CIO retention under Private Equity (PE) ownership

2024

Introduction

$1.3 trillion (USD)

The role of a Chief Information Officer (CIO) in modern organizations goes beyond managing IT infrastructure – they play a strategic role in navigating the company through evolutions of the digital landscape and manage digital transformations from start to finish. Their roles are especially important in a world where globally each year firms will spend, on average, $1.3 trillion (USD) on digital transformation programs[1] to improve efficiency because organizations that are considered digital leaders tend to outperform their peers across industries.

77%

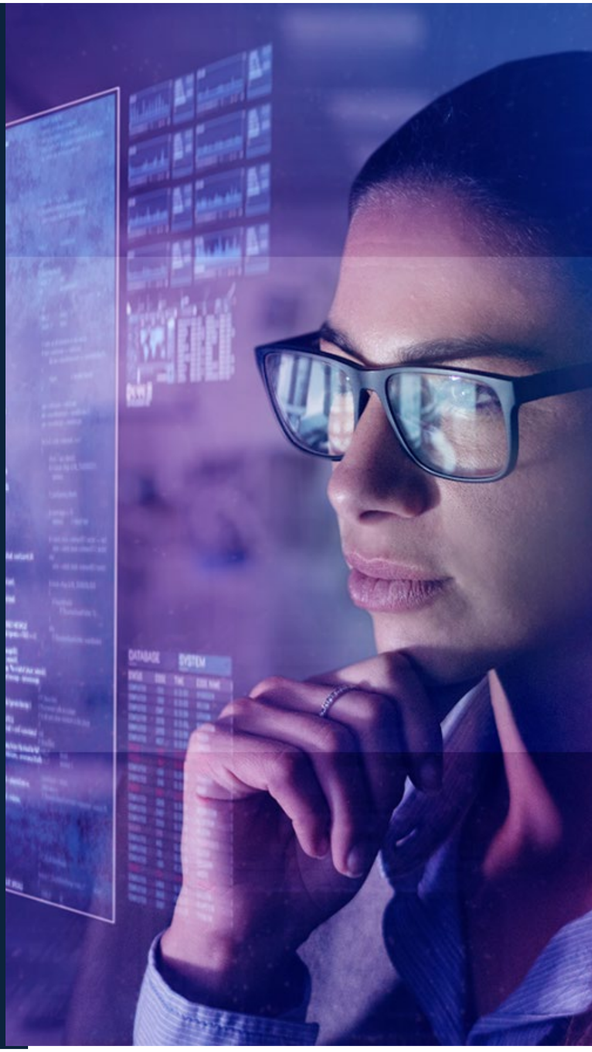
Despite the strategic leadership role that CIOs play, our research has found that 77 per cent of CIOs leave their organizations in the 5 years following private equity (PE) acquisition[2]. The departure of a CIO, especially in a PE-backed firm, poses numerous challenges for the organization. Take for example companies that are heavily reliant on legacy or bespoke technology solutions – a departure of this nature would cause a significant void in institutional leadership, knowledge, and experience.

The transition period following a PE acquisition can be tumultuous – having stability is a key factor in driving and maintaining post-deal synergy and success. A CIO exit during this phase can disrupt the transition, as sourcing and onboarding a replacement for this role is a costly and time-intensive endeavor that often come with risks.

Furthermore, a lack of consistent IT leadership that helps to enable innovation and operational efficiencies can impact deal value through a loss of productivity. Organizations could also risk the success of ongoing IT transformational programs, as research has shown that companies with an experienced Chief Digital Officer are 1.6 times more likely to report a successful digital transformation.

However, it's not all gloomy. For CIOs who choose to stay the course, the post-acquisition landscape offers a unique opportunity. During a transitionary phase, there may be many challenges and obstacles to work through, which gives CIOs the chance to lead major transformations, expand their professional network, and make an impact across the PE firm's portfolio companies.

