

The autonomous
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Enterprise governance of IT

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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.

(Van Grembergen and De Haes, 2009)

Benefits...

"Firms with superior IT governance have at least 20% higher profits...than firms with poor governance given the same strategic objectives."

(Weill and Ross)

But...

“ Due to the focus on “IT” in the naming of the concept, the IT governance discussion mainly remained a discussion within IT.”

“The Paradoxical Role of IT in Leading IT Governance”

(De Haes & Van Grembergen)

Or in other words...

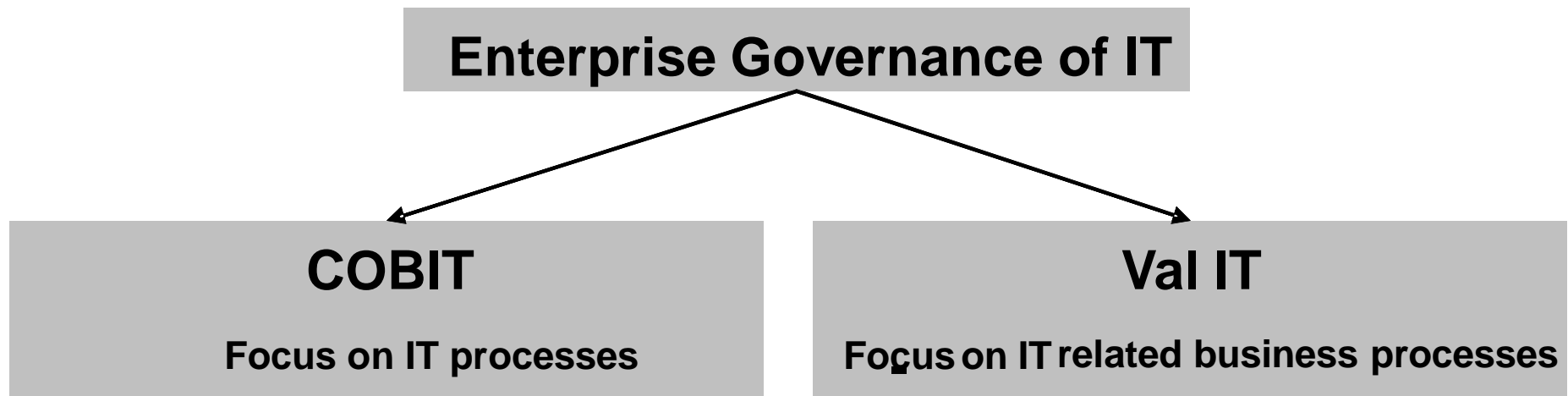
“If business senior managers do not accept accountability for IT, the company will inevitably throw its IT money to multiple tactical initiatives with no clear impact on the organizational capabilities. IT becomes a liability instead of a strategic assets”

(Weill and Ross)

The knowing-doing gap

- While organisations do recognise EGIT's importance, they are still struggling with getting such governance practices implemented and embedded into their organisations ('knowing-doing gap')
- Need for an organizational system, i.e. "the way a firm gets its people to work together to carry out the business". (De Wit and Meyer, 2005).

