

# Business Process Governance

M. Lynne Markus and Dax D. Jacobson

**Abstract** Good business process governance is necessary for the success of business processes, which in turn are essential for business success. The term business process governance refers to the direction, coordination, and control of individuals, groups, or organizations that are at least to some extent autonomous: that is, not directly subject to the same hierarchical authority. Business process governance comprises a variety of mechanisms that may be impersonal (e.g., laws or rules) or personal (i.e., administered by individuals who may or may not have formally designated responsibility or accountability for governance). All governance mechanisms have pros and cons; some mechanisms are more effective (and more costly) than others. The challenge is to design a cost-effective governance structure, which usually consists of several mechanisms working in combination. This chapter describes various governance mechanisms, identifies their advantages and disadvantages, and provides examples that reveal how governance mechanisms contribute to business process success.

## 1 Introduction

Loosely speaking, governance means direction, coordination, and control. Good governance is necessary for the success of business processes, which in turn, contribute to business success (Rosemann and de Bruin 2005). Whether business processes are inter-organizational or intra-organizational in scope, they need governance at all stages of their life cycles – when they are first designed (or are significantly redesigned), when they are operating under “business-as-usual”

---

M.L. Markus (✉)  
Bentley University, Waltham, MA, USA  
e-mail: mlmarkus@bentley.edu

conditions, and when they need either minor adjustments for changing circumstances or ongoing performance improvements.

The term governance is generally used in situations wherein the individuals, groups, or organizations that need direction, coordination, and control are partially or entirely autonomous of each other. That is, they are approximately peers rather than linked in hierarchical authority relations (Lynn et al. 2001). Put differently, governance comes into play when none of the parties involved in a situation requiring coordination have the formal hierarchical authority to command others to behave in certain ways. This condition applies most obviously in the case of inter-organizational business processes, such as the business-to-business sales and purchasing processes. But the condition also characterizes many core business processes inside organizations, such as new product development or human resource management, which cut across multiple organizational functions such as marketing, manufacturing, and engineering. It may appear that vertical or hierarchical managerial authority could accomplish the direction and control of intra-organizational organization business processes, but, in fact, business process success generally requires considerable lateral coordination across units, just as inter-organizational processes do.

Many people use the term governance to refer mainly to *impersonal* or institutional mechanisms: that is, to the laws, regulations, standards, and contracts by which relationships among citizens and legal entities are arranged. Such impersonal forms of governance are essential when business processes cross the boundaries of legal entities, but, in the form of rules and procedures, impersonal governance mechanisms are common in intra-organizational business processes too.

At the same time, impersonal governance mechanisms are rarely effective unless they operate in conjunction with *personal* governance mechanisms, in which individuals act to direct, coordinate, and control a process, even though they may lack the vertical or hierarchical managerial authority to do so. For instance, in inter-organizational business processes, monitoring and the imposition of fines by the buyer are often needed to ensure that suppliers honor the terms of sales contracts. Similarly, in intra-organizational processes, personal governance may be needed to augment impersonal mechanisms such as service level agreements. Personal governance can be informal, that is, not explicitly assigned as a responsibility to particular individuals or organizations, or it may be formal. And, if personal governance is formal, it can take various forms, such as liaison roles, standing committees, coordination units, or process organizations, each of which has pros and cons.

In short, business process governance comprises several different kinds of mechanisms, each of which has advantages and disadvantages. The purpose of this chapter is to identify and describe the mechanisms, to articulate their pros and cons, and to provide examples of the mechanisms in use in real organizations – often in combinations.

The challenges of post-design process governance vary considerably with the organizational scope of the business process, that is, with the number of functional units and legal entities crossed by the process. Therefore, this chapter examines

governance strategies for business processes both within and across the boundaries of legal organizational entities. However, the chapter has a more limited temporal scope. Much has been written about the governance of business process design projects (Becker et al. 2003; Kettinger and Grover 1995), such as about the need for project sponsorship, project team management, participation of stakeholders on the design team, etc. But when a process has been redesigned, the role of the project team ends. Without a careful plan for transitioning the new process into a workable governance framework, the need for effective process operation and continuous improvement is likely to conflict with management priorities in the existing authority structure, and process results will suffer. Therefore, this chapter focuses primarily on business process governance during the important, but neglected, post-design phases of the business process lifecycle.

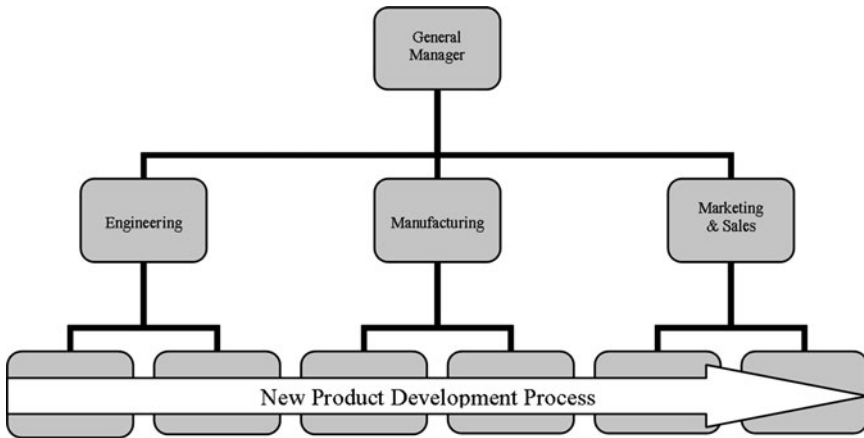
The first major section of this chapter (1) reviews the basics of business process governance in relation to organizational structures and vertical or hierarchical authority relationships, and (2) discusses the general trade-offs in the choice of horizontal or lateral governance mechanisms for business processes. Subsequent sections provide examples – for (1) intra-organizational and (2) inter-organizational business processes – of governance mechanisms used in several well-known cases and analyze the mechanisms in these cases according to the trade-offs framework developed below.

