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Realizing Benefits out of IT: learning from an IT Governance best practice case

***the ongoing journey from cost-of-IT to
business-value-of-IT in KLM***

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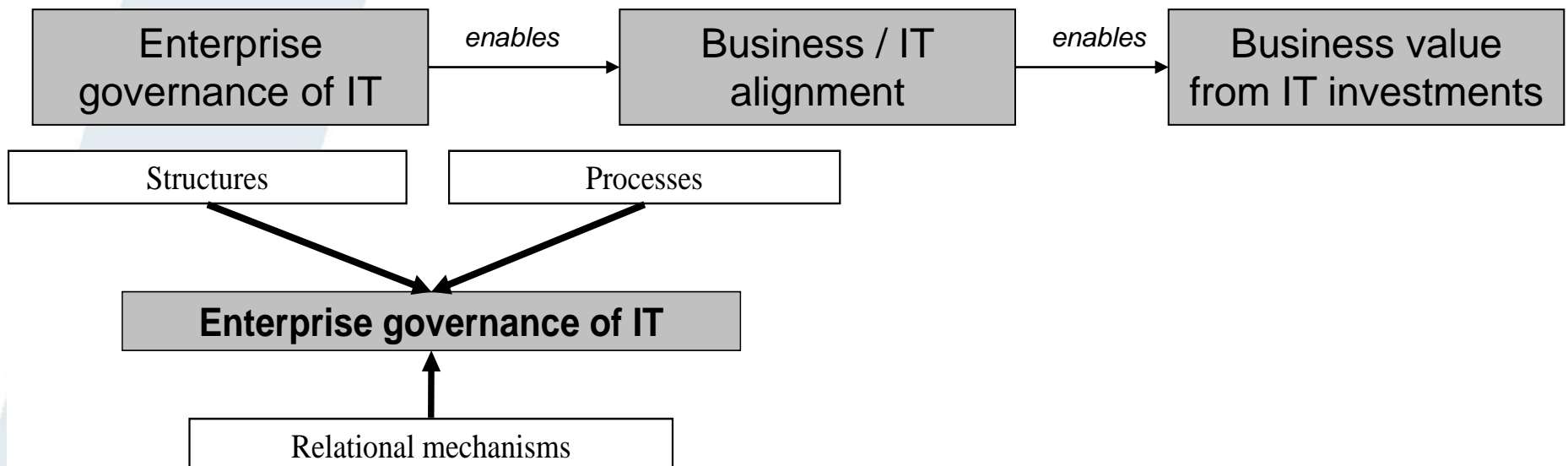
Who am I?

- Associate Professor Information Systems Management
 - at the University of Antwerp – Faculty of Applied Economics and at the Antwerp Management School
 - Actively engaged in teaching, applied research and advisory in the domains of IT Governance & Management, IT/Digital Strategy & Alignment, IT Value & Performance Management, IT Assurance & Audit and Information Risk & Security.



