

Four ways boards can shape the cloud agenda

Cloud can become an important source of strategic advantage for businesses. It's time for boards to get involved.

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With the mounting evidence of cloud's ability to drive significant business value, more and more companies are considering cloud's role in fundamentally reshaping the competitive posture of their business (see sidebar, "Business value of cloud"). Yet, across interviews with almost 40 different boards, only 13 percent were actively thinking about and engaging in conversations around cloud. For one-third of these boards, cloud has never been considered important enough to discuss at all. This trend spanned boards across regions, industries, and company types.

In our discussions, we found that board members faced a number of specific challenges when it comes to engaging effectively on cloud. While directors across industries have come to recognize technology's role in corporate strategy and business differentiation as a top agenda item, boards have generally viewed cloud as an infrastructure topic under management's purview and not something for the board to engage on directly. As one director put it, "Cloud is always just a sentence in the discussion about tech risk."

The COVID-19 pandemic, in part, has forced boards to reevaluate that perception. The massive shift to virtual work and the great migration of consumers to digital channels has put digital transformations at the top of the corporate agenda and has increased attention on cloud's role in accelerating that process. That increased attention has tended to gravitate toward risk. Some boards of companies with multinational footprints, for example, harbor

concerns around their ability to meet the regulatory requirements of different jurisdictions. This has led to greater board engagement on how cloud transitions may impact compliance and risk management, even as directors remain cautious about encroaching on or hindering management's responsibilities. In general, directors voiced a desire to become more fluent in making cloud a core part of corporate strategy discussion and development.

Our conversations also highlighted some emerging best practices for boards that engage on cloud. At companies where boards have a more sophisticated understanding of cloud, directors are pushing management to explicitly report on cloud-migration progress and explore how to optimize its speed. This greater board engagement has led management teams to prioritize cloud-specific actions that accelerate digital strategies, such as talent acquisition, budget planning, and investment allocations, and this has made them more competitive against their peer companies.

Private-equity-backed boards in particular have demonstrated a keen interest in exploiting the competitive advantages of cloud by targeting another best practice: accessing cloud talent. These boards seek out best-in-class expertise and often have directors with previous cloud-related experience. That brings a practical understanding of what it takes to migrate to and fully exploit the cloud through app re-architecture, security frameworks, change management, and more.

Business value of cloud

Cloud offers an extensive and expanding set of benefits for businesses by essentially allowing them to outsource technology functions to cloud service providers (CSPs). By taking advantage of the services CSPs offer—such as the standardization and self-service of infrastructure resources, the automation of core IT capabilities, increased security and reliability, and acceleration of product development—companies can reduce the time, risk, and cost involved in any technology-based strategy. As a result, cloud can enable and accelerate business transformation and innovation across industries, with an estimated potential value of \$1 trillion in run-rate EBIDTA across Fortune 500 companies between now and 2030. Capturing the full potential of cloud, however, has proven challenging for a host of reasons, including the need to update operating models and bring on specific talent. For these reasons, the board, CEOs, CIOs, and CTOs have a large role to play in pushing their organizations toward capturing cloud's benefits.

How boards can effectively engage with cloud

Based on our interviews and our experience working with boards and on cloud transformations, we have found four practices and corresponding sets of questions to be most useful in helping boards engage effectively with their management on cloud. These practices and questions apply to boards across company types, although there may be slight nuances to consider depending on company size and maturity.

1. Link cloud to the overall strategy discussion

Boards generally understand that the key conversations with management about cloud must go beyond discussing “should we be in cloud and when?” The board can instead be helpful in applying its business and strategic experience in guiding its leadership teams to think through how cloud can drive the business strategy. Cloud’s flexibility and speed, for example, can help businesses rapidly test and iterate on targeted use cases, such as scaling services, personalizing customer experiences, and capturing market opportunities.

The business benefits of cloud played out for one media company that had been experiencing great instability in its internal, fixed-capacity systems when demand for its offerings surged or fell. The board recognized that this instability was an impediment to future growth and that cloud was the only way to gain sustained, affordable scalability. After the board provided guidance to management on how to diagnose the problem and solution, the organization refactored and transitioned its core media applications and content to cloud to use a cloud service provider’s scalable demand model. With the ability to dynamically match user demand and rapidly deploy new content, cloud played a significant role in driving the company’s rapid increase in valuation in just a few years.

The board at a large retail company wanted to get to the next level of customer personalization to better tailor its offerings and compete for market share.

The organization realized that only through cloud could it attain the level of data speed and accuracy required, so the board supported and helped oversee a major cloud-backed transformation.

Questions for the board to pose:

- *Do our discussions around corporate strategy incorporate digital aspirations and the role cloud could play?*
- *Should we think about cloud as a solution to our organization’s technological pain points, or as a source of product innovations and new features?*
- *Do we understand how cloud could help us meet our business optimization and simplification goals?*
- *Does the current cloud transformation fit into the business’s overall digital transformation?*
- *How do we perform against our peers with regard to adopting and leveraging cloud?*

2. Incorporate cloud into risk and compliance discussions

Forward-thinking boards have begun to incorporate cloud into their risk-assessment frameworks and decision making on risk. While executives have traditionally been hesitant to move to cloud because of security concerns, the reality is that cloud service providers (CSPs) have invested significant resources in establishing best-in-class security that often outstrips what companies themselves can do. Where boards can add value in this context is in pressing management to update security training as part of a comprehensive effort to unlock the risk advantages of cloud. Security should be integrated into product strategy, DevOps culture, and technology development alike. Additionally, directors should seek to ensure that management has well-thought-through risk-mitigation plans in place so that the board can be comfortable approving cloud-related strategies.

