STRATHCLYDE BUSINESS SCHOOL

EXPLORING THE RELATIONSHIP BETWEEN INTERNAL IT AND CUSTOMERS IN PROFESSIONAL SERVICE COMPANIES: THE ROLE OF FORMAL AND INFORMAL GOVERNANCE

By

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A thesis in fulfilment of the requirements for the degree of Doctor of Business Administration

2013

Copyright statement

Abstract

There is extensive research available covering the governance of intercompany relationships between a company and its external providers. Far less has been done to explore intracompany relations. Most governance models balance formal mechanisms, for example contracts, with informal features, including trust and ongoing personal relationships. The research studies governance models for intracompany relations between Internal Service Providers (ISP) and customers within Professional Service Companies (PSC). Particularly due to knowledge sharing and the relationship with external customers, PSCs tend to favor informal governance like trust and ethical norms.

Transaction Cost Economics and Social Exchange Theory have both been used to explain intercompany relations. This research applies the same theories to intracompany exchanges, but supplements the theoretical framework with IT governance and the particular governance features available within PSCs.

Research methodology uses a multi case approach with data gathering from three country organizations of KPMG. Interviews were conducted with members of internal IT, representing the ISPs, and theirs exchange partners within the business units.

The findings confirm that all case countries use a combination of formal and informal governance to manage their internal relations. What the research also highlights is the lack of a clear strategy within all countries for how to best balance formal with informal governance. The researcher suggests that each company analyses their need for governance to meet regulatory, strategic and operational goals. Formal governance might be required for some goals but can be supplemented or replaced by informal ones in other cases. There is a theoretical implication from successfully applying the theories to intracompany exchanges. Finally, research regarding internal operations within PSCs in general, and governance mechanisms specifically, also benefits from this research.

Acknowledgements

This research project has been a long journey into the unknown but the increased knowledge of intracompany operations and relevant theories made it highly rewarding. This is in particular thanks to the continuous guidance and support from the two supervisors, professors Fran Ackermann and Colin Eden.

Thanks also go to my colleagues within KPMG who have supported me with their time and insight into the particular workings of Professional Service Companies. I am also grateful for the support over the years from my DBA colleagues, in particular Dimitris Di Sandro.

Finally, my wife Maria and two sons, Noah and Sinan, have been nothing but supportive and understanding despite the amount of time I have spent on this personal project rather than with them. This will now change!

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Chapter 1 – Introduction, objectives and structure

1.1 Introduction

In this first chapter the researcher presents the motives behind the research and its objectives. It does so by linking the researcher's role as a practitioner to an actual business problem and argues why addressing this problem adds value to available research and business practice. In addition, this initial chapter provides an overview of each chapter in the thesis.

The motive for this thesis is to better understand how intracompany relationships between IT and customers are governed within Professional Service Companies (PCS). The objective is to explore and explain the use of formal and informal governance. *Formal governance* refers to formal features, where a *Service Level Agreement* (SLA) or other types of contracts are examples. *Informal governance* has a social character and includes, but is not limited to, the use of *power* and *trust*.

1.2 Background and rationale

Companies and other organizations of a certain size and complexity rely on support services like *IT*[1], *finance*, *marketing*, and *human resources* in order to operate (Porter 1985). Internal IT is the subject of this research but "IT" as a concept can mean different things depending on the context. According to ITIL[2] (OGC 2007a), IT can be a *collection of tangible components*, like systems, applications and infrastructure, which enable or are embedded in processes and services (Davis 2000). As such, it can be viewed as a portfolio of assets, both *technical* and *human* (Broadbent, Weill et al. 1999). Secondly, IT can be an *organization* with its own set of capabilities and resources. IT organizations come in various forms, such as *business functions*, *shared services units* or *dedicated service providers* that sell IT services to other companies. IT as an organizational unit can also include intangibles like culture and relationship among the unit's members (Bharadwaj 2000). Thirdly, IT is a *category of services* used by business units. They are typically IT applications and infrastructure that are packaged and offered as services by internal IT organizations or external service providers (Avgerou and McGrath 2007). These services are what internal IT providers offer the rest of the company in their role as internal suppliers. Finally, ITIL lists IT as a *category of business assets* that are used to provide a stream of benefits for their owners, including but not limited to, revenue, income and profit.

The support services that an organization needs to operate can be obtained from units within the organization, from external providers or a combination of both (Hill 2000). The decision to make or buy support services is driven by a number of factors (Slack, Chambers et al. 1998). One example is *cost savings*, which can be achieved by using resources in

[1] This research uses the term "IT" (Information Technology) and not "IS" (Information Systems) to describe IT as an organizational unit and portfolio of services even though both acronyms tend to be used interchangeably among writers.
[2] ITIL (IT Infrastructure Library) is an industry-independent standard for managing IT within companies. The standard has been developed by the OGC – Office of Government Commerce in the United Kingdom.

different locations at a lower cost. Another example concerns *investment reduction*, where capital intensive investments can be avoided by obtaining services from external vendors. Thirdly, companies can choose to *focus on where they differentiate* from their competitors and outsource any activity that is not part of their core business or competences. Once the decision is made to obtain support services internally, understanding and being able to manage the relationship between internal service providers and their customers becomes important. First of all, the supply of internal services can have a direct impact on companies' ability to operate efficiently (Marshall and Baker 1998). Secondly, speed of delivery through the distribution channels and the quality of the service and support systems are more important than price as order winning criteria (Quinn, Doorley et al. 1990). Several examples are available as to how internal marketing and service management can have a positive influence on the quality of products sold to the end-customers (e.g., Grönroos 1984; George 1990; Gummesson 1991). Thirdly, the management of intracompany relationships is relevant from a cost management perspective. In a study Vandermerwe and Gilbert (1989) found that the cost of providing internal services in the 1960s made up about 50 percent of a company's operating costs but 20 years later this had increased to 70 percent. Even though the numbers are based on old data and various types of cost optimizations have propbably reduced the cost of running internal services over the years, internal operations still constitutes a major expense for most organizations.

There are a number of factors involved in establishing and maintaining the relationship between the internal customers and service providers. Decisions must be made as to what type of business model the service providers should use. Are they profit-based or cost-based? Do they provide all services in-house or use external partners? Where is the head of the service provider placed in terms of reporting lines? How much of an allocated budget can be managed at the service provider's discretion? These questions all relate to how the relationship between the two intracompany parties is managed. In this research there is a

particular focus on how much control the customer exercises towards the service provider to ensure the services are provided at an agreed – or expected – level of quality. The opposite is none or limited control, which assumes a level of trust between the two parties that services are provided at the same price and similar quality despite the absence of control. The theoretical framework for both options follows in Chapter 2.