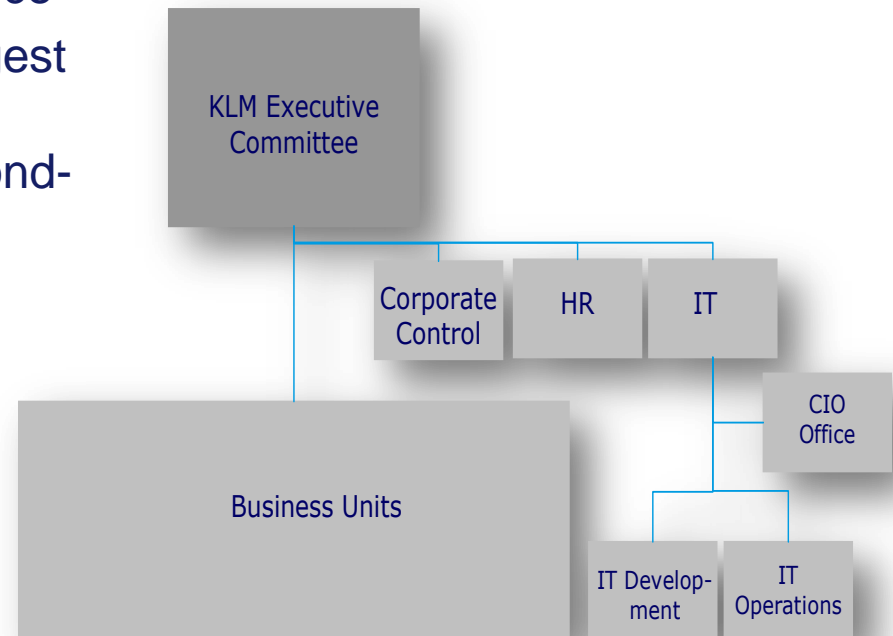
Enterprise Governance of IT

Enterprise governance of IT (EGIT) is an integral part of corporate governance **exercised by the Board overseeing** the definition and implementation of processes, structures and relational mechanism in the organisation that **enable both business and IT people** to execute their responsibilities in support of business/IT alignment and the creation of business value from IT-enabled business investments. (De Haes & Van Grembergen, 2015)



KLM case

- The airline company KLM was founded in 1919
- KLM currently employs over 33,000 people worldwide, and manages a fleet of about 200 aircraft.
- In 2004, KLM merged with Air France
- Air France - KLM is the world's largest airline group, transports the most passengers and is the world's second-largest cargo transporter.