## **2 The Management of Organizational Structures and Business Process Governance**

Business process governance is challenging in intra-organizational contexts because it cannot easily be disentangled from the management of the people, functions, and organizations that perform the activities making up a business process. In this section, which draws heavily on Galbraith (1994), we explain how organizational structures and management hierarchies parallel each other, why lateral relations are needed to govern across organizational units, and how there are always trade-offs involved in the design of business process governance.

### ***2.1 Management Hierarchies and Business Processes***

Intra-organizational business processes are frequently depicted as cutting horizontally across functionally structured companies or business units (see Fig. 1). In this functional organizational structure, each specialized unit, such as engineering, manufacturing, and marketing, has a manager whose goals and priorities have been set by the organization's general manager. Often, these goals and priorities have more to do with the activities of the functional units, for example, reducing the

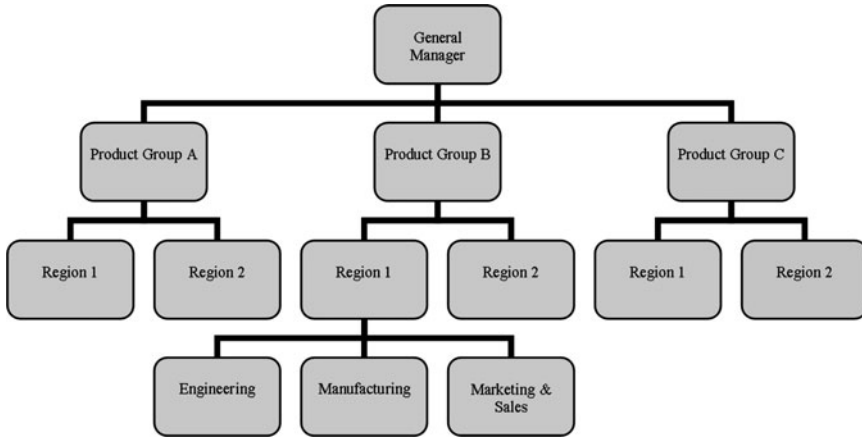


**Fig. 1** The new product development process in a functional organization

manufacturing “box” cost, than with cross-cutting process priorities such as achieving faster delivery of products to the customer. Each functional unit manager, in turn, sets goals and priorities for people within the specialized unit, assigns work to them, and measures and rewards their performance. Because no one person (at operational levels of the hierarchy) is responsible for whole cross-cutting processes, decisions made in the specialized functional units may actually worsen business process performance. As a result, many functionally organized enterprises have poorly performing process and experience the need for process redesign.

The problem is, of course, that if a redesigned process is grafted back into an existing functional organizational structure *with no other changes*, the prevailing managerial emphasis on functional concerns will continue, and process performance will eventually suffer again. To understand what other changes are needed to ensure the smooth operation and continuous improvement of redesigned business processes, one needs to understand the advantages as well as the disadvantages of various organizational structures and what can be lost as well as gained by structuring organizations differently.

Any organization that grows in size beyond a large team creates a hierarchy of business units, because otherwise the supervisory and decision-making demands on the general manager become too great. The hierarchy may be flat or tall, but it exists, and the reason is to break up the people and activities of the organization into units that can each report to the general manager as a single entity, thus reducing the manager’s span of control. The hierarchy is a crucial aspect of organizational design, because it sets the action execution framework for the organization; it defines the organization’s most important activity groupings (also called the bases of organization); and it identifies the individuals responsible for getting these activities done – usually people with the authority to allocate resources to activities and to monitor and reward process workers’ performance.



**Fig. 2** A multinational organization design

Specialized business functions (e.g., accounting and marketing) represent one basis by which people and activities can be grouped into organizational units. Organizations can also be structured around products or services, customers or geographies, and indeed around business processes. Organizations frequently need to manage multiple bases of organization simultaneously, but effective execution usually demands deciding which is *the* most important basis of organization – units of this type report directly to the general manager – and subordinating the other bases of organization to the most important one. Thus, in multidivisional organizations, the top level of the hierarchy may be organized around product groups; each product group may have customer-oriented subunits; and each customer unit may be functionally organized (see Fig. 2).

Regardless of how the organization is structured, there will always be issues that cut across units. In a product-structured organization, there may be opportunities to attract new customers with a “product solution” involving products from several different units or opportunities to develop entirely new products that require the technical experience found in two or more units. In a customer-focused enterprise, there may be opportunities to create standardized product offerings that are more efficient to produce or the need to develop shared business services to lower administrative costs. In a functionally organized business unit, the process of new product development may require expertise from marketing, engineering, and manufacturing units. Because there are always cross-cutting issues in organizations, there will always be need for governance across units.

There are three basic ways to handle cross-cutting issues in organizations: (1) referral up the *hierarchy*, (2) *lateral relations*, and (3) creation of one or more *new organizational units*. The first approach is for the issue to be referred up in the hierarchy to the next managerial level. For example, a new product development project could be led by the general manager in conjunction with functional unit heads. Naturally, this approach is unavailable for processes that involve multiple

legal entities. Furthermore, it is not a preferred approach, even within organizations, because it diverts general managers' attention from their own key priorities (often facing outward toward customers and financial markets) and reflects poorly on subordinates' ability to manage their responsibilities. Thus, the second approach, in which the relevant decisions are made lower in the hierarchy by means of what is called a lateral organization or lateral relations is often preferred to the upward referral approach. Examples of lateral relations include both *formal* personal governance mechanisms (e.g., liaison roles, coordination units, standing committees) and *informal* personal governance mechanisms, (e.g., ad hoc meetings, phone calls, e-mails) described more fully below. The third approach involves the creation of new activity units around the cross-cutting issue, thus making the process a primary basis of organization. This last strategy is often advocated by business process experts, but, like the other approaches, it has disadvantages as well as benefits, as discussed below.

In a different language, cross-cutting issues are "business processes" such as new product development. The lateral relations approach is the most common strategy for "business process governance." And creating an organizational unit to operate a business process is an instance of what is called "process organization." We now examine the lateral relations and process organization approaches for governing business processes in more detail.