The research studies the relationship between intracompany IT and their customers within three European country organizations of a Professional Services Company[3] (KPMG). These relationships represent the *research phenomena*, also referred to as the *research subject*. Internal IT, representing the *service provider*, and the internal business units as *customers*, serve as *research units*. The decision to use internal IT as a research unit was driven by personal, as well as practical and objective reasons. The researcher has worked as a manager within an internal IT service organization both prior to and during the research project. In this function he has been able to observe and manage relationships with internal customers for more than 15 years. One of the observations made as a practitioner is that there are a multitude of models for managing intracompany customer-supplier relationships. This is despite available best industry practices, such as ITIL. In the case of rather loose organizations like Professional Service Companies, the model might even differ among sub-units (e.g. country organizations). One further observation is that intercompany customer-supplier relationships tend to be more explicit, that is formal, than those managed within organizations. As Chapter 2 will show, there is a transaction cost linked to the level of formal governance used to manage business relationships. This also applies to intracompany relations. Still, and this again based on observations, many organizations do not make conscious choices as to how much formal governance is required and what the alternatives are. The above observations from a career as a practitioner were what motivated the researcher to explore the underlying drivers for different practices. Using this understanding,

[3] Professional service companies will be discussed in Chapter 2.

acquired by applying relevant management theory to several cases, would allow the researcher to appreciate the different strategies used. It would also provide the basis to suggest better balanced governance models, which follow conscious decisions. Finally, the research would test the relevance and robustness of the chosen theories.

Research on managing intracompany relationships has gained more interest over the last 10 years or so (e.g. Luo 2002; Poppo and Zenger 2002; Corts and Singh 2004; Lazzarini, Miller et al. 2004). As will be argued in the next chapter, most of this research is normative with a focus on why different types of governance should be practiced. In terms of descriptive research, with suggestions as to how internal relations could be better managed, the research is very scarce. The discussion in the next chapter will use theories that are mainly applied to intercompany relationships, but argue why these are also applicable to study internal relations.

Based on both relevance and availability, the decision was made to conduct the research with the author's employer (KPMG). Despite introducing obvious challenges to the researcher's objectivity during the research project there were at least two factors in favor of this approach. One was the ease of access to data sources, both primary in terms of people as well as secondary regarding written material. The second motivating factor was the close link between theory and practice, and in particular the opportunity to later apply findings from research directly into practice. Due to the federal structure of KPMG, with a high degree of autonomy of each country's organizations, selecting three different country organizations ensured a degree of variance and generability. The partner ownership structure within PSCs was also deemed interesting as it is assumed to have a different impact on a company's internal governance model than what would normally be the case within public companies (Greenwood, Hinings et al. 1990; Brown and Cooper 1996). Finally, due to the private ownership model there was generally less available known-how on governance models within Professional Service Companies (Jenkins, Deis et al. 2008).

1.3 Thesis overview

The thesis is organized into four sections; theory, methodology, case studies, and the implications of the findings on both theory and practice. The next chapter provides a *theoretical framework* to the intracompany relationships. It starts by discussing intracompany markets and the roles of internal customers and service providers. The chapter then continues with an overview and critique of writings related to the relationship between the two internal parties. *Transaction Cost Economics* (TCE) (Coase 1937; Williamson 1979; Ouchi 1980; Williamson 1983; Williamson 1991; Ghoshal and Moran 1996; Williamson 1996; Coase 1998), and *Social Exchange Theory (SET)* (Blau 1964; Ekeh 1974; Cook and Emerson 1978; Anderson and Narus 1984) are used to explain formal and informal forms of governing relationships between customers and suppliers, in this case service providers. The chapter also includes a section on *Professional Service Companies* (PSC) and in particular how the characteristics of PSCs might impact the governance model applied to intracompany relationships. Chapter 2 concludes by listing five *research questions*, which guided the research project. The *research methodology* is covered in Chapter 3 and includes three areas: *research philosophy*, *research design* and *data management*. Chapters 4 to 6 each present the findings from the *case study* research conducted with KPMG in the United Kingdom, Switzerland, and Germany. In Chapter 7 the findings from the three cases are compared with and contrasted to each other, where variances are identified and discussed. Chapter 7 also includes a reference back to the research questions raised at the end of Chapter 2. Finally, Chapter 8 reflects on finding's impact on theory and practice in addition to the overall research process and further research.

1.4 Summary

This chapter has presented the choice of research topic by linking an actual problem within intracompany relations to available theories. The role of Internal Service Providers (ISPs) in general and internal IT organizations in particular was briefly presented. This helped to position the research subject, which is the relationship between ISPs and their customers. The next chapter will discuss the characteristics of intracompany relationships and argue why and how elements from *Transaction Cost Economics* and *Social Exchange Theory* can be used to study this particular type of relationship. The next chapter will further introduce *Professional Service Companies* (PSCs) and how some of their characteristics might impact on the intracompany governance model.

Chapter 2 – Theoretical framework for formal and informal forms of intra-company relationships

2.1 Introduction

In Chapter 1 the role of internal services with a focus on IT was presented. This chapter will expand on how the relationship between internal customers and service providers is managed in terms of governance. *Transaction Cost Economics* (TCE) and *Social Exchange Theory* (SET) are used to establish a theoretical framework for studying intracompany relationships. Due to the particular nature of both internal IT organizations, as well as Professional Service Companies (PSCs), writings covering these two subjects are also included. Before establishing the theoretical framework, the chapter describes internal services and markets in more detail. The chapter ends with the formulation of five research questions, which guided the choice of research method.

The topic of governance was chosen for two reasons. First, corporate governance has long been been used to address weaknesses in many types of business relationships. When owners do not have the time or understanding to control management decisions, they (the owners) might need control mechanisms to ensure management act in the owner's interest. This particular aspect of relationship between owners (principals) and management (agents) is referred to as an *agency dilemma* (Coase 1937; Jensen and Meckling 1976; Fama and Jensen 1983a; Fama and Jensen 1983b). In essence, the agency dilemma addresses the balance of control versus trust, including how much additional cost can be accepted to apply control mechanisms. An agency dilemma can also occur in intracompany relationships. Senior management, mainly the CEO and the management team, represents the principal. *Internal Service Providers* (ISPs) are the agents who operate on the management's behalf. Even within companies and organizations, controlling an ISP can be difficult. Technical complexity or geographical distances are just two challenges. In inter- as well as

intracompany relationships, applying a level of control might be necessary to ensure that the agent is operating in the interest of the principal.

The second motive for choosing governance as a research topic was a related argument. As will be presented in this chapter, each type of formal control carries an associated cost, for example negotiating contracts or providing dedicated service management teams. Industry practices concerning IT management suggest the use of formal governance within intracompany relationships with little focus on the associated costs. As a practitioner of IT management, including budget responsibilities, there is a practical motive in exploring types of intracompany governance. By gaining a better understanding of governance models and balancing formal and informal governance, the researcher should be able to optimize cost-benefit for his own governance responsibilities as well as advicing other organizations.

The concept of *governance* will be discussed and defined in more detail later in this chapter. For initial clarity, *governance* is understood as *mechanisms to ensure the desired outcome of a business exchange*. The definition is suggested by the researcher and mainly draws on the agency theory. As argued above, the agency theory was developed to find a way for the principal to control the outcome of the agent's actions (Mason and Slack 2005). The initial definition does not mention which type of governance to apply. Rather, the word "mechanisms" implies a conscious choice and strategy by those involved in the exchange.

The parties involved in the exchange applicable to this research are internal customers and service providers. Further, the research refers to both *informal* and *formal* forms of governance. Informal forms (also referred to as *relational*) are features that were not established with the explicit purpose of governing the exchange. Examples of informal governance are trust, power and personal relationships, all of which will be further discussed in this chapter. Formal, or *contractual*, governance are explicit mechanisms like contracts and processes applied to the relationship. Formal and informal governance are discussed

extensively within *Transaction Cost Economics* (TCE) (Coase 1937; Williamson 1979; Ouchi 1980; Williamson 1983; Ghoshal and Moran 1996; Coase 1998) and *Social Exchange Theory* (SET) (Blau 1964; Ekeh 1974; Cook and Emerson 1978; Anderson and Narus 1984). *TCE* discusses how to obtain goods and services and tries to calculate the associated transaction costs from purchasing versus in-house production. The theory promotes choosing the option with the lowest transaction cost. In both cases any formal mechanisms used to govern the exchange generate transaction costs. Social Exchange Theory focuses on informal features, including power and trust, and the relationship between the individual actors involved in the exchange. As the discussion below will show, hybrid models with elements from both theories are also possible.