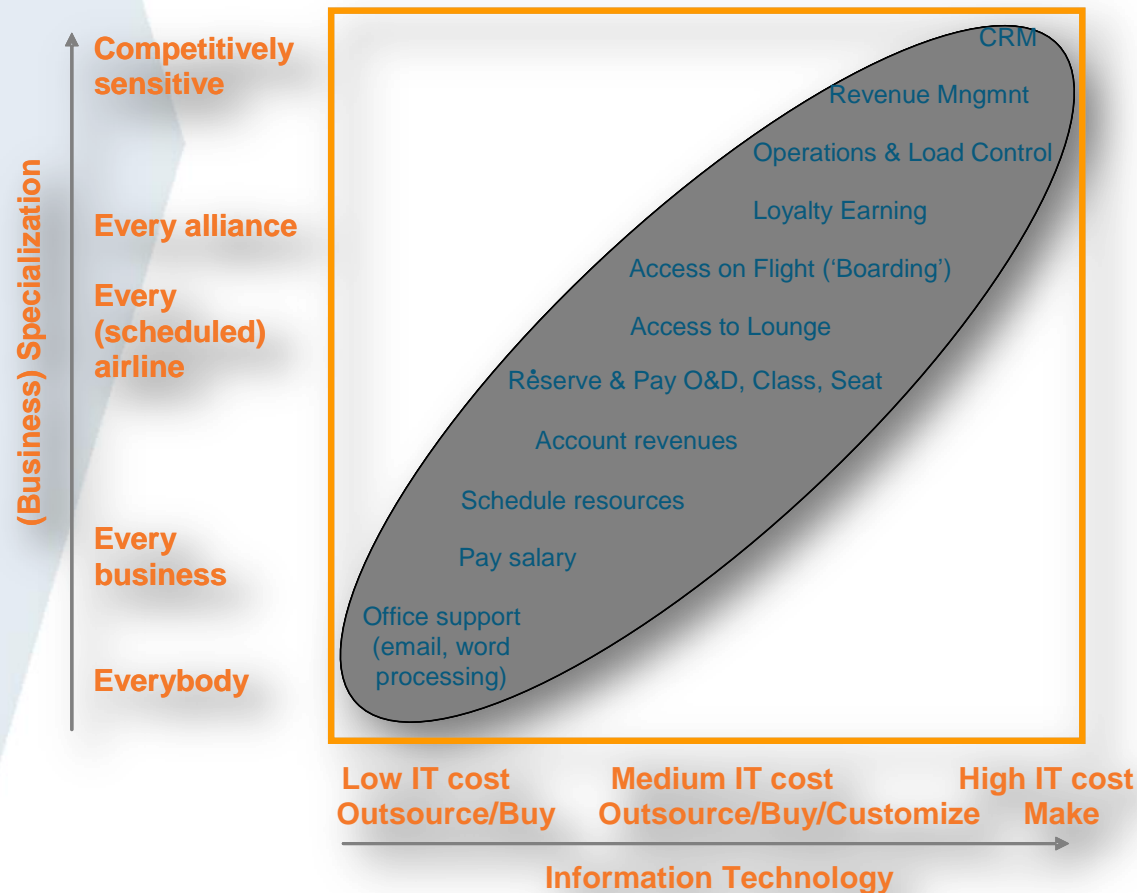
Trigger Points

- In 2001:
 - discontent due to a lack of trust in what was perceived as a very costly and unresponsive IT department.
 - business climate that was increasingly challenging, and which became dramatically more so after the 9/11 terrorist attacks.
- After 9/11, KLM's CEO seized the opportunity to make a structural break with the past, and re-examine and transform KLM's business and IT governance. The Executive Vice-President (EVP) of the Operations Control Centre was appointed as new CIO. The newly appointed CIO received three clear priorities:
 - provide the reasons why, or why not, to outsource IT;
 - create a business/IT board to organize joint success; and
 - design simple governance principles to restore control enabling steering by the Executive Vice-Presidents (EVPs) and the CIO.
- In order to respond to these requirements, the CIO-Office was established

