



Peering into Pandora's Box

Brexit and the implications for
IT decision-makers

A report by 4D exploring Brexit's
impact on business IT strategies
and data sovereignty



Foreword

Welcome to our report on Brexit and the implications for the IT industry. In the Autumn of 2016 we surveyed 200 UK decision-makers in small-to-medium sized businesses. They told us decision-making has become a lot tougher post-Brexit. A state of paralysis is curtailing their ability to make confident choices. 71% say the government has done nothing to allay their concerns regarding uncertainty around Brexit. The problem is, uncertainty breeds indecision and according to the 19th century British statesman, George Canning “Indecision and delays are the parents of failure”.

The repercussions of Brexit are still largely unknown. We don't yet have a date for when the government will trigger Article 50 (or even the guarantee that the government can initiate a two-year withdrawal without parliamentary approval and a vote from MPs, following a High Court ruling).

Nor will we know what the outcome of the negotiations will be for some time to come. We have a new Prime Minister whose inscrutability is on the one hand strengthening Britain's hand in the negotiations, and on the other, alienating a population in desperate need of reassurance.

In reality, there's no guarantee enshrined in law that the UK will find the resulting deal acceptable. The EU oversees the negotiating timetable and the European Parliament has the power of veto over a continuity deal or future free trade deal.

In short, everything's up for grabs – including our hitherto ‘special relationship’ with the United States. When Donald Trump was elected the leader of the free world on 8th November, a new wave of uncertainty crashed ashore. Internet searches for ‘end of the world’ spiked.

Fortunately, apocalyptic fears have largely been replaced with a ‘watch and see’ mentality, but as Canning implied about excessive delays – inertia is not good for the economy.

This paper will explore how the Brexit decision is impacting business's IT strategies, with a focus on data sovereignty. On the face of it, this sounds like a niche subject. But technology, and the proliferation of data, is now an economic bellwether. In the Internet age, most companies have the ability to morph into a software company. For instance, automotive companies are dabbling in connected vehicles, retail companies are developing sensor-enabled merchandise and manufacturers are majoring in predictive maintenance.

Technology drives businesses forward and enables innovation – so if there's a chink in the chain and businesses aren't progressing their IT strategy, we have a problem. Fortunately, the UK is a nation of pragmatists. We have the most flexible workforce in Europe (with a high degree of part-time workers) and an innate ability to roll with the punches and move on. Our adaptability will no doubt lead to a more self-sufficient ‘Made in Britain’ infrastructure and new protections to safeguard our people, property and resources.

I should caveat that we've made numerous speculations based on what sort of Brexit we might have. We could be facing an amicable annulment or messy divorce with competing custody battles over company data flows. Preparation for either outcome is key.

We hope you find this report a helpful and informative read as you ready your business for the changing political, economic and commercial environment.

Jack Bedell-Pearce, Managing Director, 4D



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About the research

Research was conducted by market specialists Loudhouse and sponsored by cloud, connectivity and colocation provider, 4D, to investigate the implications of the UK's EU referendum on 23rd June 2016. The research company completed 200 interviews with IT decision-makers in companies employing up to 500 people in October 2016, across a variety of verticals including business services, media and technology, manufacturing, financial services, retail, travel and healthcare.

The survey findings

The report draws upon the research findings to explore the upheaval UK organisations face both in the run-up to, and in the post-Brexit era. It captures IT decision-makers' feelings about Brexit and their clear requirements for access to free data flows and labour. Crucially it unravels some of the unknowns, related to data sovereignty and the movement of customer data. The following eight sections provide a summary of the key takeaways.