To help illustrate the scope of the research, Figure 1 shows the relationship between intercompany and intracompany governance. Basically, the two governance mechanisms – formal and informal – are applicable to both types of relationships. The difference is that one addresses the relationship between companies, whereas the other limits the scope to company-internal dealings.

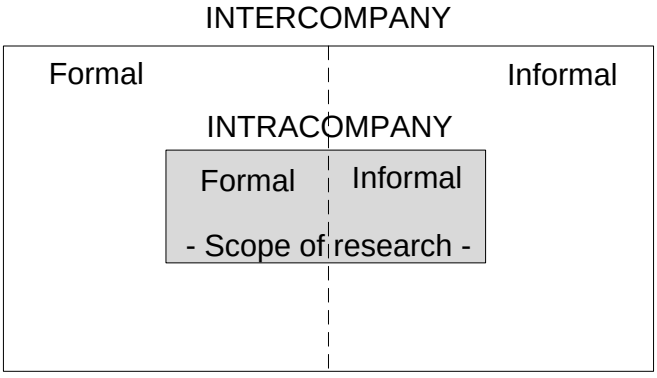

Figure 1: Formal and informal governance within inter- and intracompany relationships

2.2 Intracompany markets, customers and service providers

2.2.1 Introduction to business relationships

Within both inter- and intracompany markets, customers and service providers are engaged in a *business relationship*. Business relationships are understood as being "*mutually oriented interactions between two reciprocally committed parties*" (Håkansson and Snehota 1995, p.152). Hence, the relationship is based on a two-way interaction (mutually oriented) where both parties are committed to each other (reciprocally committed) within the exchange. In order for a relationship to develop the interaction must be ongoing (Dwyer, Schurr et al. 1987; Holm, Eriksson et al. 1996; Lambe, Wittmann et al. 2001) as opposed to one-off transactions. The relationship covers the exchange of goods and services, but obviously includes the interaction between individuals as well (Lambe, Wittmann et al. 2001). This means that factors like interpersonal relationships and social characteristics are relevant when studying business relationships (Backhaus and Buschken 1997).

However, before exchanges can develop into social relationships, they must first mature over several phases. According to Dwyer *et al.* (1987), business relationships evolve over five distinct phases: *awareness*, *exploration*, *expansion*, *commitment* and *dissolution*. The five phases and their characteristics are displayed in Table 1. The first phase, *awareness*, refers to party A's recognition that party B might be a potential future exchange partner. During the awareness phase there is no direct interaction between the parties. Once the parties have recognized and accepted each other as potential exchange partners, the relationship moves to the *exploration* phase. Here the partners first consider potential obligations, benefits and burdens and the probability of an actual exchange. Some trial purchases might take place in order to test out the partner's responsiveness, quality and so forth. If a relationship is established during the exploration phase it can further *expand*. Both the benefits obtained by the exchange partners as well as their interdependence increases during this phase. The degree of satisfaction with the other party decides whether or not the

relationship will continue expanding (Blau 1964; Frazier 1983a; Frazier 1983b). Achieving a high level of satisfaction deepens the relationship and also reduces the need and desire for alternative partners (Frazier 1983b). This again lowers the transaction cost associated with searching for and evaluating alternatives (Williamson 1981). Developing from expansion, the relationship moves towards a form of *commitment* between the partners. The focus moves from testing alternative partners towards a continuous development of the existing relationship (Scanzoni 1979). Three criteria are relevant when measuring type and level of commitment (Scanzoni 1979): *inputs*, *durability* and *consistency*. It is expected that parties provide a high level of *inputs* into the relationship (Blau 1964). Inputs can be both economic and emotional, covering time and resources. The relationship must also prove to be durable over a longer period of time. Durability assumes that the parties are able to discern the benefits resulting from the exchange and trust that these benefits will continue in the future. Finally, consistency is about predictability and expectations that the other party will continue to provide sufficient inputs to the relationship. The fifth and final phase is when the parties have decided to *dissolve* the relationship during or after any of the four previous phases.

Phase	Characteristics
Awareness	Recognizing the other party's potential
Exploration	Exploring the other party's potential
Expansion	Expand benefits and dependencies
Commitment	Implicit and explicit commitment
Dissolution	Abrupt or phased-out

(Based on Dwyer, F. R., P. H. Schurr, et al. 1987)

Table 1: Phases and characteristics of relationship development applied to intracompany relations

When applying Dwyer *et.al.'s* five phases (Table 1) to intracompany relationships, not all phases are equally relevant. *Awareness*, and to some degree *exploration*, are not applicable to intracompany relationships between customers and service providers. This is because intracompany relations are per default between parties already defined. Still, intracompany relationships can be expanded, both functionally and geographically and even dissolve in the case of a full outsourcing. In other words, some of the phases are applicable to intracompany relationships but with a partly changed scope. The phase the researcher considers to be *most relevant for this research* is the *commitment* phase. This is the ongoing exchange of goods and services, which also resembles a long-term intercompany relationship. As with intercompany relationships, the customer and service provider can apply both formal and

informal governance mechanisms to manage their business exchanges. These mechanisms are discussed after providing a more general overview of intracompany relationships.

2.2.2 Internal markets, customers and service providers

The majority of extant writing regarding the relationship between customers and service providers focuses mainly on intercompany relations. Writing related to intracompany relations covers first of all the role internal services should have in catering for the company's external customers (e.g. Porter 1985; Gummesson 1994; Heskett, Jones et al. 1994; Lings and Brooks 1998; Ballantyne 2003; Lings 2004). This also addresses how external service quality relies on the quality of internal services. This is based on the idea that products and services to the end-customer are produced along a value chain, where each involved party impacts upon the end-result. By treating internal customers similar to external ones, it is assumed that the service quality will improve (Vandermerwe and Gilbert 1989; Davis 1991). Well functioning intracompany relationships are also seen as a prerequisite for effective exchanges with the external market (George 1990; Pfau, Detzel et al. 1991).

The concept of companies treating their internal operations similar to their dealings with the external market started to emerge in the late 1980s (Bowen and Greiner 1986; Vandermerwe and Gilbert 1989). Both production and service companies saw the focus shifting from price and availability towards quality and support as order winning criteria (Quinn, Doorley et al. 1990; Soteriou and Zenios 1999). TQM – *Total Quality Management* – was introduced as a method to ensure that all parts of the production chain were included in the process. TQM also led to an increased focus on marketing activities within the company (Oakland 1989; Christopher, Payne et al. 1991). Sasser and Arbeit (1976) went as far as to state that the most important market of a service company is the internal one.

The writings concerning the role of internal markets and services have been mainly *normative* with more focus on the *why* than the *how*. The next section will seek to cover the

main ideas of internal services and customers from both a *descriptive* (what) and *instrumental* (how) perspective as this is deemed to be more relevant to the research topic.