## ***2.2 Lateral Relations and Process Organization Mechanisms of Business Process Governance***

The lateral relations needed to govern business processes across organizational units may occur spontaneously and informally, without official recognition by the organization. Alternatively, lateral relations may be explicitly set up as formal organizational responsibilities and accountabilities. Formal mechanisms can vary in their requirements for organizational commitment – that is, in the level of resources necessary to fund their operation. Finally, organizations can entirely restructure along process lines.

At the *informal* end of the governance spectrum, people in different units who are mutually involved in a cross-cutting business process may call ad hoc meetings, place phone calls, or send e-mails when they experience a situation that needs coordination. For example, an engineer working on a new product design may call a colleague in manufacturing to ask whether the proposed design would be expensive to build or difficult to maintain. The most important drawbacks of informal relations as a strategy for business process governance is that they are not certain to happen, because the responsibility and accountability for these lateral relations have not been explicitly assigned. After all, if people do not liaise well informally, they cannot really be accused of not doing their jobs.

Furthermore, if problems arise during informal coordination that cannot be resolved by the parties involved, the conflicts must be escalated up at least two

levels of hierarchy (to the manager of the managers of the units in which the coordinators work) in order to be resolved effectively. In practice, such escalation rarely happens, and processes fraught with informal conflicts usually remain ungoverned.

Finally, although informal liaison can work adequately for the ongoing operation of a process, it generally fails when the process needs to be improved or redesigned. The reason is that process improvement and redesign generally require the allocation of resources (e.g., people’s time to work on the redesign team, funds for new software or equipment), and informal coordinators often lack the authority to make these resource commitments. In general, if the process is at all important to the organization, it requires some level of *formal* lateral governance.

At the lowest level of formal process governance, an organization can designate a *liaison role*, assigning to someone the responsibility for coordinating across organizational lines (see Fig. 3.) At greater expense, the organization may set up a *standing committee*, often staffed with relatively senior managers from the affected units, to oversee the operation and improvement of a cross-cutting business process. Such a group would typically identify appropriate process metrics, track them, and recommend improvement actions. But the group would have no authority to allocate resources (other than their own budgets, if any) or to compel the execution of its recommendations, so the group members would have to negotiate with other leaders to ensure that changes are made. An even more expensive lateral relations strategy is for the organization to create a separate organizational unit charged with responsibility to coordinate a business process, while the activities that make up the process continue to be executed in operating business units.

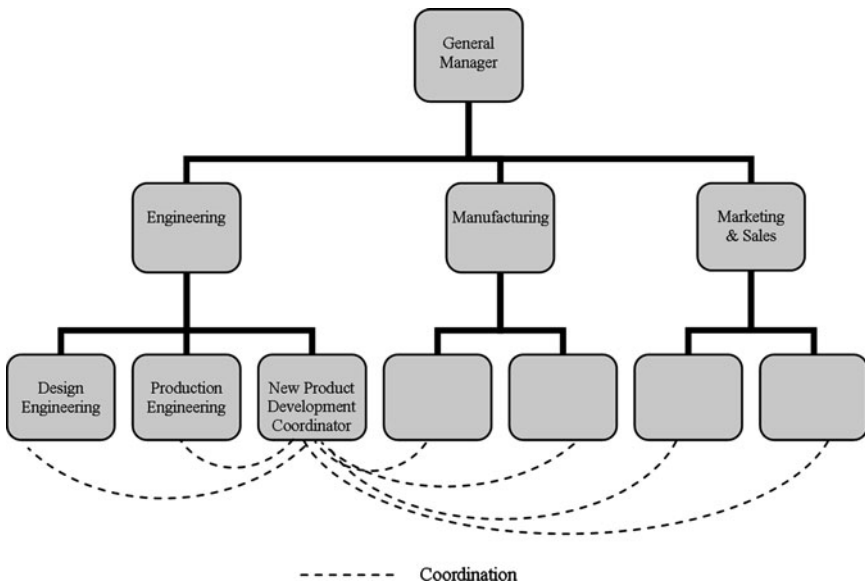
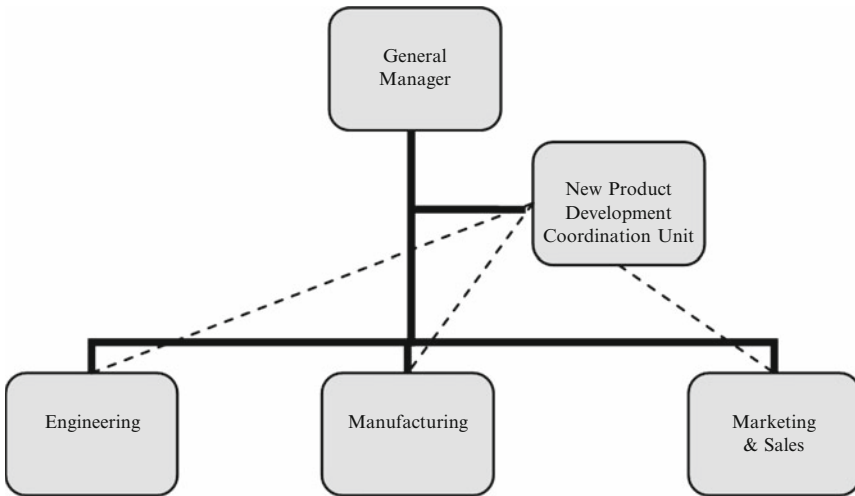


Fig. 3 A new product development liaison role



**Fig. 4** A new product development coordination unit

This *process coordination unit* (often called a “process owner”) would generally have only a small staff and would be responsible for such activities as process design, setting process performance targets and budgets, providing training, “purchasing” products or services from operating units, and so forth. This unit would not, however, actually “manage” process workers and activities (see Fig. 4).

Moving beyond these purely coordinative strategies, the organization could restructure around processes – that is, change the basis by which activities are combined into units and hierarchically managed. In the *process unit* version of this strategy, the organization sets up a new operating unit to perform many activities associated with a business process, such as new product development (see Fig. 5). This new product development unit differs from the product development *coordination* unit in Fig. 4 in that the development unit actually performs the product development activities whereas the coordination does not. In the most extreme version of restructuring strategy, the organization is completely reorganized along process lines, thus creating a *process organization* (see Fig. 6).

