



# Is your business equipped for successful transformation?

Enterprise process governance is a  
critical enabler to business  
transformation

April 2018

# Is your business transformation delivering the intended results?

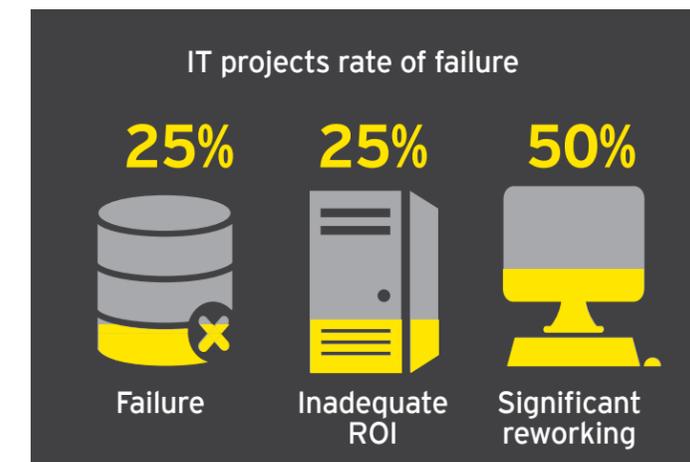
It's a sobering situation: according to market intelligence firm International Data Corporation (IDC), many organizational transformation programs—such as setting up a new Enterprise Resource Planning (ERP) system, or the reconfiguration of a global operating model—fail to deliver the hoped-for results. For example, 25% of IT projects fail outright, 20%-25% of them don't provide an adequate return on investment, and up to 50% require significant reworking.<sup>1</sup> Change projects can fail on so many criteria—including cost, schedule, and quality.

Why the dismal numbers? Some companies cite weak project management and reporting, inadequate focus on the effort, changes in leadership in mid-stride, and poor budgeting as the culprits. There's also the inevitable resistance from people who are heavily invested in the status quo—along with widespread fear of the unknown, plus sheer exhaustion from previous failed

programs that initially seemed exciting. Equally troubling, in some organizations, people view change efforts through a narrow lens (e.g., "It's only a technology project" or "It's just a new leadership structure"). Consequently, they overlook the human side of change—namely, the new behaviors and attitudes required to make the change succeed. What's more,

in all too many companies, people simply don't understand the business strategy behind a transformation effort and the operational changes that will have to be made to support execution of that strategy. Without

such understanding, they may try to over-customize the change approach, processes, and tools for their own ends. At the other extreme, senior leaders may try to force a one-size-fits-all transformation approach on every part of the company.



In EY's experience, Enterprise Process Governance is a critical enabler to business transformation.

<sup>1</sup>Dana Wiklund and Joseph C. Pucciarelli, "Improving IT Project Outcomes by Systematically Managing and Hedging Risk," IDC, 2009. Also see: [http://ibmsystemsmag.com/power/systems-management/workload-management/project\\_pitfalls/](http://ibmsystemsmag.com/power/systems-management/workload-management/project_pitfalls/)

# Wanted: a better way

To overcome these difficulties, organizations must establish a common understanding of their business and who has authority over what decisions. Establishing the governance around the key decisions and processes is crucial to operating effectively. We call this an enterprise process governance (EPG) model. Such a model spells out the way in which people in the organization will decide how business processes should work to meet important requirements and to sustain change beyond the initial implementation. The model clarifies who has decision authority (e.g., a global process owner, a business unit leader) across the end-to-end

(E2E) processes—both new and redesigned—that the change involves. E2E processes stretch across an organization and include sub-processes and activities. Most large, complex organizations have 10 or 12 E2E processes, in such areas as corporate strategy, commercial operations, supply chain, and shared services. (See Figure 1.) The EPG model also delineates the level of decision authority each person has for various parts of an E2E process, drawing on frameworks such as RACI (responsible, accountable, consulted, and informed).