One of the first classifications of *internal services* was provided by Sayles (1964) who distinguished between *workflow*- and *service relationships*. Workflow relationships are pre-defined processes where work packages are handed over from one team to another until the product is finished. Multiple work processes running in parallel and packages being handed over to the customer characterizes service relationships. These packages can be either continual, like ongoing support, or one-time as in a project delivery. Davis, (1992; Davis 1993) expanded on this categorization and identified three types of internal services; *workflow relationships*, *support, service and advice* and *audit and evaluative services*. This classification is also used by Stauss (1995), who in addition pointed out that support and advice services include both standardized (e.g. repairs and maintenance services) and customized services (e.g. internal consulting).

Table 2 uses Stauss' (1995) description, which are modifications of those described by Davis (1993), of the three types of internal services with examples and potential issues with each type. The common theme with both authors is to ensure that services are provided to satisfy the internal customers, and thereby the whole company, rather than being treated and measured as a means to itself.

Characteristics	Workflows	Service chains	Audit / evaluation
Potential issues	** Each department pursues their own goals * Lack of understanding of overall goals and strategy*	** More focus on own production goals than the need of the (external) customer*	** Audited unit don't expect a reward from supporting the auditor * Outcome often regarded as punishment*
Suggested responses	** Treat each department as a customer * Focus on external customer as ultimate goal*	** Aligned with company's overall goals * Benchmark against external suppliers*	** Treat audit as an internal service*
Examples of functions / processes	** Hire/leaver process * Procurement*	** Support services (e.g. IT, facility management, HR) * Advice services, internal consulting*	** Quality control * Internal audit*

(Based on Davis 1993; Stauss 1995)

Table 2: Characteristics of internal service providers

The classification of internal services provided by Davis (1993) and Stauss (1995) is useful in identifying the potential issues surrounding service provisioning but does not provide an answer to how internal services should best be organized. Vandermerwe and Gilbert (1989) provide four alternative models for organizing internal service providers and their relationship with the customers (Table 3). Among the models, the most mature sees the service provider as being *market driven* (Vandermerwe and Gilbert 1989). The reason why will be provided later, in particular when discussing the cases. The model assumes various degrees of *alignment* between the customer and internal service provider, with a market driven ISP being highly aligned. According to the model, *receivers* and *providers* become *buyers* and *sellers*. Further, the seller aims to understand the buyer's business and motives to support the company's value generation.

Approach	Focus	Information flow	Role of buyer	Role of seller	Relationship between buyer and seller	Types of services
			Charge-oriented			
Accounting	*Cost*	*One-way* ** From provider to receiver through charging channels*	** Choose amount of service* ** Absorb cost*	** Produce lowest costs*	*Rigid* ** Low customer commitment* ** Financially based*	** Undifferentiated* ** Commodity*
			Information-oriented			
Organiza-tional	*Information*	*Channeled* ** From receiver to provider*	** Ask for service* ** Provide specifications*	** Process information* ** Deliver specialist services*	*Structured* ** Defined relationship* ** Task-oriented*	** Specialist / technical* ** Differentiated*
			Manufacturing-oriented			
Operational	*Efficiency*	*Filtered* ** Through "service factory" from provider to receiver and vice versa*	** Standardize needs* ** Design offering from standard services*	** Design service manufacturing systems* ** Produce efficient services*	*Periodic* ** Limited involvement* ** Process-based*	** Standardized* ** Minimum differentiation*
			Needs-oriented			
Market driven	*User and usages*	*Two-way* ** Between buyer and seller, and market*	** Specify needs based on uses and usages* ** Use internal services effectively*	** Access user and final market needs* ** Deliver value*	*Ongoing* ** Flexible* ** Market-based*	** Mass customized* ** Differentiated when needed*

(Based on Vandermerwe and Gilbert, 1989)

Table 3: Approaches for managing internal services

In order to discuss the roles of *buyer* and *seller*, one can translate them to *internal customers* and *service providers*. Internal customers are any member of an organization receiving products and services from other members of the same organization (Nagel and Cilliers 1990). Internal services are provided by one unit to other units within the same company (e.g. Witt 1985; Witt 1988; Nagel and Cilliers 1990; Marshall and Baker 1998). They are "*behind-the-scenes routines, procedures, and activities that provide the necessary support to the company's more visible functions*" (Davis 1991, p.5). The concept of internal services is that one department receives work from other departments. This work is processed and might also require input from other departments (suppliers). The output is delivered back to

the internal customer. Internal departments can therefore operate both as customers and suppliers (Farner, Luthans et al. 2001).

The focus on the internal market and customer, in particular when these are treated favorably by the external customers, has been met with critique (Harari 1991; Rafiq and Ahmed 1993; Lings 2000). Rafiq and Ahmed (1993) list a number of potential problems with the concept, including lack of freedom of choice and diversion of focus. First, the product that employees "buy" might not be what they want but rather what is decided by the provider. Picture IT standard products like a PC or printer, which are often purchased by the IT department in bulk and fixed as a standard over several years. Second, in most cases the customer has no choice regarding where to buy the product. Nagel and Chilliers (1990) point out how internal customers are locked in with their internal suppliers. This monopoly-like situation can be misused by the internal suppliers with a "take-it-or-leave-it" attitude towards their internal customers (Albrecht 1990).Third, Rafiq and Ahmed (1993) question what the consequences are of promoting the internal customer ahead of the external ones as suggested by Sasser and Arbeit (1976) as this "*would appear to invert one of the most fundamental axioms of marketing, namely that the external customer has primacy*" (Rafiq and Ahmed 2000, p.451). Harari (1991) points to the inherent conflict when too much focus is given to the internal customer if this comes at the expense of the external, and paying, customer. The main issue raised by Harari is the lack of critical assessment of the internal unit's contribution to the company's overall service offering. It is all well and right that unit A provides a good service to unit B, but the question is if unit B should be served in the first place if other units provide a bigger contribution to the company's results. Related, Lings (2000) points out the dangers of viewing internal customers and suppliers as homogenous groups. Finally, there is also limited empirical research done to confirm a positive relationship between internal marketing and improved service quality (Lings 2000). The research scope does not cover the strategic role and value of internal services. Rather, it

accepts that most organizations produce services internally and looks at how the "internal market" operates.

Overall, there are a number of similarities between the external and internal market, and the management of internal markets can have a positive influence on how external customers are treated. One of the main differences between the two types of market is the extent to which internal customers can choose alternatives if they are not satisfied with their internal service providers. This would rather stress the need for management to structure its ISPs to ensure a good alignment.

This section has provided an introduction to internal markets, customers and service providers. The literature provides some recommendations as to how internal service provider should be organized and managed to best serve the company's strategy.[4]

Different operational models impact on how the intracompany relationship between customers and service providers work. Ultimately, the internal customer must ensure that services are provided according to an agreed price and specifications. This puts the focus on the relationship between the two internal parties which will be covered next.

[4] As will be covered later, this instrumental "how to" is mainly found in non-academic literature. The discussion later will introduce operational standards like ITIL and COBIT.

2.3 Formal and informal governance of intracompany relations

2.3.1 Introduction

Moving on from the discussion on internal markets, this section looks at the governance of the business relationship with a focus on intracompany relations. It starts with an introduction to governance and how specific *IT governance* relates to more general *corporate governance*. Thereafter, *formal* and *informal* governance mechanisms are discussed in more detail. The section also covers how formal and informal governance can be combined. The objective is to identify relevant mechanisms used as formal and informal governance.