### **2.3 Tradeoffs in Organizational Design and Business Process Governance**

Clearly, restructuring an organization to create a new operating unit for a particularly important process or restructuring entirely along process lines focuses the strongest levels of managerial attention on business processes, maximizing the chances that the processes will perform well. Why, then, would an organization even consider lower levels of process governance (e.g., lateral relations)? The short



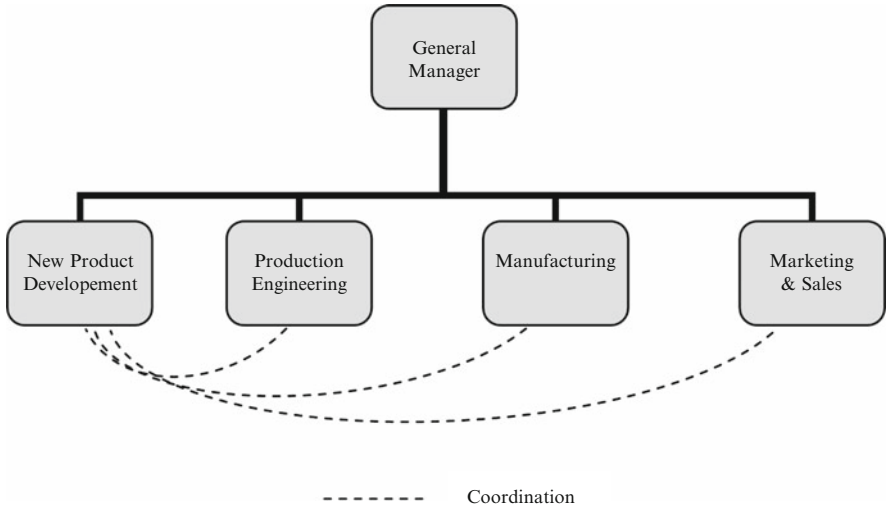


Fig. 5 A new product development process organizational unit

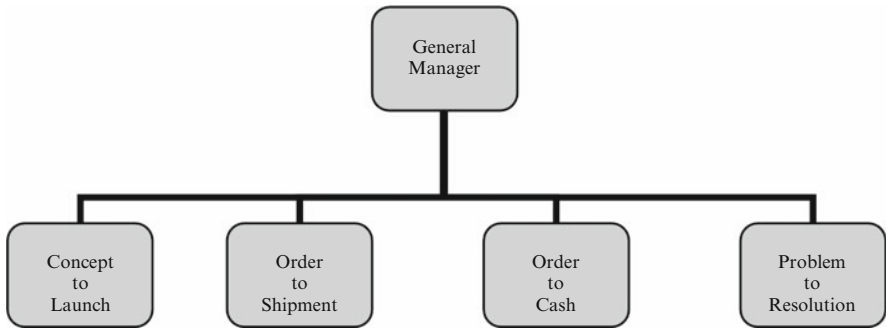


Fig. 6 An organization structured entirely along process lines

answer is that restructuring the activity units of an organization is always more expensive than creating lateral coordination or governance mechanisms. Furthermore, emphasizing processes to such an extent means de-emphasizing other bases of organization, and organizational executives must be absolutely convinced that the merits of reorganization will outweigh its great costs.

To be more specific, setting up a process unit or process organization involves moving people, organizationally and often physically as well, from functional units to process units. In the course of restructuring, employees get new bosses and new co-workers – a very stressful situation for everyone. In addition, the organization’s reporting, budgeting, and control processes must all be redesigned, which may require a substantial investment in information systems or services. On top of that, the new unit still needs to coordinate with other operating units, thus new lateral

relations must be developed or encouraged to emerge. For instance, consider an organization that sets up a new unit to perform new product development, not just to coordinate development across functional departments, as shown in Fig. 5. Every time the new department creates a new product, responsibility for that product must be transitioned to the operational units responsible for selling it, manufacturing it, servicing it, etc., along with information about how it is to be built, sold to customers, maintained, etc. Lateral relations must to be created to govern these transitional activities. New lateral relations would be required even if the entire organization were restructured along process lines, as depicted in Fig. 6. In this case, the lateral relations would probably focus on functional expertise.

The sad truth is that every way of structuring and managing organizations and every way of designing and governing business processes has pros and cons. (See Table 1 for a summary.) Every design choice involves trading off some costs to achieve some benefits. For example, completely reorganizing from a functional structure into a process-based one does not eliminate the need for a lateral organization to coordinate across units. It merely changes the kind of lateral coordination that is needed. In a functional organization, business processes need to be coordinated laterally across functional units; in a process organization, functional expertise and efficiency need to be coordinated across process units.

The functional organizational structure may appear deficient when viewed from a process perspective, but it is efficient, because it reduces the need to replicate functional specialists in many different units. The functional organization also enables the organization to develop depth of specialized expertise in areas such as mechanical engineering, electronics or hydraulic technology, marketing research, software development, etc. Thus, the decision to reorganize an enterprise or business unit on the basis of processes is a business decision that processes are more important to manage than functions are, and therefore, that the functions either do not need to be explicitly managed (in other words, they can be left to informal coordination) or that the functions should be governed lightly through a formal lateral organization.

The same holds true for any basis of organization, for example, for product and customer bases of organization, in addition to process and function. The decision to elevate one basis of organization, say customers, in importance is a decision to de-emphasize another basis of organization, for example products. Occasionally, two bases of organization are believed to be nearly equal in importance, and complex “matrix” structures are set up to coordinate them. But these structures can be extraordinarily expensive to maintain, because they involve parallel management systems for goal setting, budgeting and scheduling, performance evaluation, and financial control.