Without clear decision authority on E2E processes, transformative change efforts stand little chance of getting off the ground. They turn into a battle of wits over what the program’s outcomes should be. Discussions about the transformation effort are fragmented throughout the organization, and focus on tactical, not strategic, themes. And people in different parts of the enterprise talk past each other. That’s because there’s no common language (such as process taxonomies for

their business) to use in discussing the processes affecting them all. As a result, the intention behind a change effort often gets lost in translation. Conflicts erupt over who’s responsible for which parts of which processes, and over which process changes will generate the right business value. Under such conditions, any momentum for change that upper management has built up begins to erode. And any hope that the transformation effort will deliver value dies.

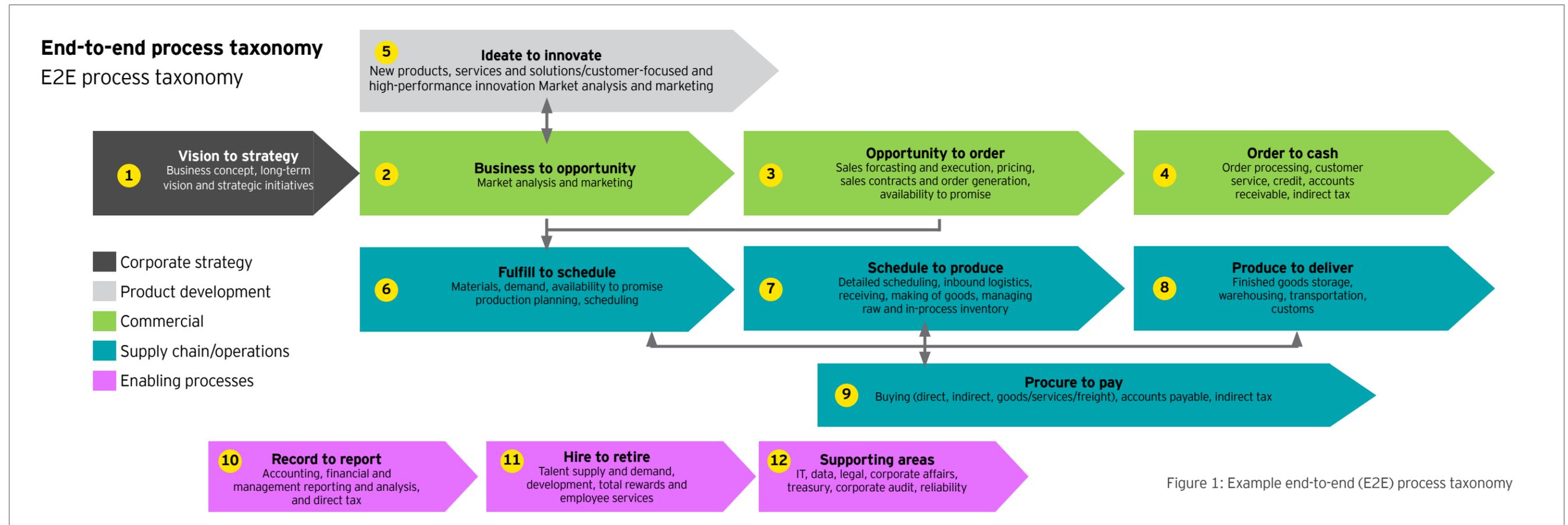


Figure 1: Example end-to-end (E2E) process taxonomy

# Enterprise process governance: the key to successful transformation

It doesn't have to be this way. By putting in place the right EPG model, organizations can effectively execute the business process changes that come with major transformation programs—so the programs deliver the promised business outcomes. A robust EPG model is a vital component in an organization's overall operating model. However, a one-size-fits-all approach to building the EPG model can backfire. Instead, the organization should create an EPG model that drives standardization where appropriate—while also accounting for their unique attributes, needs, and competitive position.

A good EPG model not only guides process decisions and actions but also helps everyone in the organization agree on who should be responsible for which steps in each E2E process. Such consensus, in turn, promotes commitment to and a sense of ownership over the changes the organization seeks to make. As a result, effective management of new or reconfigured processes emerges not from the top down, but in a more organic way—drawing on input from managers and employees throughout the organization.