Governance refers to formal and informal rules of exchange between partners (Nickerson, Hamilton et al. 2001; Wathne and Heide 2004; Griffith and Myers 2005). It can be explained as *"the means by which order is accomplished in a relation in which potential conflict threatens to undo or upset opportunities to realize mutual gains*" (Williamson 1996, p.12). Hence, governance addresses risks against reduced value to one or both parties of an exchange (Aulakh and Gençtürk 2008). As mentioned at the start of this chapter the research uses a similar but simpler definition where governance is defined as "*mechanisms to ensure the desired outcome of a business exchange".*

Within extant literature, two main strategies have emerged for providing an efficient governance mechanism (Griffith and Myers 2005). One concerns formal mechanisms, (Ouchi and Maguire 1975; Ouchi 1979; Eisenhardt 1985) including contracts, (Lusch and Brown 1996) and other forms of control. The other relies on relational governance, for example relational norms (Heide and John 1992) and trust (Ring and van de Ven 1992; Das and Teng 1998; Faems, Janssens et al. 2008). The concepts have been described as either *formal* or *social controls* (Gulati and Singh 1998; Fryxell, Dooley et al. 2002; Inkpen and Currall 2004). Within this thesis the terms *formal* and *informal* governance are used.

Governance, as a concept or activity, is used and defined in many different ways. One concerns the difference between *corporate governance* and *relationship governance*. Relationship governance is the topic for this thesis, whereas corporate governance will be discussed next. Further, governance as a management tool to align IT with overall business objectives has also been subject to extensive research. This will also be discussed further down. *Corporate governance* was originally seen as a response to the *agency problem* (Coase 1937; Jensen and Meckling 1976; Fama and Jensen 1983a; Fama and Jensen 1983b) as it addresses "*the ways in which suppliers of finance to corporations assure themselves of getting return on their investment*" (Shleifer and Vishny 1997, p.737). The agency problem occurs when ownership of a company is separated from the daily management (Shleifer and Vishny 1997; Ardalan 2007). Governance mechanisms can be used to regulate management to ensure they act in the interest of the owners (Aguilera, Filatotchev et al. 2008). Available mechanisms are, for example, *contracts*, *monitoring*, and the use of *incentives* (Ardalan 2007).

As briefly mentioned in Chapter 1, the agency problem is indirectly applicable to intracompany relations between customers and IT as well. This is because the company's management, here representing the principal, often does not have the resources or know-how to monitor the delivery of highly specialized service products. Contracts, in the form of Service Level Agreements (SLAs), can be used as a governance mechanism but this assumes there are people on the principal side who can control performance against an SLA. For monitoring to be effective the party conducting the monitoring must be experts in the area being governed (Cohen, Krisnamoorthy et al. 2002). Due to difficulties the management might have in monitoring IT's performance, internal IT have a potential room to maneuver and make strategic decisions. Shleifer and Vishny (1997) refer to this as having discretion over the investor's funds – or in this case the company's resources. As a response, a more specific governance model for IT has been developed (e.g. Sambamurthy and Zmud 1999;

Peterson 2004; Rau 2004; Smith and McKeen 2006; Xue, Liang et al. 2008; De Haes and Van Grembergen 2009; Willson and Pollard 2009). It is summarized by the IT Governance Institute (2001) as "*an integral part of enterprise governance and consists of the leadership and organizational structures and processes that ensure that the organization's IT sustains and extends the organization's strategy and objectives*" (ITGI 2001). In other words, IT governance aligns IT to the overall objectives of the company (Luftman and Brier 1999; Kearns and Sabherwal 2006/2007; Huang and Hu 2007). The governance mechanisms which can be extracted from the definition of IT governance are *leadership, organizational structures* and *processes*. These are explicit mechanisms which can be observed (if available) and measured. In addition to using governance mechanisms to achieve alignment it has been suggested that a focus must be on how to organize IT (Mata, Fuerst et al. 1995; Powell and Dent-Micallef 1997; Marchand, Kettinger et al. 2000; Peppard 2001). This is opposed to the pure technical operation of IT services and infrastructure. Both governance and organization relate to the overall research subject: the business relationship between internal customers and service providers, represented by internal IT.

Figure 2 shows the hierarchy of governance models discussed in this sub-section where IT governance represents a part of the overall corporate governance. Further, the governance of the relationship between the customer and IT operates within the context of both IT- and corporate governance.

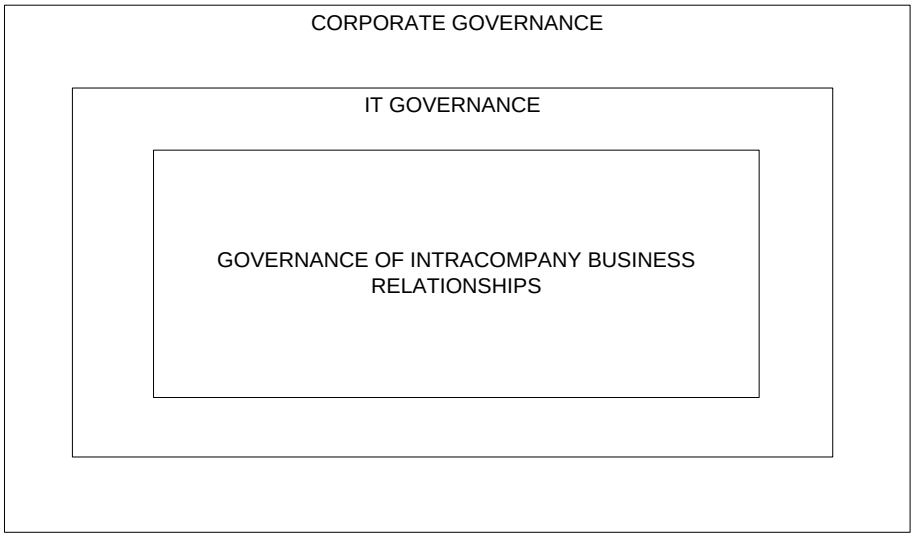

Figure 2: Governance models applicable to intracompany relations

Since the research focuses on intracompany relationships, any "desired outcome" of the relationship must be defined by the customer, which again should be driven by the company's overall objectives. In summary, *the intracompany exchange of resources and services is what produces desirable outcomes and governance is tools used to secure an efficient exchange towards meeting these objectives*.

Before discussing formal and informal governance mechanisms in more detail, the concept of *control* deserves some clarifications. This is partly because it is intimately linked to the concept of governance but also due to the many different uses of the term. On a conceptual level, and linked to organizational theory, control can be understood as the sum of interpersonal influence relations in an organization (Maguire 1999). That is, how individuals within an organization manage to influence each other. This can be both through controlling people as well as processes. There are also more specific forms of organizational control. Some forms of control have emerged as more relevant to large organizations, referred to as: *bureaucratic*, *clan* and *concertive* (Ouchi 1980; Barker 1993). Each describes different ways in which employees are told what to do, how to do it and how long to take (Maguire 1999). *Bureaucratic control* structures work through assigning positions to each

specific task, including responsibilities and a level of authority. Bureaucratic control is mainly used when tasks are routine and the external environment is stable. *Clan control* refers to a company's culture and relies on a system of shared goals, values and traditions in regulating employee's behavior. It is recommended when non-routine tasks are performed in an unstable environment (Ouchi 1980). Finally, *concertive control* (Barker 1993) is achieved through normative rules defined by the members of self-managed teams.