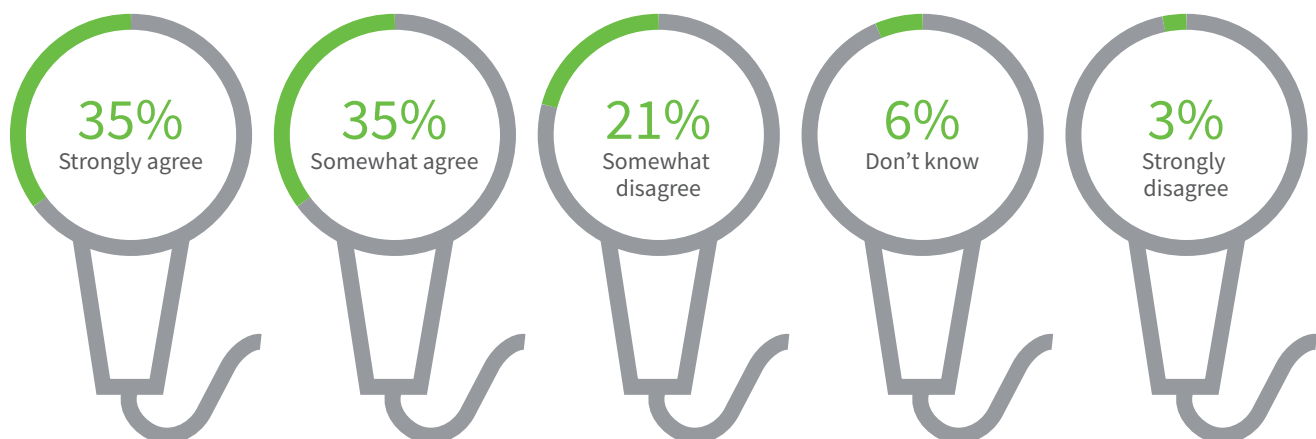
1. Business voices

Almost half (49%) of business leaders surveyed believe Brexit will have a negative effect on the economy, and by association, on their own organisation as well.

While negotiations are being thrashed out, 71% say the government has done nothing to allay their concerns around Brexit.

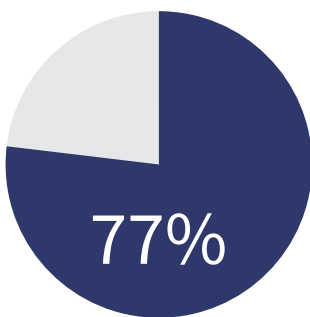
The clear majority, 75%, want a soft Brexit or no Brexit at all. But faced with a fait accompli, half of them think they'll end-up with a hard Brexit.

The government has done nothing to allay my concerns

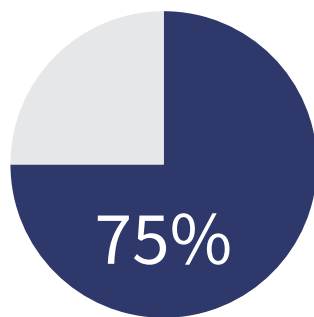


71% say the government has done nothing to allay their concerns

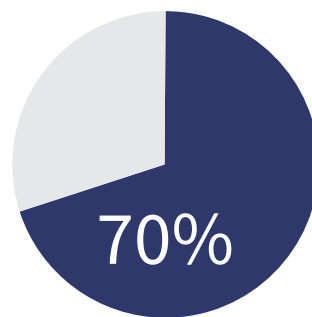
This is frustrating many, who have a litany of requirements for policy-makers to take heed of. For instance,