In general, organizations large enough and complex enough to have multiple product lines and multiple customer segments are organized primarily by one or both of those bases; functions such as manufacturing and operational business processes such as new product development are generally subordinated to customer and/or product units. (In other words, the customer or product units report higher in the management hierarchy than the functions or processes do.) Naturally, it follows from our earlier discussion that there will still be issues that cut across the product

**Table 1** The pros and cons of different types of governance mechanisms

Governance Concept	Definition	Pros	Cons	When to use
Impersonal governance	Governance achieved when individuals and organizations adhere to norms of behavior or documented rules promulgated by institutional actors, such as governments, standards bodies, industry associations, etc.; Includes laws, rules, procedures, contracts, budgets, SLAs, pricing plans	Can clearly specify roles and responsibilities, compliance requirements, and penalties for non-compliance; If norms are internalized, the costs of governance can be low; Can avoid some of the conflicts associated with personal governance	Impossible to pre-specify every contingency; May be ineffective without expensive monitoring and enforcement	When certain levels of service are required and can be monitored; When coordination is needed across organizations
Personal governance	Governance exercised directly by people regardless of authority or responsibility; Includes vertical (hierarchical) authority, horizontal or lateral relations, and organizational restructuring along process lines	Flexible; Has the ability to respond to unforeseen circumstances	May provoke more conflicts than impersonal governance; May result in less consistent application than documented rules	Always required in some form, for instance, needed to create impersonal rules
Vertical (hierarchical) authority	Direction or control exerted by superiors in a managerial hierarchy	Effective for activities that occur entirely under the direct authority of a line manager; Can help generate commitment to business process changes within organizations	Not sufficient for business processes, because they cross intra- or inter-organizational lines	Always required for business processes, because they cross organizational lines
Horizontal or lateral relations	Coordination across boundaries within or across organizations; includes informal and formal governance; Excludes organizational restructuring along process lines	Execution requires informal governance – this is how work gets done; Facilitates	No way to ensure that informal coordination will happen; No formal method	Always required; Should be encouraged in addition to other governance
Informal governance	Governance negotiated informally by people with responsibility for various tasks or resources; Includes ad hoc			

(continued)

Table 1 (continued)

Governance Concept	Definition	Pros	Cons	When to use
	meetings, phone calls, e-mails, hallway discussions, etc.	development of shared understanding; Can compensate for gaps in structure or governance	to resolve issues, leading to escalation up the hierarchy; Ineffective for process redesign	mechanisms; Not recommended as the sole form of business process governance in complex organizations
Formal governance	Governance administered or negotiated by people working in formally assigned coordination roles; Includes liaison roles, standing committees, and process coordination units	Ensures that functions and organizations are represented; Problem ownership and resolution are clearly identified	Often expensive	Especially important when coordination involves the allocation of resources
Liaison roles	Formal assignment of responsibility for coordinating a business process to a designated person (see Fig. 3)	Relatively low cost formal mechanism, because the liaison role may be an additional assignment to an existing role	No authority to allocate resources or compel execution of recommendations	When business process governance requirements are relatively "light"
Standing committees	Creation of a permanent group of people, representing the different organizational units involved in a business process, with formally designated responsibility for governing a business process	Ensures that the organizational units involved in a process are represented in process governance, signaling and reinforcing attention and commitment	More costly than the liaison role because such committees are often staffed by relatively senior people; No authority to allocate resources or compel execution of recommendations	When the business process is important enough to require high-level visibility and commitment from multiple organizational units
Process coordination units, the "process owner" strategy	Creation of an organizational unit to coordinate (but not execute) a business process (see Fig. 4)	More effective than liaison roles and standing committees, because such units often have budgets to purchase services from operating units and thus have a say in the operating units' performance evaluations	More costly than liaison roles, because new jobs are created and staffed; More costly than the standing committee, because the process coordination unit and a standing governance committee are often used in combination	When the organization is prepared to manage the process formally – that is, to set goals and metrics, to draw up budgets, and to evaluate and reward performance

<p>Organizational restructuring</p>	<p>Change in the basis for organizing activities and their reporting relationships; Includes process organizational units and process organizational structures</p>	<p>Powerfully directs managerial attention to one or more key business processes</p>	<p>Always more expensive than lateral relations</p>	<p>When the organization is prepared to make very significant resource commitments</p>
<p>Process organizational unit</p>	<p>Creation of an organizational unit to execute a business process (see Fig. 5)</p>	<p>Gives the business process considerable autonomy to pursue its own goals and objectives</p>	<p>Requires the creation of new governance arrangements, because the new unit will need to liaise with the existing operating units</p>	<p>When the process is vitally important to the health of the organization, the process has underperformed under previous governance regimes, and the organization is unwilling to completely restructure</p>
<p>The process organizational structure</p>	<p>Complete reorganization of the enterprise, changing the primary basis of organization from function, product, or geography to process (see Fig. 6)</p>	<p>Gives major managerial attention and visibility to end-to-end customer facing processes</p>	<p>Extraordinarily expensive, because it completely reassigns people, authority, and responsibility; Requires creation of new management systems and governance arrangements; May result in significant erosion of functional, product, or geographic capability</p>	<p>When the organization is convinced that process is the most important basis of organization and is willing to incur the extraordinary expense of complete reorganization</p>

or customer units. A prime example is decision making about enterprise IT systems and shared business services (e.g., human resource management and accounting). Some of these cross-cutting issues may be thought important enough to be formally governed by means of the strategies described above.

In short, business process governance cannot be designed in a vacuum. Business process governance needs to be designed in conjunction with an enterprise's primary organizational design decisions, which are strategic business decisions. Whether or not a "process owner" should be named or a process organization structure set up is not a black or white question, and no one solution is best in every situation. Trade-offs must always be made. That said, let us now examine some governance choices that have been made in actual situations.

### 3 Process Governance Within Organizations

Redesigning business processes to make them more efficient and customer-focused is not enough to ensure process success. Numerous companies have found that attempting to introduce redesigned business processes to an existing organizational structure is a recipe for process failure:

That was the theory. But it didn't work out that way. The first pilot teams ... barely managed to operate at all. They were, in effect, sabotaged by the existing organization. Functional departments were unwilling to cede people, space, or responsibility to the teams. ... The problem was not in the design of the process. The problem was that power continued to lie in the old functional departments.