Another control concept refers to internal control (Fadzil, Haron et al. 2005). The objectives of using internal control are several, including compliance with policies, plans, procedures, laws, regulations, and contracts (Fadzil, Haron et al. 2005). Hence, internal control resembles bureaucratic control.

The next two sections discuss more specifically the governance of intracompany relations. Formal governance, drawing on writings from TCE, is followed by a discussion on SET and informal governance. The purpose is not to position the two theories against each other. Rather it reflects the researcher's assumption that intracompany relationships are governed by combining both formal and informal mechanisms. This is based on the researcher's experience as a practitioner within intracompany relationships. By describing each area, applying it to intracompany relations in general and professional services specifically, a better understanding of intracompany governance should emerge. This understanding, with its corresponding research questions, will be subject to empirical testing through field research.

2.3.2 TCE and formal governance of intracompany relations

Transaction Cost Economics (TCE) (Williamson 1979; Williamson 1985) has been one of the dominant schools within business and management theory (Barringer and Harrison 2000; David and Han 2004). TCE focuses on transactions of goods and services. It concerns how organizations should "*organize its boundaryspanning activities so as to minimize the sum of its production and transaction costs*" (Barringer and Harrison 2000, p.369). Transaction

costs include "*the costs of gathering information, negotiating contracts and protecting against the risks of 'opportunistic' bargaining*" (Malone, Yates et al. 1987, p.485). Risk refers to the other party withholding information or underperforming against an agreed performance level (Clemons, Reddi et al. 1993). There are also opportunism risks where one party takes advantage of the other's reduced or lost bargaining power, for example from reduced liquid assets. Safeguarding against opportunistic behavior is, according to TCE, done through the use of governance mechanisms (Williamson 1996).

Transactions have attributes that influence the choice of appropriate governance mechanism (Williamson 1985). These attributes are referred to as *frequency*, *asset specificity* and *uncertainty* (Williamson 1985). *Frequency* are recurring exchanges as opposed to one-time. IT services like access to the Internet or running applications on a PC are examples of recurring, or ongoing, exchanges where services are consumed continuously. Delivering a project is a typical one-time exchange with a dedicated governance structure, including budget, contracts, list of deliverables and project sponsors. *Asset specificity* concerns the degree assets are used in a transaction which are proprietary for that particular exchange or, alternatively, could be redeployed elsewhere (Williamson 1991). Asset specificity also impacts on the control an organization can have over others (Heide and John 1990; Poppo and Zenger 2002). If, for example, a supplier invests heavily in the production infrastructure needed to serve a specific customer, the supplier can end up being dependent on that customer. Intangible assets like processes and knowledge can also cause dependency (Zaheer and Venkatraman 1995). The same principle regarding asset specificity applies when specific knowhow or complicated processes might prove difficult to redeploy in exchanges with new customers (Walker and Poppo 1991; Zaheer and Venkatraman 1995; Poppo and Zenger 2002). Within an internal IT organization there might be members with profound know-how of business processes, supporting IT solutions, and good relationship skills. These are intangible assets which are difficult to replicate in case of, for example, an outsourcing.

Transaction specific investments can be made by both the customer and supplier (Heide and John 1990). Investments made by the supplier are referred to as *supplier asset specificity*, whereas customer-specific investments are called *buyer asset specificity* or *reciprocal investments* (Vandaele, Rangarajan et al. 2007). Reciprocal investments can lock the partners in the relationship but can also be seen as a signal of commitment (Williamson 1985). In the case of intracompany relationships, reciprocal investments are of less relevance, as all assets are ultimately under the control of the customer. Internal IT might invest in infrastructure but the ownership of these assets lies with the company and not the IT unit. Contractual governance to protect investments is therefore not required. Reciprocal investments are still a relevant concept in the relationship when the company is seen as the unit rather than focusing on the ISP or customer separately. Large investments in building up IT infrastructure and know-how to support internal applications and processes are likely to increase switching cost to an external supplier for the same service. Should a change of supplier take place, contractual governance might play a more important role in order to protect investments made by both parties. Finally, *uncertainty* relates to environmental (*external uncertainty*) and behavioral (*internal uncertainty*) aspects (Rindfleisch and Heide 1997; Cannon, Achrol et al. 2000). Environmental uncertainty is unanticipated (external) changes around the exchange (Noordewier, John et al. 1990; Joshi and Stump 1999). Market conditions like price and demand, together with technology, are the environmental factors most likely to change (David and Han 2004). Behavioral uncertainty stems from problems related to monitoring the performance of exchange partners (Williamson 1985; Rindfleisch and Heide 1997). More specifically it relates to unpredictability in the exchange partner's behavior. Difficulties with monitoring performance makes an objective evaluation of the service received difficult (Cannon, Achrol et al. 2000). *Services* are by nature intangible which makes them difficult to monitor. The high degree of environmental uncertainty around the exchange often increases the cost of negotiating and implementing corresponding

contracts (Rindfleisch and Heide 1997). In such cases it is difficult to decide on an appropriate governance mechanism up-front. Environmental uncertainty might also cause reluctance towards formalized governance as the actors attempt to remain as flexible as possible (Gundlach and Achrol 1993). In situations where contractual governance is insufficient, or otherwise not appropriate, alternative or supplementing governance mechanisms can be provided. When uncertainty is high, relational governance can be increased to protect against opportunism (Cannon, Achrol et al. 2000). In addition to safeguarding against opportunism, relational governance also allows the actors to adapt more quickly to changes in the environment (Heide and John 1990). Relational governance will be further discussed when covering Social Exchange Theory.

In summary, the choice between purchasing goods and services on the market or producing them internally is decided by more than just production costs. Additional governance related transaction costs must be considered as well. Figure 3 shows the core elements related to a transaction (frequency, asset specificity, and uncertainties) which must be considered when deciding about a buy-make strategy. The figure is not meant to suggest one strategy over another but rather to illustrate the relevant factors to be considered.

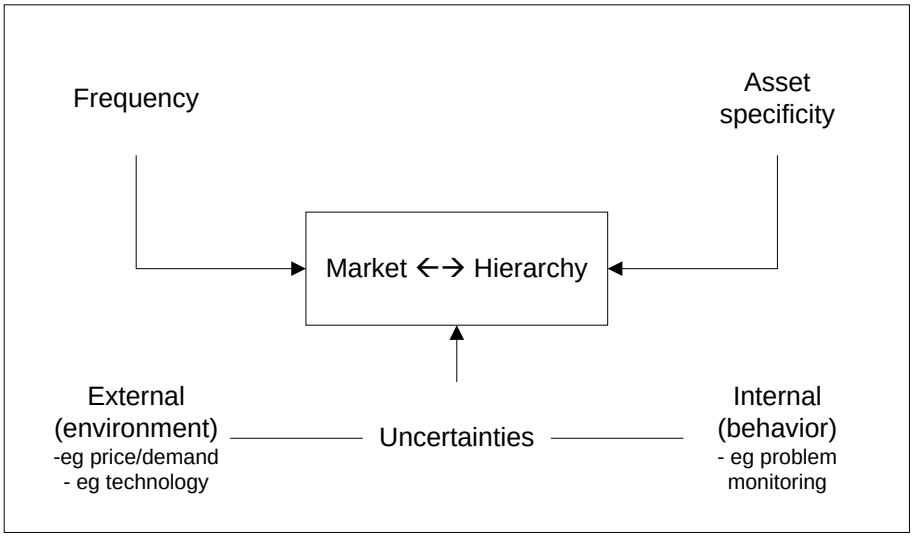

Figure 3: Factors impacting the choice between market and hierarchy as governance model