All of these gains lead to an organizational culture characterized by accountability for results and commitment to ongoing improvement, along with an ability to flex in a changing environment. The result is an enterprise that can reinvent itself to seize opportunities and surmount challenges emerging on the horizon—before rivals can.

complexity of its commercial operations across multiple business units (BUs) by building an enterprise-level lead-to-cash (LTC) capability. By creating the right EPG model for this process, the company was able to define a blueprint and make meaningful progress on a new enterprise-wide operating model for LTC in just months. And thanks to a series

## EPG results in an enterprise that can reinvent itself to seize opportunities...before rivals can.

### Setting up the right EPG model amplifies value in other ways for an organization, too. For instance, it:

- ▶ Helps the enterprise optimize E2E processes to deliver value for the entire organization (such as improved overall productivity or operational efficiency) instead of just a few businesses or functions
- ▶ Fosters a clear vision of E2E processes, so the organization can adopt complex ERP applications and implement new commercial processes across multiple historically siloed operations; results include new cost-saving efficiencies and the ability to exploit fresh growth opportunities (such as through enhanced cross-selling and deeper intimacy with customers)
- ▶ Enables the company to quickly adopt and get the most from IT tools and technologies it wants to incorporate into its business
- ▶ Strengthens business leaders' understanding of the enterprise's commercial engine and focuses their attention on it, so that the engine can better drive execution of the company's strategy and managers don't get distracted by day-to-day operations
- ▶ Helps the organization swiftly integrate new acquisitions and continue running them smoothly with common, established processes
- ▶ Improves decision-making speed and quality while enhancing process controls; that's because decision-makers understand which business requirements the processes they're responsible for must satisfy and what constitutes top-notch performance from those processes

Take Royal Philips, the Dutch conglomerate. By constructing a well-thought-out EPG model, the company was able to execute a transformation program aimed at extracting more business value from its culture of technology-based innovation. The program delivered results including a decrease in the time required to start an innovation project from 5-6 months to just 40 days. IT costs came down by EUR150 million, a considerable share of the company's 25% cost-reduction goal. Top- and bottom-line performance improved significantly in important sectors such as consumer products. And share price doubled.<sup>2</sup>

We've seen similarly impressive results in our work with clients, including the ability to execute a transformation program successfully for the first time, and to improve how different parts of the business work together. For example, one client—a global information services company—wanted to improve operational efficiency and reduce the

of workshops held to communicate the new model throughout the organization, BU leaders swiftly adopted and supported the model. That's because they shared an understanding of how the LTC process worked and what their role was in executing the process correctly. Their engagement in the change effort soared. Equally impressive, the resulting consistency of the LTC process across the organization delivered much-needed cost savings. It also enabled the company to capitalize on new growth opportunities. Specifically, the company was able to enter new markets by leveraging capabilities that already existed in numerous parts of the organization, instead of having to build capabilities from scratch. These achievements all helped set the stage for the executives to launch additional EPG efforts across the company while improvement efforts continued on the commercial front—indicating widespread momentum for change throughout the organization.

<sup>2</sup> Martin Mocker, Jeanne W. Ross, and Eric van Heck, "Transforming Royal Philips: Seeking Local Relevance While Leveraging Global Scale," MIT Sloan School of Management, Center for Information Systems Research, February 2014.

# A closer look at EPG

Sound EPG models establish process decision rights that take into account the complexity of not only business processes but also businesses themselves.

## Addressing process complexity

For each of its E2E processes (and their sub-processes), an organization seeking to build an EPG model must define decision rights for seven key governance elements. These decision rights can be explained using a RACI model, which explicitly clarifies what roles within the organization have what decision-making authority and how they interact with other roles.