*(Hammer and Stanton 1999), p. 110.*

This, and many other experiences suggest that relying on informal lateral coordination, whether by functional unit managers or by process workers, to ensure the smooth operation and ongoing improvement of critical business processes does not work. Some degree of formal structural change seems to be necessary. The question is what kind of change is required. The two primary options are (1) the establishment of formal lateral relations, whether by liaison roles, coordination committees, or a process coordination unit (also known as the "process owner" strategy) and (2) the creation of new operating units responsible for executing a business process. Both strategies have been successfully used. In the following paragraphs, we analyze familiar examples of three formal mechanisms – the process coordination unit, the process organization, and the process unit – in terms of the analytic framework we developed earlier.

#### 3.1 Process Coordination Units: The Example of Duke Power

Before process redesign, the Customer Operations unit at Duke Power – the unit responsible for delivering electricity to customers – was primarily structured along

geographical market lines (Hammer and Stanton 1999). Four regional vice presidents reported to the head of Customer Operations. The geographic basis of organization makes good business sense for an electricity provider, the operations of which require deploying large numbers of people efficiently across large areas. The major disadvantage of this structure is that business processes such as marketing, acquiring new customers, and service delivery must be laterally coordinated across the geographic regions. At Duke Power, those processes were not as efficiently and effectively coordinated as they needed to be.

In a process redesign project, five important processes were identified: developing market strategies, acquiring and maintaining customers, delivering products and services, providing reliability and integrity (maintenance), and calculating and collecting revenues. A new organizational unit was created to coordinate each process. The leaders of the new units reported directly to the head of Customer Operations, *along with* the four vice presidents of regional operating units. Thus, the general manager's direct span of control more than doubled as a result of this change.

In the new structure, the regions for the most part managed the people and activities, and the process units governed the money. Most of the personnel in Duke Power remained in the regional units to be managed by the regional vice presidents. The process unit leaders, who had only small staffs, were responsible for designing business processes, setting performance targets for processes, and establishing budgets (impersonal governance mechanisms) that covered not just what it would take to operate the processes, but also what would be needed for process improvement activities such as redesigning warehouse operations and introducing a new scheduling system. Then the process unit leaders allocated budgets to the regions. Each regional vice president had to manage to the goals and budgets that were set in large part by the five process unit leaders. (The vice presidents may also have had additional goals and other sources of funding for their activities.) Within their units, the regional vice presidents had the authority to allocate resources that they saw fit to achieve their targets.

In the terms used earlier in this chapter, Duke Power employed an expensive strategy of formal lateral relations to govern its processes – the creation of separate units to coordinate each key process across the regional operating units. This strategy was expensive, not only because it involved five new (though small) units each with high-level leaders but also because it introduced a new budgeting process, and because it required close informal coordination (and negotiation!) between process unit leaders and regional vice presidents to make sure that budgets were fair and that process decisions were sound. The advantages were much greater effectiveness and accountability for the outcomes of importance to Duke Power's customers.

It should be noted that the lateral organization strategy employed by Duke Power was probably not the only way the company could have achieved its goals. One alternative would have been to pull the people working on certain business processes – say marketing – out of the regional operating units and to combine them into functionally organized units reporting to the head of Customer Operations. This solution may have been more efficient than keeping these specialists in the

regional operating units. On the other hand, it is likely to have encountered resistance from the regional managers, who would have lost resources and power, and it would have required much lateral coordination with the operating units to avoid reducing responsiveness to local customer needs.

The point is that *all* ways of structuring activities and governing processes have pros and cons; organizations need to design the best solution given their unique circumstances, including the level of change management required. For example, the new process organization at Duke Power did not work well until the regional vice presidents and process leaders got together and developed a document specifying (1) who would be responsible for making each key decision, (2) who had to be consulted before each key decision was made, and (3) who had to be informed after each key decision was made. This meeting not only created an impersonal mechanism of governance – the framework, it also created the shared understanding that ensured that the vice presidents would comply with the framework.

An alternative to the coordinating unit strategy is the even more expensive strategy of creating one or more process organizational units. At Texas Instruments, the entire operational organization was restructured along process lines – as reflected in a series of product development units. At Procter & Gamble, a single new process unit was set up with managerial authority for shared processes related to employees and to business activities.

### ***3.2 Process Organization: The Example of Texas Instruments***

Texas Instruments was originally structured on a functional basis. Managers in the company believed that the product development process needed improvement and created a process redesign in which cross-functional teams of people from various specialties (engineering, marketing, etc.) were assembled in the same location (Hammer and Stanton 1999). Each team was supposed to be responsible for the “concept to launch” process for a new product, which involved setting advertising strategies, producing product documentation, creating training materials, and so forth. But the existing functional organizational structure was not changed. Not surprisingly, the process redesign project team learned that the new teams could not operate effectively in the old organizational structure.

The result was a decision to restructure the enterprise completely into product development units. Budgets that had been set up for functional departments were now created for the product development units instead. Since the old functional departments were no longer responsible for performing activities related to product development, they were reincarnated as formal lateral coordinating units. Their purpose became ensuring the preservation of functional expertise and quality standards across the product development units by means of training, methods improvements, etc.

In short, Texas Instruments’ governance strategy was almost the reverse of that used at Duke Power. Whereas Duke Power added process coordination units and a



new budgeting process to a functional operating structure, Texas Instruments created functional coordination units for a new process operating structure. But Texas Instrument had far more work to do to implement its change. Duke Power created a new governance strategy for an existing organizational design; Texas Instruments had to completely redesign its structure (changed its fundamental basis of organization) and also develop a new governance approach.

### ***3.3 Process Unit: The Example of Shared Services at Procter and Gamble***

An increasingly popular organizational redesign involves the creation of “shared services” business units to perform certain support activities for all other organizational operating units, which are otherwise left intact. An example is Procter & Gamble, which began setting up its worldwide shared services organization in 1999 (Weill et al. 2007). Although only a single new operating unit was created, in contrast to Texas Instruments’ complete process reorganization, the scope of P&G’s new Global Business Services (GBS) unit was enormous, comprising human resources and facilities management, information services, accounting, marketing research, demand planning, packaging development, and more. The new organizational design evolved over a matter of years. In 2007, GBS employed 6,500 people.