Once all relevant factors related to governing exchanges have been evaluated, the buyer has a choice between *market* and *hierarchy* governance models. Under *market governance*, goods and services are obtained from an external partner and market conditions surrounding the exchange provide the appropriate governance. This includes legal contracts and hard bargaining (David and Han 2004). *Hierarchy governance* relates to the internal production of goods and services where the company's organizational hierarchy and policies provide the governance framework (Rindfleisch and Heide 1997). It is accepted that market structures carry a higher transaction cost. This stems, among other things, from the search for suppliers, evaluations, negotiations and control of performance. On the other hand, the production cost is zero. Cost not only relates to transactions but also from lack of information (Williamson 1985). The information problem exits when assigning the correct value to a product becomes costly. Relying on hierarchical governance is believed to reduce the risk to the customer, as information is more easily accessible from an internal supplier than from the market (Hart and Moore 1990).

When faced with two options, companies will strive to balance production and transaction costs (Williamson 1985; Clemons, Reddi et al. 1993). As a guiding rule the boundaries should be set at a point that minimizes the cost of governing activities (Coase 1998). This would favor the purchasing of goods and services that have a low risk profile, including a low level of asset specification, low strategic importance and available alternative suppliers. Following TCE, if the exchange is conducted in an environment with uncertainty, hierarchy is preferred over market governance. This is because internal organizations have a better managerial oversight and alignment with the internal provider (Masten 1991; Williamson 1991).

Empirical research has identified weaknesses in a governance model when it is based only on market or hierarchy mechanisms (Pilling, Crosby et al. 1994). As a response, alternative governance models have been suggested (Zaheer and Venkatraman 1995), which Williamson (1991) referred to as *hybrid* forms and others as *bilateral* governance (Joshi and Stump 1999). In hybrid, or bilateral, forms of governance the provider is assigned a more prominent role as replacing the partners carries a huge cost (David and Han 2004). The financial impact of replacement is often influenced by the length of the relationship and how aligned the processes among partners are. Putting more emphasis on the partner and the relationship might also motivate the exchange partners to refrain from opportune actions (Joshi and Stump 1999). According to TCE hybrids and hierarchies are preferred over market governance if asset specificity increases (David and Han 2004). Basically, the more asset specific investments made, the higher the desire to safeguard against opportunistic behavior. This makes market governance less suitable and specialized governance forms, like contracts, more efficient. Still, Dyer (1997) points out that higher asset specificity often leads to more complex contracts. For internal IT, asset specificity might be a double-edged sword. On the one hand, having intimate know-how of the internal customer and tailor-made processes could be an advantage for an *Internal Service Provider* (ISP), for example in a

discussion on outsourcing. On the other hand, the same reasons might cause the ISP to become complacent as it possesses skills which the customer might be dependent upon.

In summary, TCE suggests three available governance mechanisms: *market*, *hierarchy* and *hybrid* (Table 4). The characteristics of intracompany relations, with its high degree of exchange frequency and low uncertainty, do not naturally suggest a high degree of formal governance. Still, the introduction to this chapter on IT governance and structuring of the ISPs introduced the use of formal governance mechanisms for ISPs (here internal IT). In particular the use of *Service Level Agreements* (SLAs) is rather common. Specific formal IT governance will be discussed in more detail further down.

	High	Low
Frequency	Relational	Market
Asset specificity	Market (contract)	Hierarchy/hybrid
Uncertainties	Relational	Hierarchy/hybrid

Table 4: Suggested governance model based on frequency, asset specificity, and uncertainties

Applicable governance mechanisms

One of the most frequent formal governance mechanisms is the use of written contracts. These are "*agreements between two or more parties, which are perceived as legally binding*" (Lyons and Mehta 1997, p.241). From a legal perspective, agreements only qualify as being contracts if they are enforceable in court (Masten 1991). In such cases they provide a formal,

legal and economic governance strategy (Lusch and Brown 1996; Ferguson, Paulin et al. 2005). Williamson (1986) argues that contracts are what connects the theory of TCE with all forms of governance and business relationships since TCE "*adopts a contractual approach to the study of economic organizations*" (Williamson 1986, p.174). Therefore, within TCE all exchange relationships can be expressed in contractual terms (Williamson 1991). Due to the legal implications of a breach, contracts can even substitute an organization-based governance model such as hierarchy (Gundlach and Achrol 1993; Heide 1994; Lusch and Brown 1996; Ferguson, Paulin et al. 2005). Contracts offer several perceived advantages. First, they are used as safeguarding devices that mitigate the potential risk of opportunistic behavior (Williamson 1985; Ring and van de Ven 1992; Deeds and Hill 1998). Second, contracts are also regarded as being coordination mechanisms as they provide division of labor, specify decision making and prevent disputes on how to achieve tasks (Mellewigt, Madhok et al. 2007; Reuer and Ariño 2007). These features make contracts particularly important in recurrent exchanges as they lay the foundation for the relationship by defining the rights and obligations of both parties (Hamel, Doz et al. 1989).

Even though contracts are examples of formal governance, they can also have an informal affect (MacNeil 1980; Lusch and Brown 1996). This is because they improve how the parties interact and deal with each other (Ring and van de Ven 1992; Lusch and Brown 1996). Contracts can also provide informal governance through non-written agreements. Non-written contracts lead to a "*social consensus and reinforcement of specific behaviors and exchange patterns*" (Rousseau 1995, p.51).

The length of the relationship impacts upon the type of contract deemed necessary. The more time, effort and resources invested in the relationship, the more mutually committed the partners become (Aulakh and Gençtürk 2008). Over time the relationship is increasingly guided by mutual understanding rather than formalized contracts (Buchanan 1992; Ring and Van De Ven 1994). The relationship is then, as a whole or in part, managed

through relational informal governance. The importance of the time factor on business relationships will be discussed in more detail later in this chapter.

Since most intracompany exchanges are conducted within the same legal entity, legally binding contracts are mostly not applicable. Instead, Service Level Agreements (SLAs) can be used to govern the relationship between an internal supplier and its customers. Internal contracts are also referred to as internal guarantees (Farner, Luthans et al. 2001). When used for internal IT they help managers with limited technical know-how to better understand what services are actually being provided (Turban, McLean et al. 2001). Through "*negotiations between the IT services unit and business units, an SLA leads to articulation of the services IT offers and the cost of the services. These negotiations clarify the requirements of the business units, thereby informing governance decisions on infrastructure, architecture, and business application needs.*" (Weill and Ross 2004, p.101). This makes SLAs an important element in the specific intracompany relationship between customers and IT.

Intracompany controls are not only used to ensure a better understanding of IT's offerings but also to *safeguard against the risk of regulatory exposure*. New and changing regulations influence external uncertainty. Here, IT has become increasingly important in ensuring corporate compliance as it supports critical business processes and protects sensitive information. (Gordon, Loeb et al. 2003). Companies not adhering to increased control requirements risk being faced with higher costs later, for example penalties or reputational damage (Canada, Sutton et al. 2009).