### A successful EPG model provides this clarity, across these seven governance elements:

- 1. Process design.** What steps and activities are required to execute the process? What key decisions must be made in the process?
- 2. Delivery model.** Who should execute, or perform, the process (or sub-process)? Where should it be performed (e.g., within a business unit, in a corporate shared service center)?
- 3. Policies and controls.** What must be done to mitigate risks to the company's operations? (For instance, for risk mitigation in the procurement process, how should approvals for different levels of spend work, and how should strategic suppliers be identified?)
- 4. Platforms and technology.** What hardware, software, and other tools will be needed to perform the process?
- 5. Data definitions and standards.** What do the process's data elements mean (including master data), and how should these elements be represented? (For example, what fields are required in our master customer record? What data should go in those fields? And how should we format the data so that people throughout the organization have an integrated view of the customer?)
- 6. Improvement opportunities.** How does the process currently work, and what problems (errors, delays, duplicated effort) does it have? How might the problems be corrected? What are the most efficient and effective process improvement and management practices in our organization? How could we encourage their widespread adoption?
- 7. Performance measurement.** What key performance indicators will we use to monitor the process's efficiency (such as plant utilization percentage or number of record entries made manually)? What indicators will we use to monitor its effectiveness (for instance, return on investment or percentage of customers who are extremely satisfied)?

Ownership of any E2E process is not necessarily all-or-nothing. For an overall E2E process, or for any of its sub-processes or activities, an individual may have strong decision rights over most or all of these seven governance elements – or rights over only some of them. Choices about decision rights should be informed by an understanding of the similarities and differences between the various business models in effect across an organization. As we'll see, the more similar those business models are, the greater a process owner's decision authority will likely be. The more differentiated the models, the more distributed decision rights may be for a particular process.

## Connecting to the organization's business models

In large, complex organizations, different BUs establish their own business models. In simple terms, a business model defines how an organization creates, delivers and captures value. For instance, Royal Philips' business models include those for products (off-the-shelf offerings such as razors in the consumer products sector), services (such as training and maintenance services that Philips provides for certain products it sells), software (for example, a web portal for physicians) and systems (solutions that integrate multiple products, services and software, such as customized solutions for municipal lighting).

In any large organization, each BU also has its own operating requirements. There are the activities the BU must carry out (such as plan, buy, make, sell, deliver) to execute on its business model. Operating requirements influence a BU's choices about its operating model and the levels of authority it assigns to process owners.

An organization's EPG model must reflect the unique blend of similarities and differences characterizing the various business model types currently in use. Business models often share common processes and process requirements. Business models may also need to tailor such processes to meet their distinct requirements. For instance, units that use vastly different business models may execute the hire-to-retain process in the same way but perform the lead-to-cash process in their own unique manner. (See Figure 2.)