Governance Principles And Practices

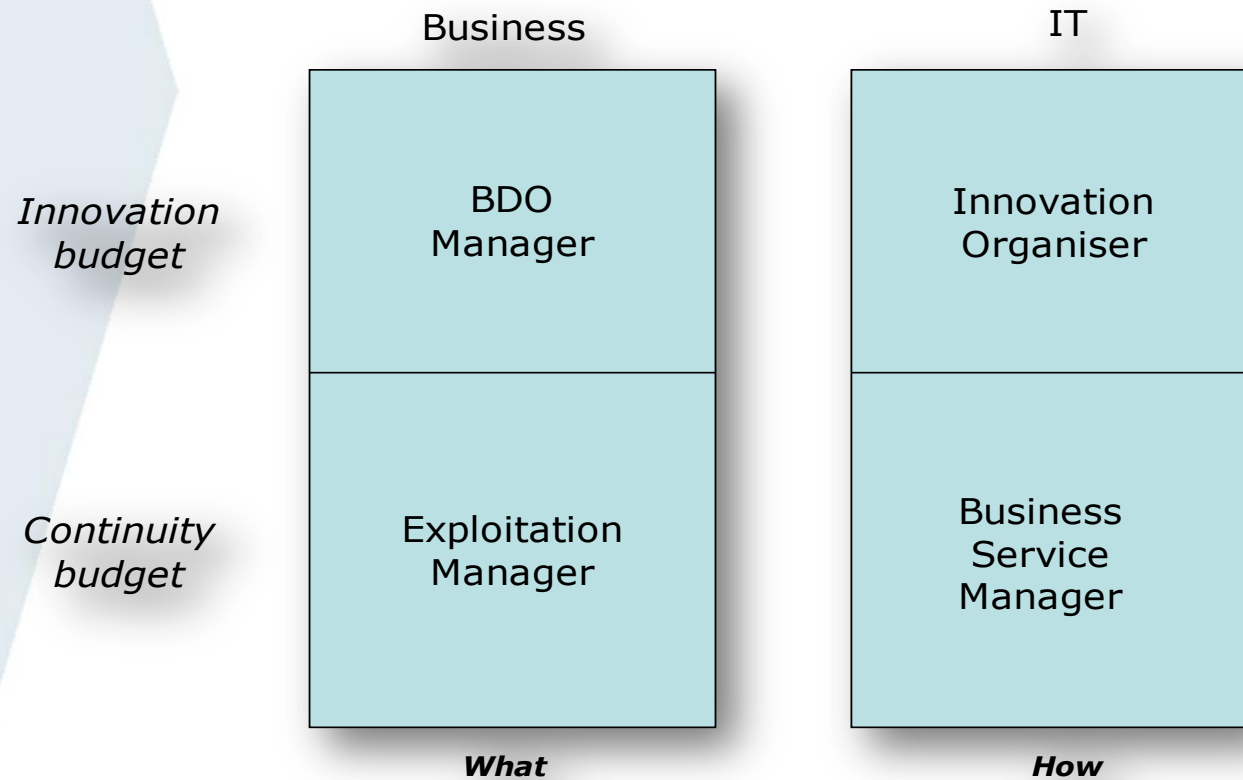
1. For the business there should be no difference between working with an internal or external IT-provider.
2. Differentiate between WHAT and HOW (and WHY).
3. Improve the Demand-function by creating a Business Demand Office per business domain.
4. Improve the Supply function by creating an Innovation Organizer and a Service Manager per business domain.
5. Create monthly decision meetings of What and How (management and IT).
6. Focus on the cost that can be influenced in full and those that can be influenced in part: Split between Innovation and Continuity.
7. Each Innovation (investment) has one business owner to which all cost are charged.
8. Each Service (Continuity) has one business owner to which all cost are charged.
9. Top-down budget framework and simplified budget process.
10. Activity-Based Costing applied to process primary cost to product cost.