COBIT and VALIT as frameworks for
Enterprise Governance of IT

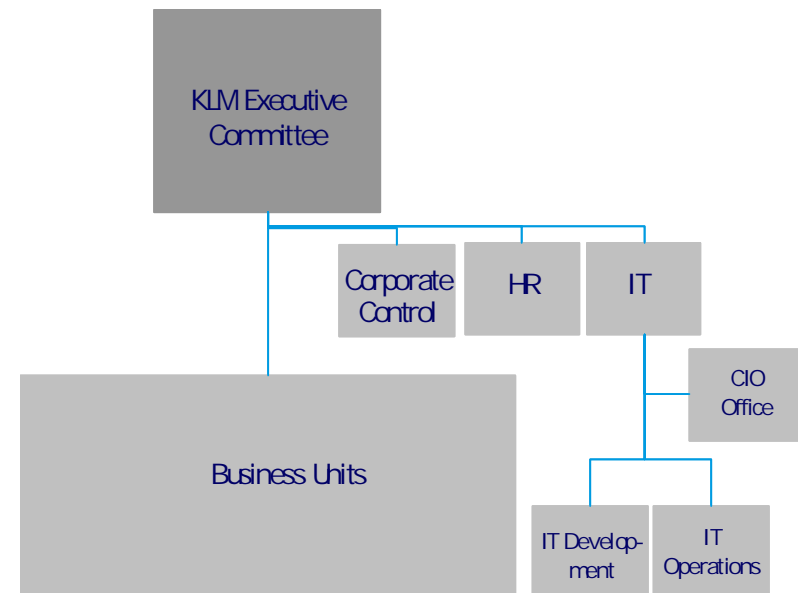


KLM

- 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. In 2009, Air France - KLM operated flights to 255 destinations in 115 countries on four continents.

KLM

- This case focuses on the KLM activities within the Air France-KLM group.
- 6 business units: Commercial, In-flight Services, Passengers Operations, Ground Services, Cargo, Engineering & Maintenance
- In 2009/2010, KLM IT employed close to 1,000 (internal and external) FTEs, with an IT budget of around 300 million euro.
- The mission of the IT department is to 'create business value by delivering reliable IT services to the business processes, and innovative IT solutions to enable and support business changes'.
 - IT is a world class Information Services provider and will be able to deliver the best value to the company;
 - The IT cost-levels will be at a competitive industry level;
 - The IT architecture and infrastructure will enable the growth ambitions of Air France-KLM.



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

Collaborative Effort Project (1)

- Establishing a CIO Office consolidating already existing, loosely coupled and different functions
- First draft of governance principles and practices mainly driven by the CIO office
 - refined with the business parties and shared in the whole organisation through intranet
 - still challenged but each time in the end reconfirmed
- Establishing a business/IT board composed of the CEO, CIO and the business unit EVPs
 - meeting every two months
 - discussing and decide on IT strategic issues

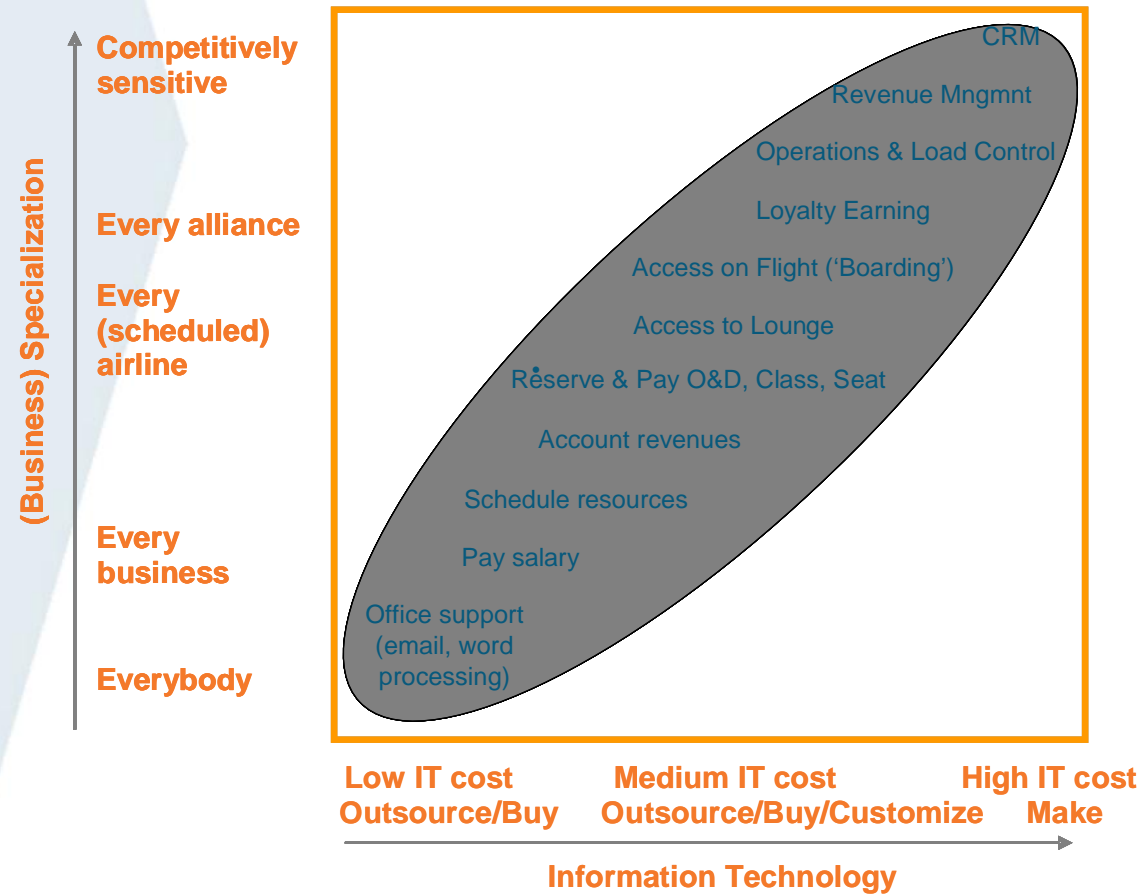
Collaborative Effort Project (2)