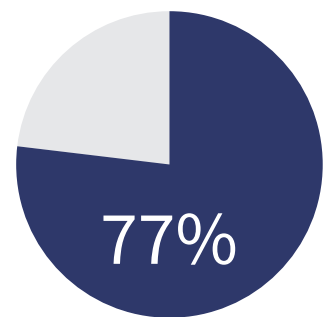
Require access to the EU single market



Say the free flow of data within the EU is important to their business



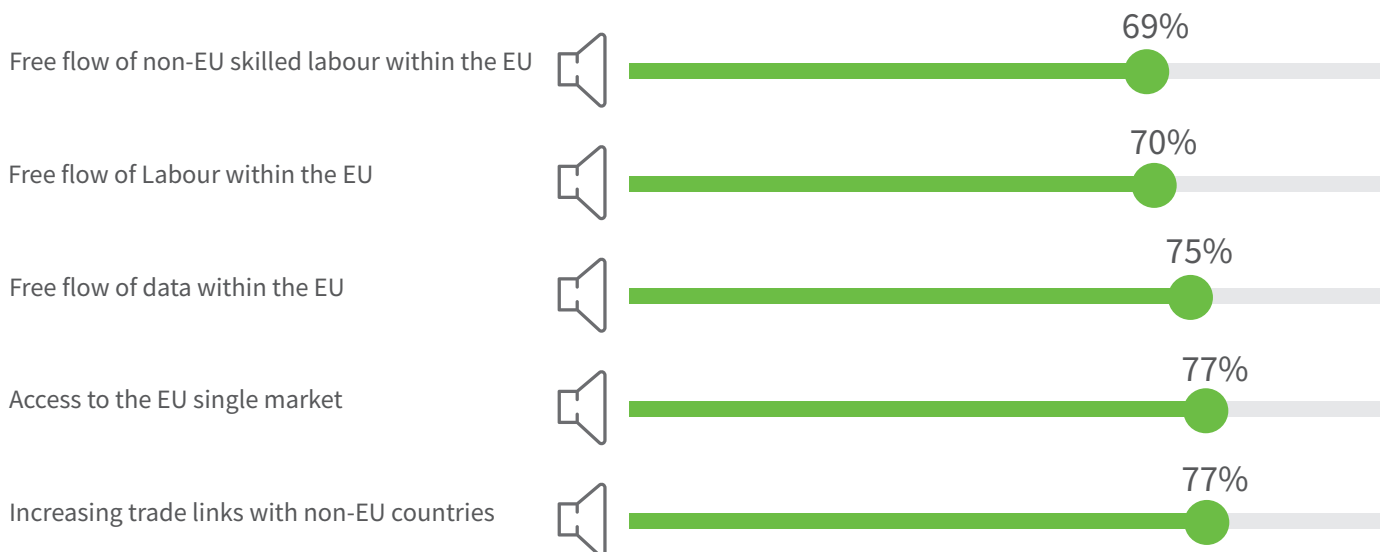
Rely on the free flow of labour within the EU



Need a solid back-up plan in a form of increasing trade links with non-EU countries

At present, none of these demands can be assured.

Business needs



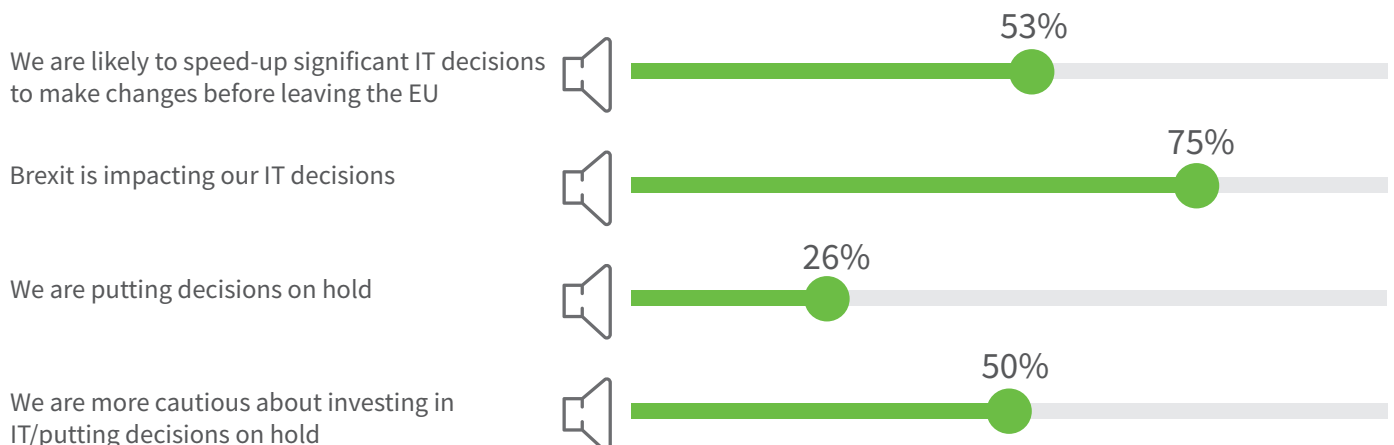
2. Facing the unknown

No other country has voted to withdraw from the EU. We're walking down an untrodden path, peppered with potholes and diversions, representing many unknowns and unresolved questions, including what sort of Brexit we'll face. If it's a soft Brexit, data flows could continue unabated. If it's a hard Brexit – all bets are off and seemingly marginal issues, like where your data resides (more on this later), could well become ticking time bombs.

Right now, we're in a sort of holding pattern, waiting for a deal to be struck, the ruling from the High Court to be overturned or a new Parliamentary Bill to pass to circumvent the courts, a possible Scottish revolt and the invocation of Article 50.