Provide The Reasons Why To Outsource



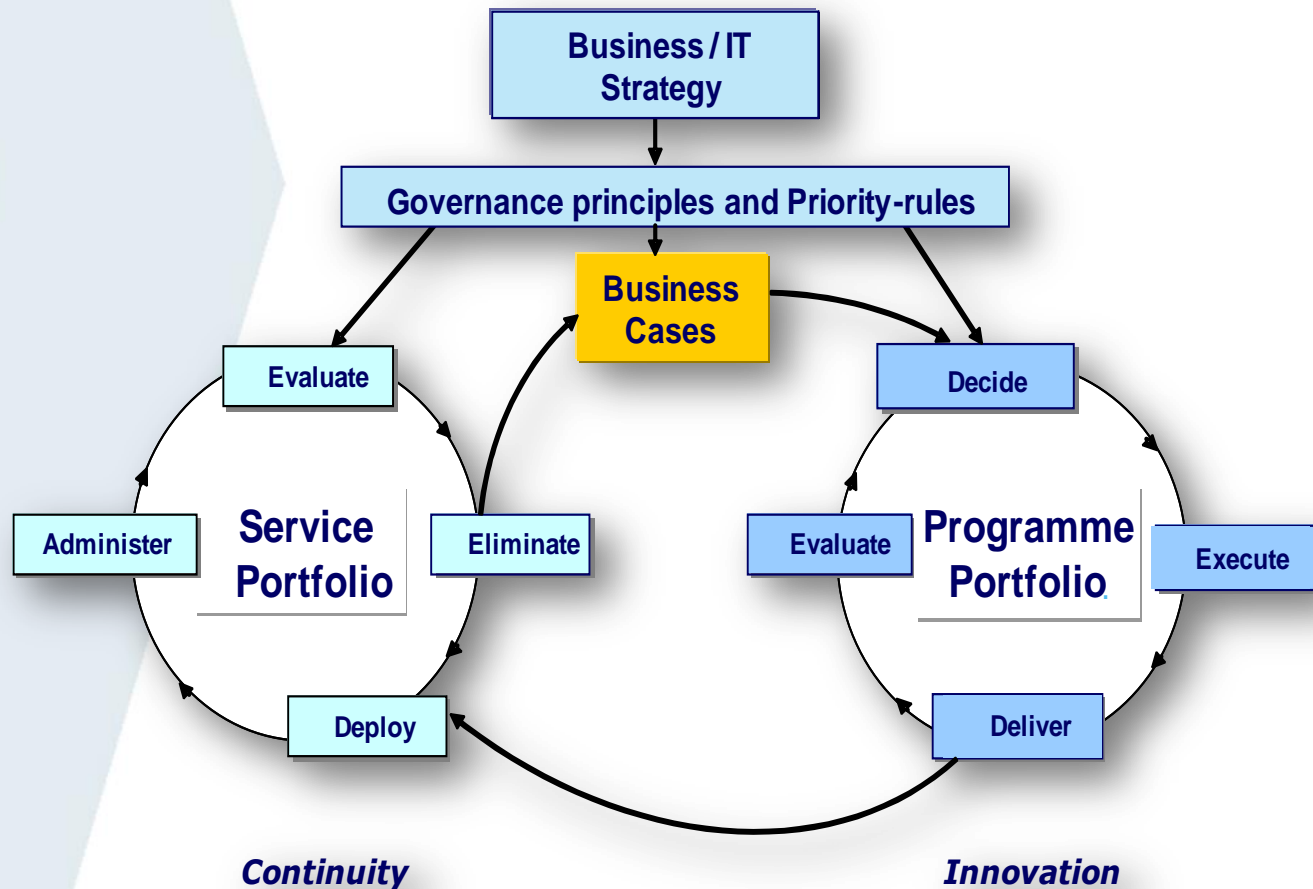
Stay on the Surfboard Principle

Governance Principles And Practices



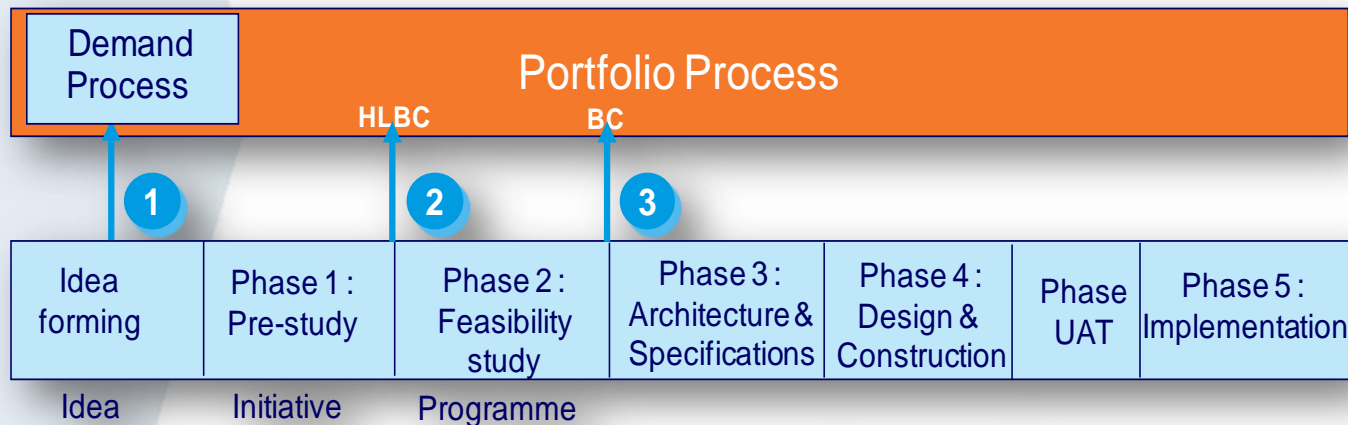