This whitepaper is part of a series focused on how IT can increase deal value and minimize business risks during a transaction. The series highlights principles that KPMG in Canada's Technology M&A team leverage to help maximize value and minimize risks for clients across industries. **In this article, we will discuss the impact of CIO turnover in deals, benefits of retaining technology leadership, and strategies to mitigate against turnover.**



1 https://ieeexplore.ieee.org/document/9408371
2 https://kpmg.pathfactory.com/c/management-success-u-1?x=YHLfyl

Why turnover is high

There's often a discrepancy between a CIO's vision for IT transformation and the PE firm's investment strategy and time horizon. In the PE world, where returns are paramount, the clock can tick faster and there can be significant pressure to drive quick and tangible results. Sometimes, existing CIOs might lack the necessary experience or vision needed to meet the company's new direction and timelines, leading to a misalignment with the newly formed company's goals. Additionally, incumbent CIOs can find themselves unfairly shouldering the blame for pre-existing IT issues.

Based on our experience and research, a few of the key drivers for CIO turnover following a PE acquisition include:

Strategic misalignment over digital transformation

Differences in strategic digital transformation priorities and return on investment between the new PE ownership and existing CIOs can create significant friction.

IT innovation and transformation capabilities

If the private equity deal thesis and strategy includes digital transformation to enable business strategy, it is crucial to have IT leadership oversee the execution to drive value. A lack of capability, experience or even drive to deliver these complex programs can be key contributors to a CIO's departure.

Historical IT performance and incidents

Disagreements between PE owners and incumbent CIOs when it comes to the root cause and necessary mitigations for historical IT performance can create friction that has resulted in a CIO exit for many of the examples found in our research.

IT organizations thriving under PE leadership

Addressing this turnover isn't just about keeping the CIO with the company, it's about aligning their vision and direction with the PE firm's goals, providing adequate resources for digital initiatives, and ensuring transparent communication. To help mitigate the challenges against CIO and IT team success during a transitioning to PE ownership, consider these three strategies:

A relentless focus on value

Research has shown that only 30 per cent of digital transformations meet the objectives defined at the outset. For CIOs who find themselves in the early stages of digital transformation during a change in ownership, clear identification and communication of value is critical. CIOs who can adapt their transformation programs and demonstrate returns across IT and business operations are best positioned to achieve PE buy-in for existing transformation programs post-deal. In order to highlight value of existing digital transformation programs, rapid technology and digital maturity assessments can be done to assess investment opportunities and the readiness of an organization for digital transformation.

Adding transformation and digital expertise

While 87 per cent of companies think digital tools will disrupt their industry, only 44 per cent are prepared for potential digital disruption. For organizations with complex legacy environments or those that have IT supporting mission-critical operations, retaining business continuity and IT efficiency post-transaction is important. However, strong IT operators may not have the skillsets or bandwidth to drive effective digital transformation. There have been instances where mid- and large-sized organizations find success in augmenting IT leadership with a Chief Digital/Technology/ Transformation Officer to support digital transformation programs. These positions would then work closely with the existing IT leadership to ensure long-term supportability and reliability of the organization's entire IT environment.

Digital value creation

Value creation is at the front and center of successful digital transformations. During a transition to PE leadership, the role of a CIO will shift from being a technology provider. Instead, they will need to partner with the PE firm to identify and solve problems and focus on generating value. For example, two leading opportunities for digital transformation are: 1) enhanced customer relationships and 2) greater value chain integration. Incumbent CIOs are well-positioned to understand the IT-enabling levers in an organization that can directly tie an IT investment to deal value through digital efforts. Turnover in the CIO role may delay or slow down digital transformation efforts, and as a result, lead to further erosion of deal value.

Navigating the IT leadership transition

In businesses recently acquire by PE firms, the high turnover rate of CIOs presents both challenges and opportunities. Understanding and addressing the underlying causes of the common factors and trends in CIO departures can help companies retain key IT leaders during a phase where stability is crucial. This will better position them for a smoother transition to PE ownership, which in turn, helps to maximize the potential for successful digital transformation and strategic alignment.

To learn more about how KPMG can help drive deal value and mitigate risks, please contact us.

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