## Enterprise Process Model

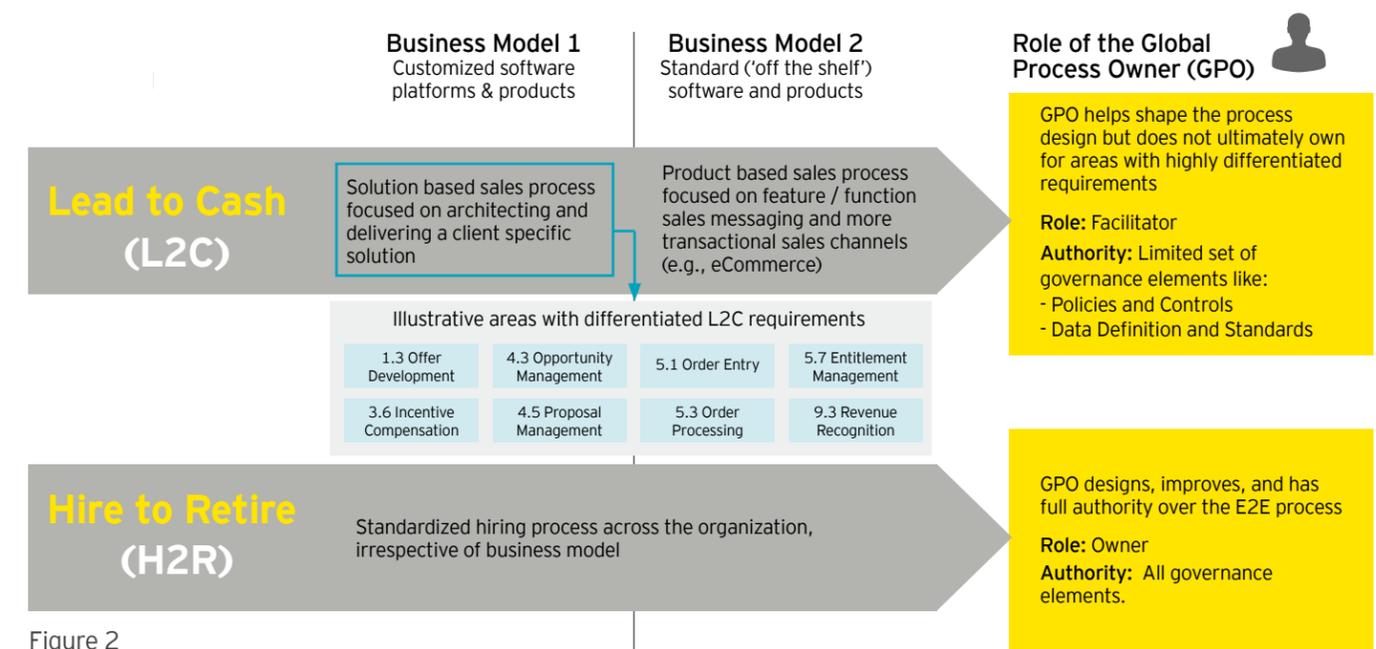


Figure 2

# Aligning on the roles of GPO

## Common processes across business models

E2E processes that are common across different business models are scalable and repeatable, and can be executed consistently across the company. A single, global process owner (GPO) determines where the organization wants to go with that process—the blueprint for how the process should be performed most efficiently and effectively across the enterprise. The GPO also decides how the enterprise plans to achieve those aims.

The produce-to-deliver process in manufacturing is a case in point. Imagine Marla, a GPO who runs a manufacturing plant. She's also responsible for identifying best practices for reducing waste. Marla industrializes these practices by piloting them in one of the lines and identifying and mitigating risks during testing of the new practices. With waste-reduction practices that prove themselves, Marla develops training materials on the process changes and shares them with other plants' manufacturing teams, to teach them how to implement the practices at their plants. As a result, lessons from one plant are applied more broadly across the organization, minimizing waste overall and improving the bottom line. As a GPO, Marla has been empowered to teach other plant managers, and together, they can achieve results that benefit not just their own operations but also the entire company. In addition, the company can now continually monitor waste-reduction processes as they're deployed in all of its manufacturing operations, and make needed improvements.

## Differentiated processes across business models

With highly differentiated E2E processes (those executed in a unique way within a business unit), a BU leader (profit-and-loss owner or functional leader) will most likely retain decision rights on how that process should be executed. He or she would have guidance and input on this from a GPO. The GPO may set some common standards for such processes (such as data definitions). But execution of the processes differs to accommodate the BU's needs and to meet their unique requirements. Wherever possible, though, the GPO identifies steps and activities within the processes that may be used commonly across BUs to achieve efficiencies.

To illustrate, in a big company that sells to businesses as well as to consumers, the B2B and B2C parts of the business must execute the lead-to-quote process differently to compete effectively. This includes accommodating process requirements driven by whether offerings are engineered to order or highly standardized. How the lead-to-quote process is carried out is crucial to the BUs' performance, so the BU, not the GPO, has decision-making authority over process decisions.

## Designating common versus differentiated processes

To determine which new or redesigned processes should be common and which should be differentiated across the company's business models, executives must consider how similar or different the BUs' requirements are, and how crucial a process is to the business's ability to compete. For processes that are essential for a BU's ability to compete, applicable only to that BU's operations (such as those related to operating an e-commerce platform), or critical to meeting compliance and risk management needs, the BU in question should have a stronger process-ownership role. For processes that don't meet any of these criteria (such as corporate reporting), a stronger GPO role is more appropriate.