This no man's land is reflected in the 50% of business decision-makers who are more cautious about investing in IT and consciously delaying decisions and the 75% who state that Brexit is influencing (by which one can infer, limiting) their 2017 IT plans.

Reaction to Brexit



50% are more cautious about investing in IT and are putting decisions on hold

Basically, we're in the calm before the storm. Expect investments to fall off the cliff after Brexit. Most respondents (53%) are planning to speed-up significant IT decisions now, so changes can be made before the UK formally leaves Europe.

On the face of it, this sounds wise but with so many question marks, who's to say they're going to make the right decisions? Are they planning to press pause after we leave the EU? How will this benefit a business committed to continual improvement and innovation?

"The ramifications of the EU referendum are far-ranging. We used to talk about globalisation. Now we're retreating behind country borders. Naturally, there's a lot of change that needs to happen.

Crucially we need to evolve to find new commercial niches. This will happen but we're not free agents. We operate within a complex set of regulatory and other policy constraints and therefore, we depend on government to demonstrate similar agility in the policy decisions that they make."

Emma Fryer, techUK



3. A matter of sovereignty

During the UK referendum campaign, the Leave camp spoke ardently about the importance of protecting our sovereignty and making our own laws. Paradoxically, now we're coming out of the UK, sovereignty is top of the agenda again, for the opposite reason. Rather than solving our right to sovereignty, Brexit threatens to destabilise it.

Right now, data holders are worried about the sovereignty of their data and the onus of complying with international laws that are not our own. For instance, senior managers are wondering what their obligations will be if their organisation's data is stored abroad and subject to the laws of the country in which the data resides? How do they comply with the country's privacy regulations and keep foreign countries from being able to subpoena their data?

As things stand today, 72% of our respondents feel under pressure to demonstrate data protection compliance for customer data and 63% say Brexit has intensified their concerns surrounding data location and sovereignty even further – suggesting matters of sovereignty may not have been the best reason for exiting the EU.

“If complying with EU data protection rules is the price to be paid for access to data on European citizens, then most companies seem to be willing to pay it.

If a ‘Hard Brexit’ results in a divergence of data compliance rules, then the wild west days of companies assuming it’ll be fine to store their data in the cloud, regardless of where it’s physically located, may be numbered.

For companies with trans-European operations, disentangling what data needs to repatriated (or deported) will be such a major undertaking, it is likely to spawn a whole new cottage industry of ‘compliance migration’ consultants.”

Jack Bedell-Pearce, Managing Director, 4D

63% say Brexit has intensified their concerns surrounding data location and sovereignty

4. The data protection regulation paradox

Brexit's impact on General Data Protection Regulations (GDPR) is a case in point. The UK authorities played a significant role in developing and refining the new EU data protection framework, that comes into force on 25th May 2018.

Despite seeking to leave the EU to reduce red tape and lessen the duty to comply with a kaleidoscope of 'excessive' regulations on UK plc., our research shows that 69% of businesses want to keep GDPR. Nearly half (46%) of these

businesses are fully prepared to absorb additional costs incurred through direct marketing – which the Information Commissioner's Office (ICO) estimates will come to an additional £76,000 a year. Just 23% would like to scrap GDPR to avoid extra operating costs. While the majority (59%) think GDPR should be compulsory for all large businesses.

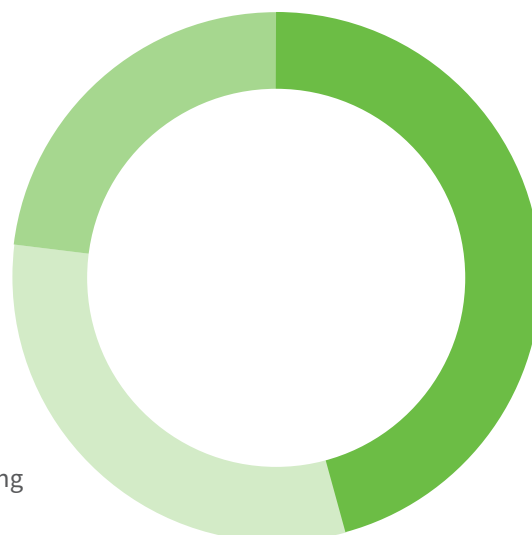
Preferred GDPR Scenarios

23%

Scrap GDPR. Limited access to EU customers

31%

Keep GDPR to access EU customers. Stop direct marketing and avoid extra costs



46%

Keep GDPR to access EU customers. Continue to direct market and absorb extra costs

69% of businesses want to keep the incoming EU data protection regulation

Although this picture may, at first glance, fly in the face of what the Leave campaign was telling us, we can't assume businesses are happy to embrace all European legislation. It just so happens that data protection is a minefield and proper governance is desperately needed. As things stand, protecting one's data is a major factor in a company's decision-making. One in two businesses in the UK decide where data is stored based on matters of data security alone.