- Setting principles to simplify IT governance
 - starting premise: business is in full control of IT demand and IT spend
 - a demand management function for each business domain
 - creation of portfolio management processes driven by business demand with an innovative approach to evaluation and selection
 - “the only way of working” between IT & Business
- Defining guidelines for decisions on what and how to potentially outsource
 - both IT operations and development should be mainly sourced outside

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

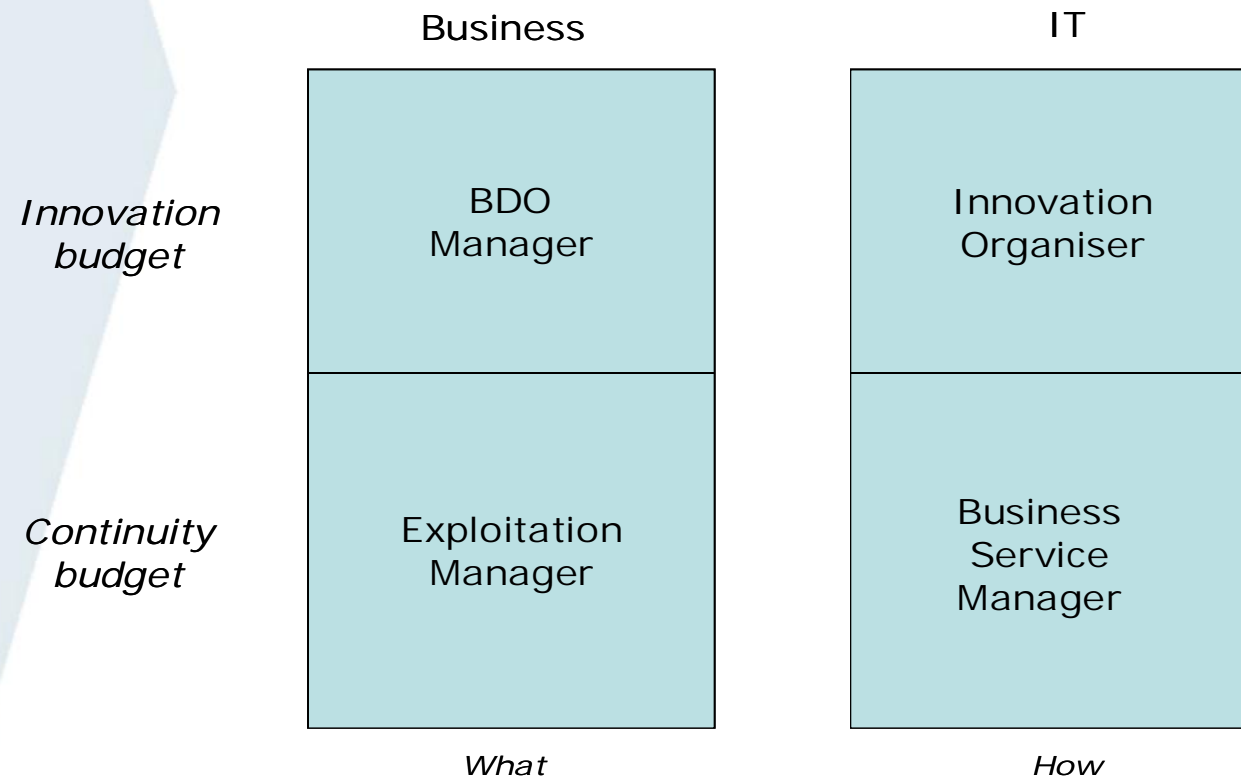


Stay on the Surfboard Principle

WHAT & HOW

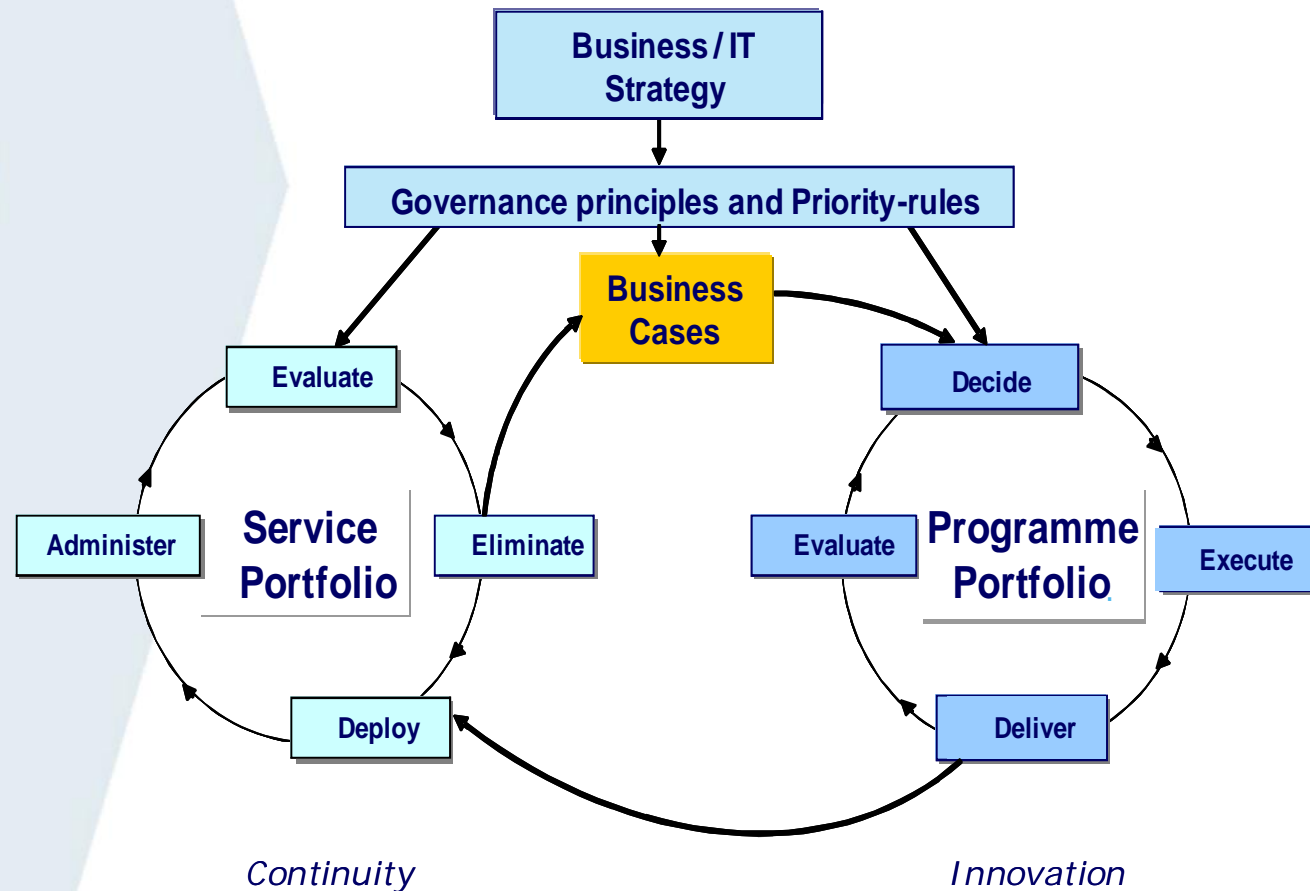
- Definition of a clear split between Demand and Supply
 - IT demand came in through 14 Information Management committees and informal channels
 - it could be that similar investment requests were initiated from different business lines
 - some of the Information Management groups also managed their separate development team
- Demand for investments and innovation now channelled via BUSINESS DEMAND OFFICERS of the 6 business domains
 - BDOs formally positioned in the business domain
 - BDOs close contact with their EVPs and a reporting line to the CIO
- INNOVATION ORGANIZERS are the dedicated counterpart or mirror role on the IT supply side responsible for all HOW- activities