Mirror Roles between Business and IT

Governance principles and practices



The Innovation-Continuity Bicycle

Portfolio Management



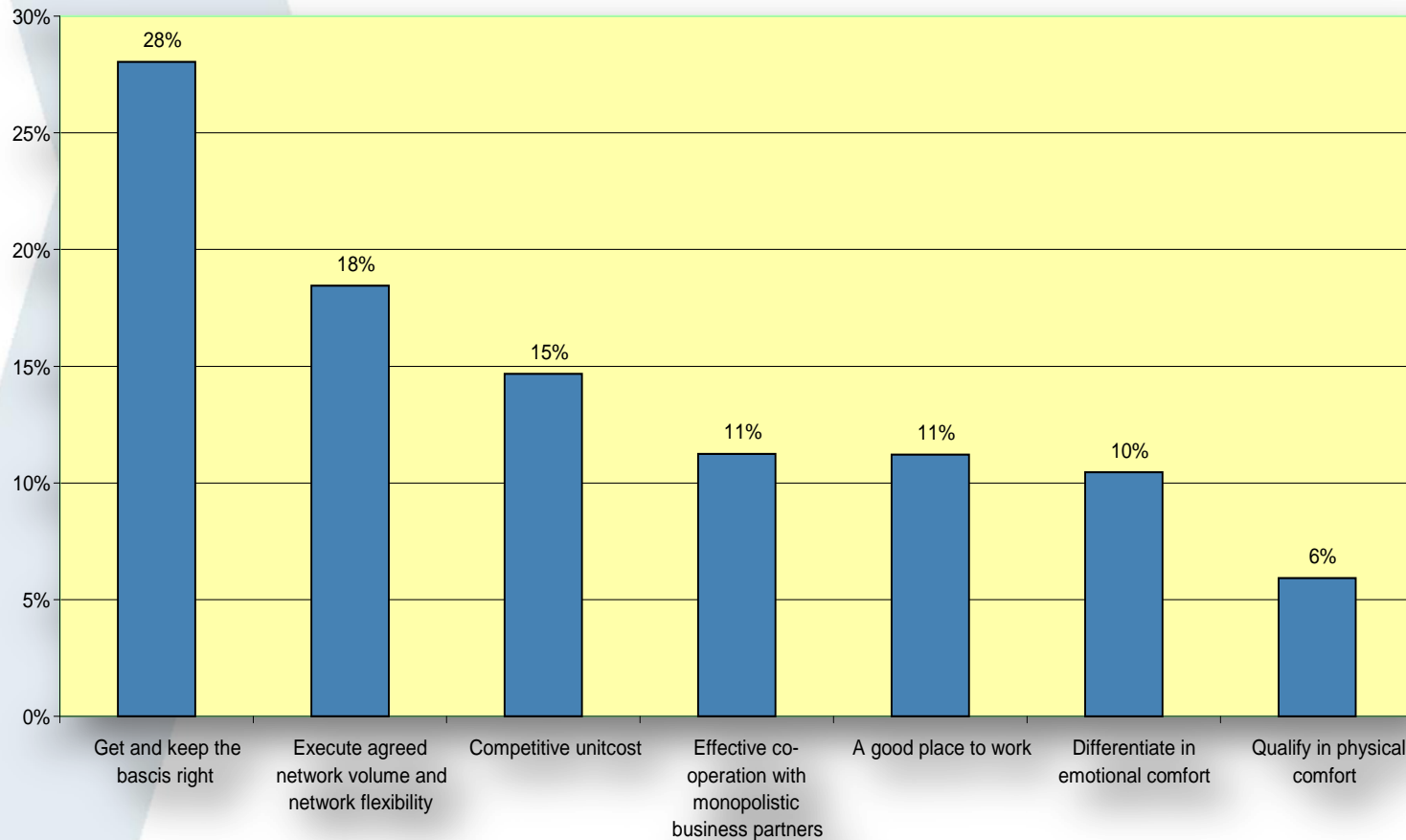
Three approval steps :