5. Time-bomb

That said, a hefty proportion of businesses (31%) have never heard about GDPR and 52% of businesses who are aware of GDPR, believe it will have no or only a minor impact on their business.

Even more concerning, only 28% even think about data sovereignty in terms of how local laws will impact the way they store their data. This low-level awareness and wishful thinking smacks of naivety. We may be exiting the Union, but just as the issue of data sovereignty is still a source of perplexity, being able to exclude oneself from flagship European regulations is nowhere near assured. If companies want to continue trading with other European companies, they will need to comply with whatever is meted out to them (even if they can't sit at the top table anymore and shape the regulations to their liking).

Indeed, the ICO has already confirmed that if the UK wishes to trade with the EU single market on equal terms, post Brexit, it will need to prove 'adequacy' - in other words UK data protection standards would have to be equivalent to the EU's General Data Protection Regulation framework starting in 2018.

31% of businesses have never heard about GDPR and 52% of businesses who are aware believe it will have no or only a minor impact



Only 28% even think about data sovereignty in terms of how local laws will impact the way they store their data

6. Implications of a hard Brexit

As previously mentioned, if we lose control of data flows, businesses will need to get to grips with where their data lies, what laws their data is subject to and who owns the data centres in which their data resides. As amorphous as cloud computing sounds, company data hosted in the cloud is not an ethereal mass of zeros and ones. It has a home and this home may become a bone of contention.

For instance, Brexit could prompt:

- A European crackdown: if a UK company wants to trade with Europe, they may need to separate their European and UK customer data and place any information they have on European customers in a dedicated European data centre

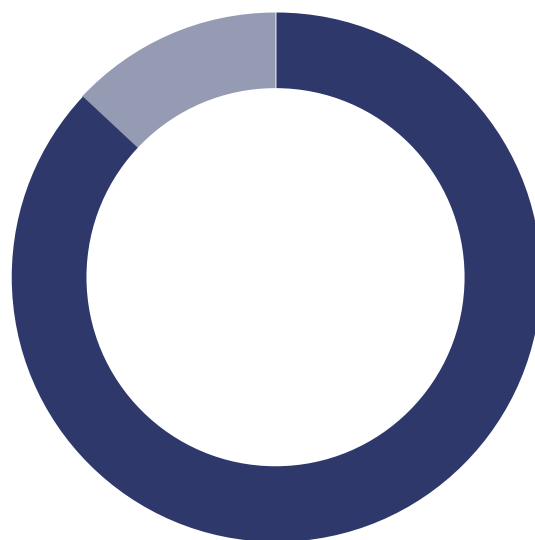
- An eye for an eye: If Europe restricts UK company data flows, the UK government will no doubt make similar demands. If a European company wants to trade with the UK, they may need to split their data between Europe and UK
- March of the giants: It therefore stands to reason that a multinational company, serving a European population will eventually move their servers from London to a European data centre (i.e. in Dublin, Paris, Frankfurt etc.), and just maintain a small footprint in the UK for their British customers

The situation is serious and certainly not aided by the 87% of IT decision-makers who confess to not looking at data location and sovereignty issues post-referendum.

Data sovereignty neglect

13%

We are looking at data location and sovereignty issues



87%

We are not looking at data location and sovereignty issues

In summary, in a few short years we could witness a data exodus, to the detriment of the UK economy

7. Silver linings

However, in every grey cloud there are always silver linings, as a recent techUK report outlines. The UK's data centre sector is globally important. It has developed over 18 years into a complex, diverse and successful business ecosystem. It towers over the European market in terms of its tier 1 capacity. According to techUK, Brexit need not lead to significant

attrition of the UK's data centre market provided adequate steps are taken. However, this is a matter for economists and the tech sector. The average business simply needs to know that their operations are legally sound, which is why the next analysis is important.

