often choose only to adopt AI for one function or incorporate AI tools in the current processes without changing the business model. Others are extending or resetting their model to cover new value streams with the help of AI. Only a fraction make AI its new core business priority, seeking a position in an AI-first company.

Seek a path that makes the most sense in your industry and would result in the most value for your business and your end customers.

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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