- 1 Approval 1: **Business ideas selection**
- 2 Approval 2: **Programme Go**
- 3 Approval 3: **Investment approval**

Three decision thresholds:

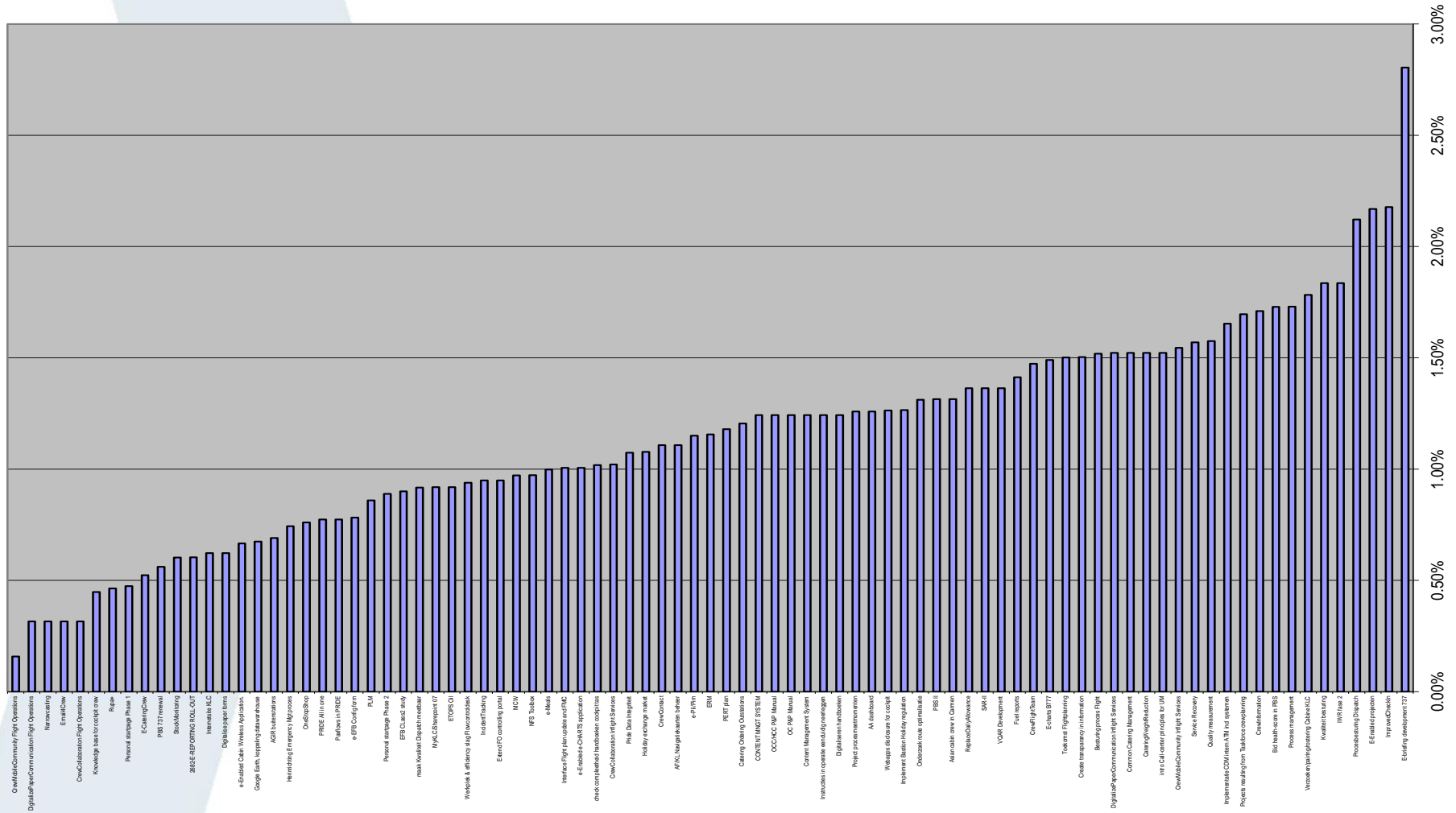
| | Business | BIC | EC |
|----------|----------|-----|----|
| > 5M€ | 1 2 3 | 2 3 | 3 |
| > 500 k€ | 1 2 3 | 2 3 | |
| > 150 k€ | 1 2 3 | | |