If a SME in the UK doesn't intend to trade with the EU, it would gain far more certainty and simplicity by placing its physical servers in a UK owned and located data centre, on a co-location basis

8. Up and move

Moving house is known to be one of life's most stressful events. Moving hardware from one data centre to another is probably up there, from an IT manager's point of view.

A UK VMware study estimated it will cost an organisation, on average, over £1.6 million to move their data so that it's hosted in the UK. VMware signalled that this is probably a conservative figure, when you factor in the cost of recruiting people with adequate skills to manage the transfer, cloud supplier lock-in and the cost of breaking such a contract, the ramifications of downtime (incurred by the data transfer

process) and loss in productivity (as people and resources are diverted from revenue and growth).

Given the rigmarole involved, businesses should give themselves a head-start, from a planning point of view. Fortunately, we are beginning to see some realisation dawning. Our evidence suggests businesses are gradually moving away from their reliance on international cloud providers in the aftermath of the vote.

For instance:



One fifth of respondents currently using an international public cloud for client data **will stop** doing so in two years' time, following Brexit



Almost one third of companies currently using an international public cloud for company data **will stop** doing so in two years' time, following Brexit



The proportion of companies currently using a UK public cloud for company data **will increase** by almost a third in two years' time, following Brexit

Top five practical considerations

While the wholesale movement of company data would be premature at this stage, the thinking certainly needs to be done over the next 12 months, in terms of the connotations of a business's current cloud mix and the ins and outs of transitioning to a UK-based public cloud or UK based data centre. In summary, here are five practical things to consider in the here and now:

1 New resident rules

Yesteryear, a European data centre could have served UK and European customers. In just over two years' time, companies may need a European data centre for European customers and a UK data centre for UK customers. Something to be mindful of!

2 A newer, flexible you

70% of respondents say having a flexible IT infrastructure and a good technology strategy could mitigate the risk of economic change caused by Brexit. Adopting a cloud and colocation arrangement gives you this flexibility, in terms of enabling you to own your own hardware and infrastructure, while taking advantage of the benefits of scale afforded to you by the public cloud.

3 Regain control

For some businesses, the only way to instil certainty in these uncertain times is tighter supervision and management. 59% are seeking greater control over their IT infrastructure as a result of the proposed changes surrounding GDPR. Co-location, provides the control without the headache of having to find in-house resources and space to run a data centre securely and efficiently.

4 Hunt for skills

There is a much-publicised, persistent skills gap across the technology sector. Given that many talented technicians come from outside the UK, exiting the EU could exacerbate the skills gap, as Europeans will no longer have an unquestionable right to live and work in the UK and many will choose to further their careers elsewhere, given the declining value of the pound, rise of xenophobia and London's loss of standing, as an international hub.

Businesses therefore face a stark reality. With a reduced labour pool, companies should either think about how they can train-up existing staff members, run apprenticeships, dangle some serious carrots and bolster their HR team to navigate complex visa processes or outsource these concerns to a co-location provider, which will mean putting their services in a co-location provider's data centres.

5 Check your cloud provider's nationality

While we've established that you need to consider where your data sits in the cloud and it makes sense for a UK company to use a UK owned data centre, you can't necessarily assume a data centre based in the UK will be UK owned (for instance, Facebook and Amazon have data centres on this side of the pond). Check your cloud provider's nationality. If it's an American-owned data centre for instance, you may be bound by US data protection and privacy laws.



Conclusion

The referendum result surprised almost half of the UK population that voted to stay within the EU (and many of the rebel voters who thought their ballot paper wouldn't count). Now the government is in the thick of a complex negotiation deal and captains of industry are stuck beyond closed doors endlessly surmising about what Brexit means for them and their business.

The sovereignty of their data will only be one small piece of the jigsaw but it's an important one. In the digital era, data is a company's crown jewels and the way businesses treat and protect their data will govern their reputations.

In the changing landscape, having a plan to mitigate the uncertainty will go a long way. This means for the 64% of respondents who believe that in the current climate, the assurance of colocation and flexibility of cloud infrastructure strikes a good balance, the next task at hand is to create an actionable plan, so as the political winds change direction, they'll be insulated either way.