Like other operating units, shared services units can have huge budgets and large staffs. But they differ from other organizational operating units in one key respect. Shared services units are focused inside the organization: most of their services are provided to other operating units<sup>1</sup>. The other operating units, by contrast, are externally focused: they produce products and services for external customers. Because shared services units operate certain processes on behalf of multiple other operating units, lateral governance mechanisms must be created to link them to their internal clients.

The governance mechanisms associated with shared services units are many and complex, involving both impersonal and personal governance forms (Davis 2005; Grant et al. 2007). The impersonal mechanisms include service level agreements (SLAs) and pricing plans. For example, P&G set prices, which varied by region, for each service offered by its GBS unit. Operating units were required to use about 70% of the services offered, but 30% were optional, and operating unit managers could influence their costs by choosing a level of service and how much of each service they consumed. In addition, because some of the shared services were provided by external partners (including three IT service providers), there were

---

<sup>1</sup>Naturally there are important exceptions to this statement. Some other operating units primarily support internal customers, e.g., a manufacturing unit that “sells” its output to product units that transact with external customers. Some shared services units are operated for the client organization by another company. Some shared services units support external customers as well as internal ones.

also inter-organizational outsourcing contracts (Weill et al. 2007). The charges that GBS recouped from its client units comprised the budget that GBS managers had to manage within, and the SLAs outlined the process performance metrics they had to meet and that were used in evaluating their performance.

The rewards for such careful business process governance can be considerable. P&G's GBS unit was able to guarantee its clients an upfront 10–30% reduction in the cost of the shared services, as well as annual cost reductions (Weill et al. 2007). Another organization sought to achieve 30–40% reductions in costs by means of shared services (Davis 2005). It is important to understand, however, that achieving such benefits requires substantial ongoing outlays for business process governance.

Not described for P&G's shared services, but a prominent feature of many shared services designs, is a complex structure of formal lateral governance relations – personal governance – in addition to the impersonal mechanisms of prices and service level agreements. Many organizations put in place a hierarchy of committees staffed with representatives from the shared services unit, its client operating units, and its external services providers (if any) (Grant et al. 2007). Some governance committee hierarchies have two levels – an operating committee and executive steering committee; some have three levels – technical, managerial, and executive. In complex multinationals, the shared services governance committee hierarchy may essentially parallel the overall organizational structure, with standing governance committees for each country, each region, and each product group. *In addition* to the committee hierarchy, shared services governance may also include liaison roles within the shared services organization to coordinate with client operating units and possibly also liaison roles within the operating units to coordinate with the shared services unit.

All-in-all, a shared services process organization can be part of a company's strategy for governing certain business processes, such as information services, human resources management, accounting, etc. However, the benefits of process organizational units must be balanced against the costs of governing them. Shared services units require impersonal governance mechanisms such as contracts, budgets, and SLAs, and personal lateral governance mechanisms such as liaison roles and a governance committee hierarchy. Whenever external providers deliver some of the shared services, governance mechanisms are also needed for external coordination.

As costly as such inter-organizational business process governance can be, the demands of external process governance are in many ways greater. We discuss inter-organizational business process governance in the next section.

## 4 Governing Processes that Cross Organizational Lines

Intra-organizational processes have governance advantages that inter-organizational processes do not. Although hierarchical authority cannot suffice to govern intra-organizational business processes, it can help with governance by facilitating the creation of formal lateral relations or process organizations and by supporting a

control framework that can be aligned with process objectives. In addition, among organizational units reporting to a common authority, there may be cultural conditions that support effective informal coordination. Most of these factors are absent when business processes cross the boundaries of legal entities.

Distinct legal entities that conduct business transactions may differ greatly in their relative power and influence, but legal autonomy means that inter-organizational process governance strategies are more limited than those available within organizations (Huiskenon and Pirttila 2002). As a result, inter-organizational processes must rely more on impersonal mechanisms of governance. And, if personal governance strategies are used, they are more palatable when they are enacted by “neutral third parties” such as outsourcers, professional services firms, industry associations, and trade facilitators. Below, we consider two examples of inter-organizational business processes – emergency medical services (EMS) provision in San Mateo County, California, and the supply chain management process.

#### ***4.1 Multiple Mechanisms for Inter-Organizational Process Governance: The Example of San Mateo County EMS***

The provision of EMS in the United States is an inter-organizational process involving both governmental agencies and private businesses – police and fire services, hospitals, ambulance services, etc. The process entails numerous handoffs, and no vertical (hierarchical) authority can command efficient and effective process performance (Horan and Schooley 2007). Officials in the EMS Agency of San Mateo County, California, took responsibility for leading process improvement, and, after a 4-year redesign activity with the participation of paramedics, nurses, physicians, hospitals, fire agencies, and a private ambulance provider (American Medical Response or AMR), EMS catalyzed an innovative public–private partnership that addressed the end-to-end emergency medical services process (Schooley and Horan 2007).

Central to the redesigned inter-organizational process was an impersonal governance mechanism – a master contract with AMR for ambulance and paramedic first response services. This award-winning “performance-based” contract specified target response times that varied with responder type and emergency location and required at least 90% compliance with the targets.

The master contract, however, covered only one part of the EMS process. Other key parts included the response of police and fire services and patient treatment in hospitals. To ensure that collaboration among all parties remained effective, the San Mateo County EMS Agency convened a monthly standing committee. The focus of committee meetings was to evaluate the performance of the end-to-end process and to manage its continuous improvement. In addition, the Agency developed standards for process worker training, record keeping, and communication. Thus, the success of the EMS process in San Mateo County depended on a combination of

impersonal governance mechanisms (e.g., the master contract) and personal governance mechanisms (e.g., the standing committee and ongoing informal interactions).