Portfolio Management

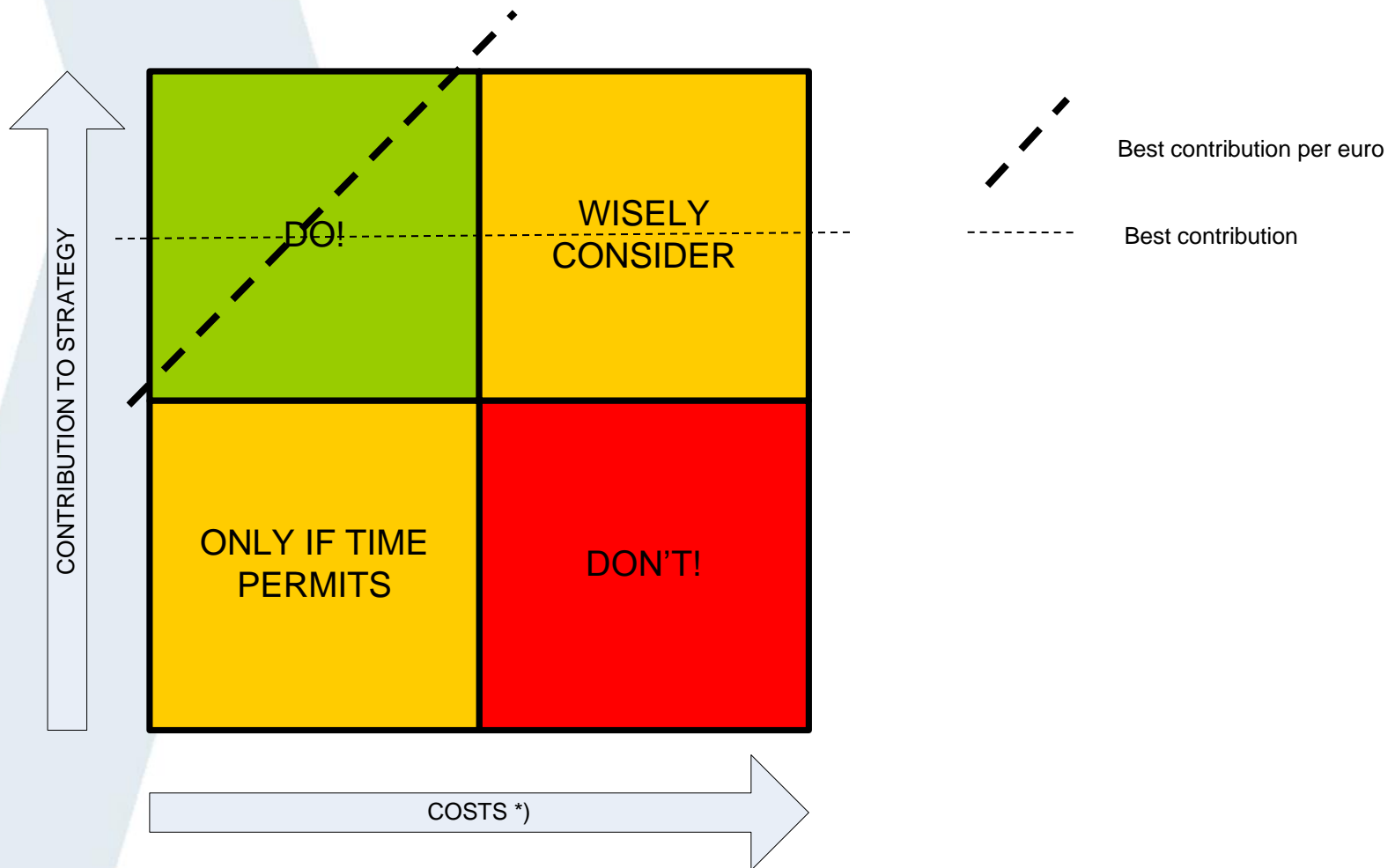


Definition of the Business Drivers for Passenger Operations

Portfolio Management - Ranking

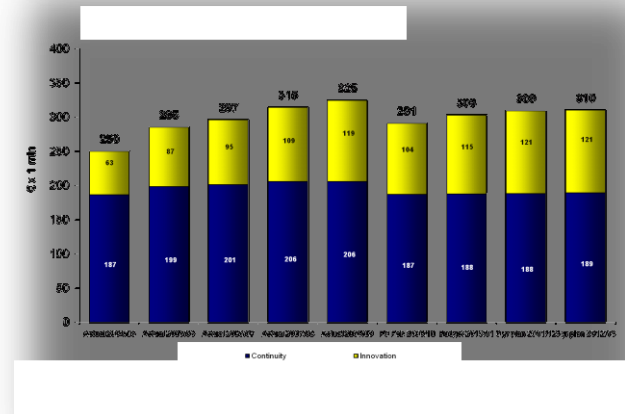
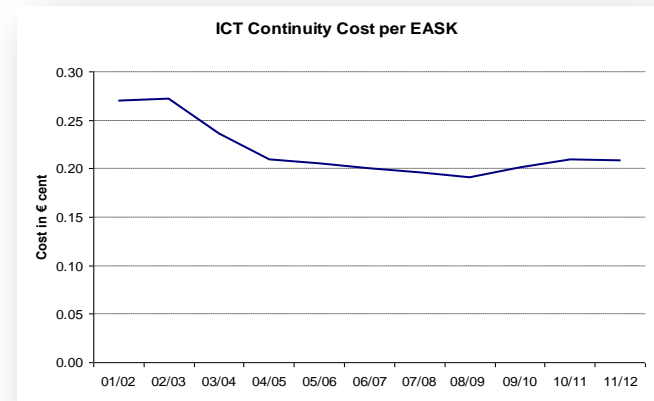


Portfolio Management - Prioritization



Reported Benefits

- lower IT continuity cost per business production unit;
- increased capacity for innovation;
- more trust between all involved stakeholders; and
- moving beyond cost thinking towards a value culture.



Lessons Learned

1. Develop Governance Approaches to Engage Business Management
2. Build a Transparent Portfolio Management Process with Clear Business Drivers
3. Anticipate Resistance to Transparency
4. Provide Appropriate Change-Agent and Liaison Resources in a CIO Office
5. Recognize that the Change Process is a Journey

More information

- IT Alignment and Governance Research Institute
 - www.antwerpmanagementschool.be/ITAG
- Email
 - steven.dehaes@uantwerpen.be
- Books & Publications
 - Van Grembergen W., De Haes S., Implementing Information Technology Governance: models, practices and cases, 255p., IGI Publishing, 2008
 - De Haes S., Van Grembergen W. Enterprise Governance of IT: achieving strategic alignment and value, Springer, 2015
 - Van Grembergen W., De Haes S., Business Strategy and Applications in Enterprise IT Governance, Springer, 2012
 - International Journal on IT/Business Alignment and Governance (IJITBAG)
 - www.igi-global.com/IJITBAG
- Executive education
 - Executive Master of IT Governance & Assurance
 - Executive Master of IT Management
 - Executive Master of Enterprise IT Architecture



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