Governance principles and practices



Mirror Roles between Business and IT

Governance principles and practices

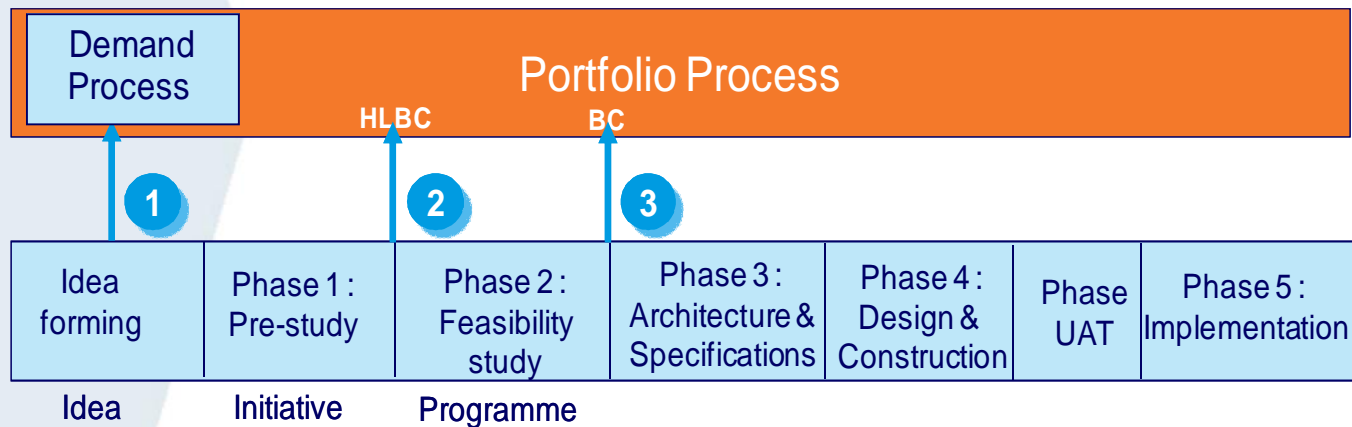


The Innovation-Continuity Bicycle

INNOVATION/CONTINUITY

- Demand management for the IT function
 - infrastructure investments have traditionally been difficult to justify
 - an IT BDO analyses future needs and capacity based on the incoming business cases of the businesses
 - e.g. migration to virtualisation is motivated by lower business service costs
 - e.g. for migration of operating systems a business case is built on risk avoidance and cost of future operational support