In addition to security, cloud is often at the intersection of privacy regulations, data storage, and geopolitical risk. Cloud data-storage locations will face increasingly different regulations based on jurisdiction. For one board, the new Hong Kong national security law has led to focused discussions on whether to continue locating sensitive data, such as personally identifiable information, in Hong Kong. Boards need to assist and guide management in discussions on whether to segregate data geographically, how cloud can facilitate this, and how their organizations will continue to respond to government policies and orders.

Questions for the board to pose:

- *What challenges have we recently faced around cybersecurity, and will cloud enable us to meet them and increase overall security?*
- *What are the new types of cyberrisks to which cloud could expose the organization, and what steps are we taking to manage them?*
- *Within what regions will we be storing our sensitive data, and what measures do we have in place to manage privacy and regulatory-compliance risks?*

3. Support the development of cloud capabilities throughout the organization

The full benefits of cloud are possible only when IT and the business transform their operating model to be faster, more agile, and more collaborative. This requires upgraded skills and ways of working throughout the organization and clarity around how the changes fit into the broader digital transformation. The board can press management to ensure that plans are in place to both hire the right new cloud talent, from cloud architects to DevOps engineers, and provide appropriate training and upskilling for current employees. Business executives as well must understand how cloud may drive new value and accelerate the organization's business priorities. To track progress, the board should ask management to ensure cloud talent development is an explicit part

of the broader transformation program through regular updates and specific metrics, such as the number of cloud certifications.

In addition, the board should ask the CEO to evaluate whether the right leadership is in place to understand cloud's potential impact on the business. IT leadership in particular must have the knowledge to implement cloud at the right pace and the poise to coordinate it effectively with the business's overall digital transformation. As cloud will likely continue to be a core aspect of the business over the longer term, the board can additionally consider cloud knowledge and experience as criteria in succession planning for key leaders.

Questions for the board to pose:

- *Do we have the right leadership in place to lead our cloud transformation and the right cloud talent to execute it?*
- *Do we have a change-management program in place for our cloud transformation? How are we defining success?*
- *Do we need to make adjustments in our governance model with the CEO and executive leadership team to accommodate our cloud and technology governance responsibilities?*
- *Does our CEO and CIO succession planning include considerations around technology and cloud competency?*

4. Oversee and communicate cloud's financial impact

While cloud can generate significant value, the transition requires a substantial up-front investment. Cloud also mandates a shift from a capital-expenditure-heavy operating model (data centers, servers) to one that is operating-expenditure heavy (CSP costs). As such, board members must work with management from the beginning to develop a clear cloud business case that explicitly accounts for the trade-offs against future value needed in up-front investments and operating-expenditure shifts.

The board also has a role in reviewing management's communications about these financial changes to shareholders, employees, and other stakeholders. These should clearly explain the direction in which cloud is taking the organization and why it is the right decision for the business. For shareholders especially, it is important to set clear expectations that these investments and changes to the P&L statement will lead to greater long-term returns. The board should be aligned with management's narrative and, at private companies in particular, may even take a more active role in crafting and communicating the messages.

Questions for the board to pose:

- *Do we understand what the business case and up-front investment in cloud will look like?*
- *Does management have the financial resources available to meet the company's cloud-adoption goals?*
- *Will cloud have a significant effect on our financials over time, and are we taking steps to adapt to such an impact?*
- *How are we communicating our financial and strategic changes to our stakeholders?*

Building board fluency on cloud and technology

A cloud strategy doesn't live in isolation; it is a critical enabler of a company's larger technology and digital transformation. Boards therefore need

to build their knowledge of cloud and its ability to drive competitive advantage. A critical step in meeting this challenge is onboarding directors who have successfully introduced cloud in another organization and who are able to scrutinize the business implications of cloud and understand cloud's role in accelerating digital transformations. But a key facet of a successful governance model is to ensure, through continuous board education, that cloud doesn't become a topic only for members with prior technology and cloud experience. In addition to knowledge-building workshops, boards have organized special sessions ahead of major decisions, convened external expert advisory boards, or invited independent technical advisors and outside speakers for guidance. Depending on the role of technology in corporate strategy and the board's capacity, certain boards may find that forming a technology committee can help focus attention on asking management the right questions, while ensuring technology decisions remain front and center on the overall board agenda.

Cloud, as part of a comprehensive digital transformation, needs to be woven into top-line strategic conversations rather than delegated to lower levels of the organization. Understanding how cloud disrupts, transforms, and accelerates business models will shape how companies navigate the next normal. Boards can play an important role in this disruption by guiding discussions and ensuring their organizations benefit from the power of cloud.

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