#### ***4.2 Multiple Mechanisms for Inter-Organizational Process Governance: The Supply Chain Management Example***

As another common example, the inter-organizational processes connecting an organizational buyer with its suppliers often need improvement. Formal purchasing contracts are rarely enough to address every contingency, particularly since suppliers often depend on *their* suppliers to ensure timely and accurate deliveries (Hammer 2001). Volumes have been written about strategies for improving supply chain processes – strategies that usually combine a variety of personal governance mechanisms. Examples of such personal mechanisms include the following:

- Informal relations, bolstered by co-location of the buyer and supplier companies (Huiskonen and Pirttila 2002)
- Liaison roles, frequently mirrored in the partner organizations (Danese et al. 2004), and sometimes demanded by third parties that perform some part of an inter-organizational process (Huiskonen and Pirttila 2002)
- Standing committees, such as steering committees and process improvement teams (Huiskonen and Pirttila 2002)
- Coordination units and process organizations internal to one or multiple partners (Danese et al. 2004)
- External coordination units and process organizations, often in the form of third or fourth party logistics providers (Huiskonen and Pirttila 2002)

Successful supply chain management generally depends on impersonal governance mechanisms to complement personal mechanisms. Examples of the impersonal mechanisms used in the supply chain management process include the following:

- Trading partner agreements, distinct from purchasing contracts, that specify goals, procedures, tools and/or metrics for business process improvement (Danese et al. 2004)
- Information systems, many times developed by the customer organization to provide visibility into the supply chain (Cartwright et al. 2005; Leser et al. 2005), occasionally coupled with process redesigns in which the customer organization takes over the process of ordering from second tier suppliers the products that will be used by first tier suppliers (Hammer 2001)
- Data and process standards designed to specify business-to-business communication requirements and to streamline and standardize business transactions (Markus et al. 2006)
- Formalized business practice guidelines, created by industry associations, such as Collaborative Planning, Forecasting and Replenishment (Danese et al. 2004;

Davenport 2005; Markus and Gelinas 2006), which may include references to impersonal governance mechanisms, such as trading partner agreements and the use of particular information systems or standards.

When inter-organizational processes become larger in scope, encompassing more organizations or more organizational types, the need for complex combinations of personal and impersonal governance mechanisms increases. In addition, third parties such as industry associations and trade facilitators are usually pressed to take on more substantial roles. For instance, when the barcode was introduced to facilitate inter-organizational commerce, it became necessary to establish a permanent governance organization to administer the barcode and to test for compliance with technical standards and guidelines (Brown 1997). More recently, organizations such as GS1 are working with industry participants to craft a suitable governance model to spur the adoption and administer the use of radio-frequency identification (RFID). As yet, however, diffusion of RFID standards appears to be hindered by one important element of inter-organizational governance – the pricing of participation in the standards consortium.

## 5 Concluding Remarks

Business processes need governance to ensure their smooth operation and continuous improvement, not just to coordinate their initial design or re-engineering. Business process governance mechanisms can be impersonal or personal, informal or formal. Each governance mechanism has pros and cons. In general, more powerful governance mechanisms are more expensive in money, time, and good will to deploy and maintain. Thus, executives must be aware of the trade-offs in governance design and the benefits of designing a cost-effective governance solution. Often, the most effective approach is to use multiple “light weight” governance mechanisms in combination (e.g., a combination of impersonal mechanisms and formal lateral relations) rather than one powerful intervention (e.g., organizational structure change to create a process organization). Governance becomes both more necessary and more challenging to do well when the scope of business processes increases, particularly when processes cross the boundaries of autonomous legal entities. Although effective business process governance can be challenging to design and expensive to deploy, it is as important for the success of business processes as business process redesign.

## References

- Becker J, Kugeler M, Rosemann M (2003) *Process management: a guide for the design of business processes*. Springer, Berlin
- Brown SA (1997) *Revolution at the checkout counter*. Harvard Business School, Boston, MA

- Cartwright J, Hahn-Steichen J, He J, Miller T (2005) Rosettanet for Intel's trading entity automation. *Intel Technol J* 9(3):239–246
- Danese P, Romano P, Vinelli A (2004) Managing business processes across supply networks: the role of coordination mechanisms. *J Purch Supply Manage* 10:165–177
- Davenport TH (2005) The coming commoditization of processes. *Harv Bus Rev* (June):101–108
- Davis TR (2005) Integrating shared services with the strategy and operations of MNEs. *J Gen Manage* 31(2):1–17
- Galbraith JR (1994) *Competing with flexible lateral organizations*, 2nd edn. Addison-Wesley, Reading, MA
- Grant G, McKnight S, Uruthirapathy A, Brown A (2007) Designing governance for shared services organizations in the public service. *Gov Inf Q* 24(3):522–538
- Hammer M (2001) The superefficient company. *Harv Bus Rev* (September):82–91
- Hammer M, Stanton S (1999) How process enterprises really work. *Harv Bus Rev* (November–December):108–118
- Horan TA, Schooley BL (2007) Time-critical information services. *Commun ACM* 50(3):73–78
- Huiskonen J, Pirttila T (2002) Lateral coordination in a logistics outsourcing relationship. *Int J Prod Econ* 78:177–185
- Kettinger WJ, Grover V (1995) Special section: toward a theory of business process change management. *J Manage Inf Syst* 12(1):9–30
- Leser F, Alt R, Österle H (2005) Implementing collaborative process management—the case of net-tech. *Int J Cases Electron Commer* 1(4):1–18
- Lynn J, Laurence E, Heinrich CJ, Hill CJ (2001) *Improving governance: a new logic for empirical research*. Georgetown University Press, Washington, DC
- Markus ML, Gelinis JUJ (2006) Comparing the standards lens with other perspectives on innovations: the case of CPFR. *J IT Stand Standard Res* 4(1):24–42
- Markus ML, Steinfield CW, Wigand RT, Minton G (2006) Industry-wide is standardization as collective action: the case of the US residential mortgage industry. *MIS Q* 30(Special Issue):439–465
- Rosemann M, de Bruin T (2005) Towards a business process management maturity model. In: 13th European conference on information systems, Regensburg, Germany
- Schooley BL, Horan TA (2007) Towards end-to-end government performance management: Case study of interorganizational information integration in emergency medical services (EMS). *Gov Inf Q* 24:755–784
- Weill P, Soh C, Sia SK (2007) *Governance of global shared solutions at procter & gamble*, research briefing. MIT Sloan School of Management, Center for Information Systems Research, Cambridge, MA