Clearly, establishing differentiated processes across an organization's business models can deliver important benefits. But this choice comes with tradeoffs. Accommodating process variance requires investment in time, effort and money to evaluate the benefits of such variance and to account for the difference. It also introduces the need for costly infrastructure (such as special systems, data and governance needs). Executives must ask themselves, "What value would we get from managing distinctive ways of executing this new process across our organization? What costs would we incur? What level of process variance should we accommodate to manage these tradeoffs?"

Of course, BU leaders often feel convinced that their unit must manage particular processes in a unique way. Savvy operations executives will challenge the assumption that "we're special, so we need our own processes." They'll ask the BUs to quantify the real value they would get from managing the differentiated process, and help them understand the true costs. If the resulting conversation and data analysis indicate that the value that would be extracted from this approach isn't worth the costs that would be incurred, everyone involved may agree that the new or redesigned process should be moved onto a common platform, under the authority of a GPO. (See Figure 3.) In this way, the process of building an EPG model fosters objective conversations about process needs through the evaluation of business models, versus subjective conversations that can be biased by individual perceptions.

# Processes across business models

This form of collaboration is far more important than it may appear on the surface. With any E2E process, multiple teams within the organization are involved in managing the sub-processes and activities that the process comprises. What's more, these teams are working through decisions that cut across the seven process governance elements. Tensions inevitably arise between teams, as each seeks to optimize its performance on the aspects of the process that it controls. Consider the procure-to-pay process in a food manufacturer and agricultural company. The organization has BUs specializing in diverse activities, including formulating custom-tailored feed for livestock and selling commodities such as wheat. The company's finance team, in managing procure-to-pay tasks that it's responsible for, wants to perform journal entries in a standardized way that achieves cost-saving efficiencies. But that prevents procurement teams working in the different BUs from capturing vendor information that's unique to their BU and essential for inking the most favorable deals with suppliers.

The lesson? The dialogue and analysis required to design an EPG model encourage people throughout the organization to determine how to orchestrate their work so their collective effort delivers the best results for the overall organization—not just their group.

Designing the right EPG model for E2E business processes is a transformative change, one that requires considerable thought and time. Executives must build a clear—and shared—understanding of what their BU requires from such processes. That means articulating what they need from the processes performed in their unit in order to extract the most value from their chosen business model. They have to know which business processes they should share with other units and which should remain unique to their own unit, as well as how local and global process owners can best serve the organization overall. Perhaps most importantly, they must be willing and able to let go of any impulse to optimize their own performance at the expense of other BUs' performance.

It's akin to sports: in football, for instance, an individual running back on Team A can have a very successful 100-plus-yard game and score multiple touchdowns. But if the defense isn't doing their job, Team B may outscore them. The success of any one individual is moot if the team doesn't win. Similarly, the success of any one team or BU at a company is moot if the company can't achieve its goals.



GPO roles	
“GPO helps shape the process design but does not ultimately own it”	“GPO designs, improves and has full authority over the E2E process”
GPO roles vary based on the E2E process and the governance element; e.g., for highly differentiated sales processes, the businesses might have primary design authority across key governance elements with heavy influence and light guardrails via GPO.	

Governance elements	Facilitator	Owner
	Process design	Data definitions and standards
	Delivery model	Improvement opportunities
	Policies and controls	Performance measurement
	Platforms and technology	

Managers who grasp this stand the best chance of helping their organizations capture maximum value from their most important business processes. As a result, they drive transformation of their organization from the inside out. And that form of transformative change will always prove more enduring than change imposed from the top.

The following checklist identifies the key requirements for a successful EPG model:

- ### Process Governance Checklist
- ✓ Do you have a common process taxonomy?
  - ✓ Are all of your E2E processes well documented?
  - ✓ Do you have clearly defined GPO roles?
  - ✓ Do you have clearly defined decision rights and an escalation process to address conflicts?
  - ✓ Do you have robust technology platforms and support to execute processes effectively?
  - ✓ Are your data definitions clearly defined and understood?

Figure 3

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