Portfolio Management



Three approval steps :

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

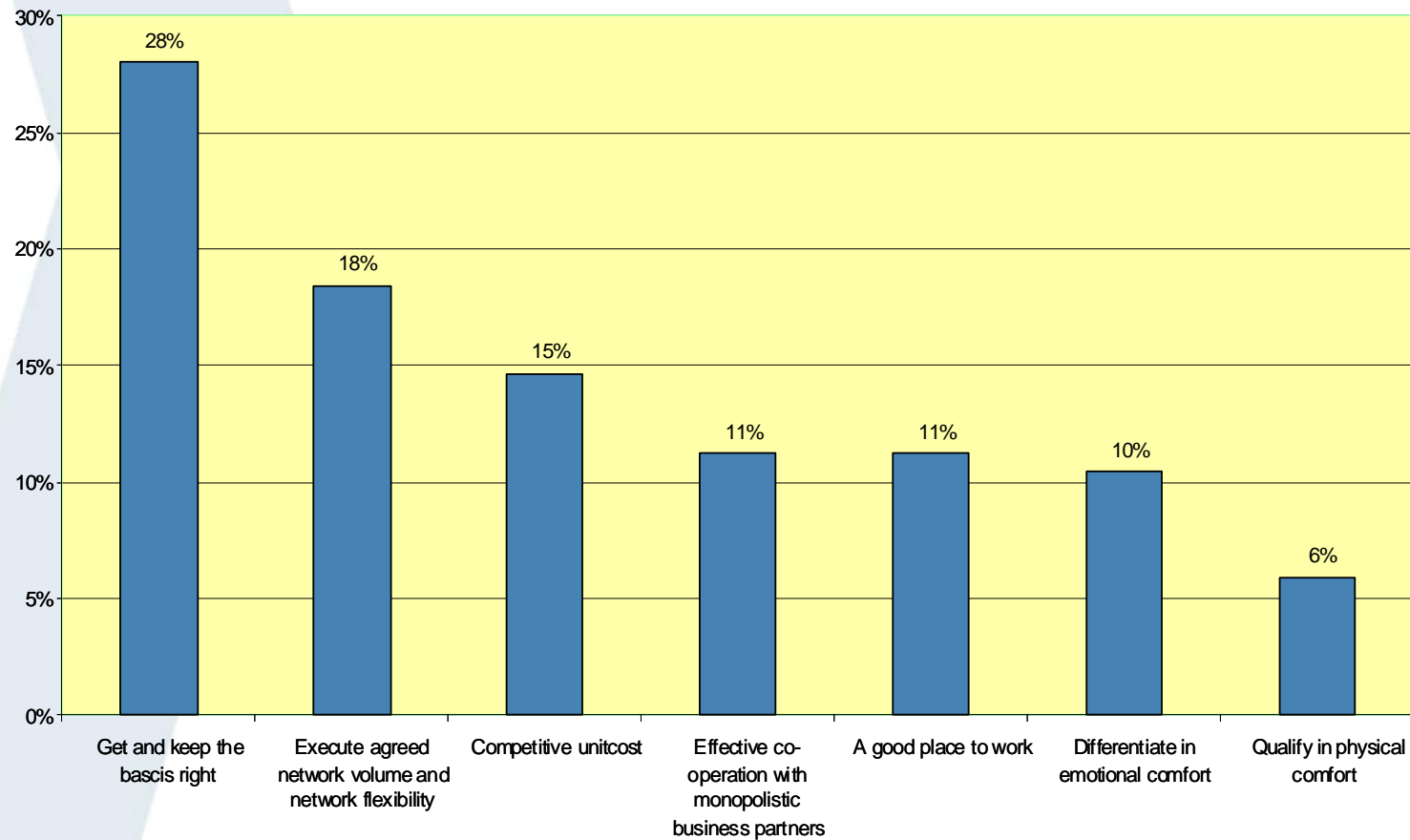
Three decision thresholds:

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

PRIORITISATION

- Business drivers of the business units are captured by the CIO Office through interviews with business unit executives
- Business drivers are ranked in terms of relative importance ranging from “extremely less” toward “extremely high”
- For each investment proposal the contribution to each of the business drivers is determined ranging from “low” to “extreme”
- Result: initial portfolio containing a ranked list of all investment proposals at business unit level
- A “process” of informal discussions between the BDOs leads to the final portfolio
- Business/IT board endorses the outcome of the portfolio process

Portfolio Management



Definition of the Business Drivers for Passenger Operations

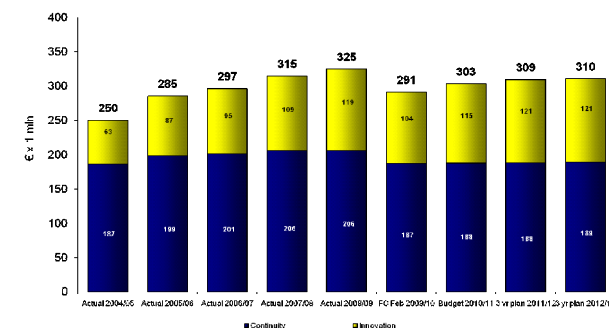
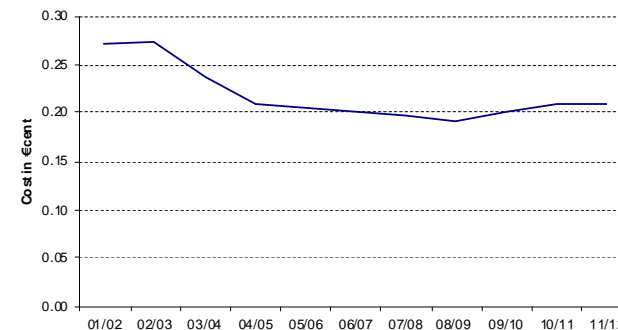
BENEFITS REALISATION

- Lower IT continuity costs
 - although more and more IT enabled business investments, the unit cost of providing IT services per airline production unit decreased by more than 20%
- Increased innovation capacity
 - the lower/stable IT continuity costs freed up budget for IT enabled innovation
- Better alignment investments/strategic goals
 - no more subjective and emotional discussions
- More trust between business and IT because of better transparency
- Value culture is emerging moving from cost towards value

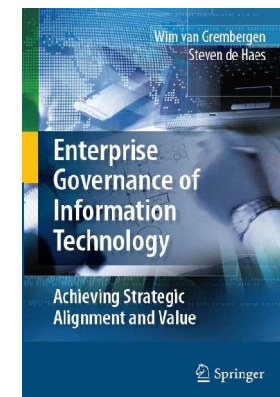
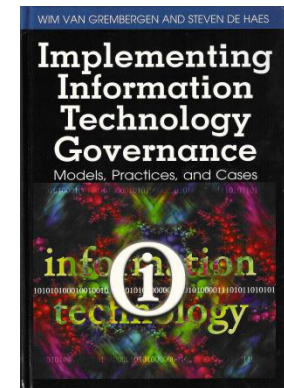
Reported Benefits

- lower IT continuity cost per business production unit;
 - (total number of seats and cargo capacity multiplied by the total number of kilometers flown by the airline fleet)
-
- increased capacity for innovation (because of relative stable IT continuity budget)

ICT Continuity Cost per EASK



- Van Grembergen W., De Haes S., Implementing Information Technology Governance: models, practices and cases, 255p., IGI Publishing, 2008
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- Information Technology Alignment and Governance Research Institute: www.uams.be/itag



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