# State of AI

What Every Middle-Market CEO and Board Needs to Know

*Q2 2026 Executive Briefing*

Prepared by Pactus Advisory · Fractional Chief AI Officer Leadership · Atlanta, Georgia

*AI is no longer an IT topic. It is an executive operating model decision.*

This brief is designed for CEOs, COOs, CFOs, and board members who need a clear-eyed view of what happened in AI this quarter — what changed, what it means for middle-market organizations, and what governance actions leadership teams should take now. We write this as a vendor-neutral executive advisory practice, not as a software vendor or implementation shop.

| $285B | 55–78% | $353K | 60%+ |
|---|---|---|---|
| SaaS Value Wiped | Employees Using Shadow AI | Median CAIO Salary (FT) | AI Pilots That Fail to Scale |

## 01 THE SAASPOCALYPSE — WHAT IT MEANS FOR YOUR SOFTWARE BUDGET

In February 2026, $285 billion was wiped from SaaS company valuations in 48 hours. Wall Street downgraded Workday, DocuSign, and other horizontal SaaS leaders as investors priced in a structural shift: AI-assisted development now makes it faster and cheaper to build bespoke enterprise apps than to license, configure, and maintain off-the-shelf SaaS.

- 35% of enterprise teams have already replaced at least one SaaS tool with a custom-built AI application
- 78% of enterprise technology leaders plan to build more custom AI tools in 2026
- 40% of IT budgets are being reallocated from traditional SaaS to agentic platforms and LLM token usage

**What This Means for Your Organization:** The question is no longer whether to rationalize your SaaS stack — it is whether you have the executive governance layer in place to do it safely. Organizations that move without governance are trading a SaaS subscription bill for a Shadow AI liability and technical debt disaster.

## 02 SHADOW AI — THE RISK ALREADY INSIDE YOUR ORGANIZATION

Between 55% and 78% of employees are already using AI tools at work — most without their organization's knowledge, approval, or oversight. ChatGPT, Microsoft Copilot, Google Gemini, and dozens of specialized AI tools are embedded in how your people work today. The question is not whether AI is in your organization. It is whether anyone is governing it.

| Shadow AI Risk | What It Looks Like in Practice |
|---|---|
| **Data exposure** | Employees pasting confidential client, financial, or IP data into consumer AI tools |
| **Vendor lock-in** | Teams building workflows around tools that have not been vetted, contracted, or secured |
| **Compliance gaps** | No audit trail, no acceptable-use policy, no incident response process |
| **Inconsistent outputs** | AI-generated content used in client deliverables without quality or bias review |

## 03 BOARD PRESSURE IS REAL — AND BOARDS ARE ASKING THE RIGHT QUESTIONS

Boards are now asking pointed questions about AI strategy, AI risk, and AI ROI at nearly every meeting. IBM research found that 86% of consulting buyers actively seek AI-enabled services. The issue for most middle-market companies is not board awareness — it is that no one in the executive team has been given the mandate, authority, and accountability to answer those questions credibly.

*"What is our AI strategy, and who owns it?"*
Most CEOs cannot answer this in under 60 seconds. That gap is what Boards are seeing.

*"Where are we exposed to AI risk?"*
Shadow AI, vendor lock-in, data governance, compliance, and reputational risk all require an owner.

*"What is the ROI on our AI spend?"*
If your AI spend cannot be linked to productivity, cost avoidance, or revenue, it is not governed.

## 04 THE FRACTIONAL CAIO MODEL — EXECUTIVE AI LEADERSHIP AT MID-MARKET COST

The median base salary for a full-time Chief AI Officer is $353,000 in 2026. Loaded with bonus, equity, benefits, and the team they must build, the first-year investment can exceed $1.5–2 million. Most middle-market companies do not need a full-time CAIO. They need the strategic function one provides — embedded AI leadership, governance, vendor oversight, and board reporting — without the permanent headcount.

| Option | Cost | Best Fit |
|---|---|---|
| **Full-Time CAIO** | $353K+ base / $1.5M+ loaded Year 1 | Appropriate once AI portfolio requires daily executive oversight |
| **Fractional CAIO** | $6K–$20K/month (Pactus Advisory) | 80% of strategic value at 20-35% of full-time cost — right for $25M–$500M companies |
| **Generic AI Consultant** | $5K–$30K per project / no retainer | No ongoing accountability, no governance chair, no board reporting continuity |

## 05 THREE GOVERNANCE ACTIONS EVERY MIDDLE-MARKET CEO SHOULD TAKE NOW

**01 Audit What AI Is Already in Your Organization**
Before you build a strategy, know what you have. Conduct a Shadow AI audit across every department. Identify every tool employees are using — sanctioned or not. Map where your data is going. This takes 2–4 weeks and costs far less than a data breach or compliance failure.

**02 Assign Executive Ownership — Not IT Ownership**
AI governance that lives in IT never reaches the board agenda. Assign a named executive — whether full-time CAIO, Fractional CAIO, or interim owner — who has the mandate, authority, and accountability to own AI strategy, governance, and board reporting.

**03 Establish a Vendor-Neutral Review Before Your Next AI Renewal**
Before you renew any AI-embedded SaaS contract, conduct an independent assessment of what the tool is actually delivering. Vendors are bundling AI features into renewals at significant price increases. A vendor-neutral review ensures you are buying what you need, not what the vendor wants to sell.

### About Pactus Advisory

Pactus Advisory provides Fractional Chief AI Officer leadership for middle-market companies that need to turn AI pressure into governed, measurable business value. Founded in 1999 by David Kennedy, PMP — Registered Neutral (Georgia ODR), FINRA Certified Arbitrator, MIT AI Certification — every engagement is principal-led. No junior teams. No subcontractors.

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