Table 5 provides a rough decision-matrix when deciding between formal and informal governance.

TYPE	PURPOSE	ENVIRONMENT	TIMEFRAME
Formal	All encompassing	Certain	Short term
Informal	Framework	Uncertain	Long term

Table 5: Decision-matrix between formal and informal governance model

The discussion on TCE and relationship governance has shown that formal mechanisms like contracts (SLAs) are applicable even to intracompany relations. Specific IT governance also identified processes and dedicated organizational units as formal mechanisms. Still, the nature of intracompany exchanges favors informal relationship-based governance thanks to factors like long timeframes and low uncertainties. This type of governance is covered in particular within SET, which will be discussed next.

2.3.3 SET and informal governance of intracompany relations

Social Exchange Theory (SET) has its origins in sociological theory where it was devised to explain human behavior during exchange processes. The first major writings focused on psychological- (Homans 1958; Emerson 1962) and economical elements (Blau 1964). SET's key principle is that the exchange of social and material resources is based primarily on human interactions (Homans 1958; Blau 1964). As stated by Homans (1961, p.13) human interaction is "*an exchange of activity, tangible or intangible, and more or less rewarding or costly, between at least two persons*". When individuals interact they assume that the exchange will be mutually rewarding (Homans 1961; Lambe, Wittmann et al. 2001). This

expectation of *reciprocity*, present and future, is what characterizes social exchanges, especially if they follow a history of already successful collaboration. The presence of reciprocity is an example of a social *norm* (Joshi and Campbell 2003), which again are "*expected patterns of behavior*" (Lipset 1975, p.173). Norms are often established during the early stages of a relationship. Once the parties start an exchange, they may establish norms that were not present prior to the interaction. The relationship related norms are driven by experience but also expectations about the outcome of the next transaction (Brickman 1973). How norms are interpreted and followed gives an indication of the closeness between the partners during the length of the relationship (MacNeil 1980). MacNeil (1980) sees *relational governance* emerging from the values and agreed-upon processes found in the relationship, which further develops within the relationship. As such, relational governance continues to develop over time as opposed to contracts, which are agreed and signed at the start. It has been suggested that people who share common goals are also able to define roles and responsibilities among themselves according to necessities (Fox 1974). In such cases it further reduces the need for formal governance mechanisms. In order to establish and benefit from social norms, *trust* must be present among the people involved in the exchange (Faems, Janssens et al. 2008). The role of trust, as well as power, within relational governance will be discussed next.

Intracompany relationships and trust

Next to norms, *trust* and *power* are two further attributes found in most relations between individuals (Emerson 1962; Blau 1964). Together with *time* these three attributes define the nature of business relationships according to SET (Backhaus and Buschken 1997). Successful relationships based on such attributes have led researchers to consider SET both as an alternative (Morgan and Hunt 1994; Holm, Eriksson et al. 1999; Lambe, Wittmann et

al. 2001) and a supplement (Kumar, Van Dissel et al. 1998; Lambe, Spekman et al. 2000) to more formal governance.

Trust has been subject to a number of definitions. Rousseau et al. (1998) see trust as "*a psychological state comprising the intention to accept vulnerability based on positive expectations of the intention or behavior of another*" (Rousseau, Sitkin et al. 1998, p.395). Similarly, Gambetta states that "*when we say we can trust someone or someone is trustworthy, we implicitly mean that the probability that he will perform an action that is beneficial or at least not detrimental to us is high enough for us to consider engaging in some form of cooperation with him*" (Gambetta 1988, p.217). Finally, Barber (1983) defines trust as a set of "*socially learned and socially confirmed expectations that people have of each other, of the organizations and institutions in which they live, and of the natural or moral social orders that set the fundamental understanding of their lives*" (Barber 1983, p.164). Of the different definitions of trust, Barber's includes trust in both *individuals* (Granovetter 1985) and *institutions* (Zucker 1986). Individuals and institutions are the behavioral dimensions that are particularly important to maintain both intra- and intercompany relationships (Aulakh, Kotabe et al. 1996; Zhang, Cavusgil et al. 2003). Hence, of the definitions provided, the one from Barber is considered to best fit the scope of this research.

Most of the writing related to trust between individuals concerns the relationships between them (Maguire and Phillips 2008). Rousseau, Sitkin *et al*. (1998) suggest two types of *individual trust*, one referred to as *calculative trust* and the other as *relational trust*. The latter is sometimes also referred to as *identity-based* trust (Coleman 1990). Shapiro, Sheppard et al. (1992), Lewicki and Bunker (1995), and Maguire, Phillips et al. (2001) all refer to slightly different types of individual trust categories; *calculus-based, knowledge-based* and *identification-based* trust. Institutional trust develops "*when individuals must generalize their personal trust to large organizations made up of individuals with whom they*

have low familiarity, low interdependence and low continuity of interaction" (Lewicki and Bunker 1995, p.137). The presence of institutional trust is believed to make establishing individual trust easier (Rousseau, Sitkin et al. 1998). Senior management, when seen as representatives of their institutions, can also impact upon the development of institutional trust (Kramer 1999).

Trust can be viewed as a two-dimensional construct of *competence trust* and *goodwill trust* (Nooteboom 1996; Das and Teng 2001). Competence trust is the belief that the exchange partner has sufficient resources and capabilities to deliver on an agreement (McAllister 1995). Competence trust assumes goodwill trust, which is whether or not the other party also has the intention of fulfilling an agreement. Specifically, goodwill trust is "*about whether a firm has a reputation for dealing fairly, and caring about a partner firm's welfare in strategic alliances*" (Das and Teng 2001, p.256). Within business relationships, *trust* is a source of confidence between parties (Ring and van de Ven 1992; Das and Teng 1998) and is assumed to benefit the relationship (Mohr and Spekman 1994; Zaheer and Venkatraman 1995; Das and Teng 1998; Zaheer, McEvily et al. 1998; Dirks and Ferrin 2001; Krishnan, Martin et al. 2006). The level of trust among the parties impacts upon transaction costs as it directly influences the degree of formal control measures required (Carson, Madhok et al. 2003). For example, Zaheer, McEvily et al. (1998) found that both personal and institutional trust makes formal governance measures less likely. In cases where competitors invest in unnecessary and expensive governance mechanisms, trust can even lead to a competitive advantage (Barney and Hansen 1994). Less time and resources are being spent on monitoring and controlling when trust is available (Dyer and Chu 2003). This is because trust is believed to reduce the risk and uncertainty found in market exchanges (Selnes 1998). The existence of trust in a contractual relationship is found to improve the exchange of information between the buyer and seller and relaxes the need for mutual control (Chiles and McMackin 1996). Consequently, each party operates with greater

certainty that the exchange partner will perform as agreed (Zand 1972; Gao, Joseph Sirgy et al. 2005). As intracompany relationships have a different time horizon, often without a defined end-date, feedback on performance can be used to perform ongoing adjustments to the relationship (Ring and Van De Ven 1994). As pointed out by Patzelt and Shepherd (2008) the benefits of trust only occur if both parties respect the relationship.

Trust also carries a potential negative effect as it can make the parties complacent. Rather than terminating an unproductive relationship they could end up staying with an underperforming partner (McEvily, Perrone et al. 2003; Krishnan, Martin et al. 2006). This is because the parties have reduced objectivity (Gargiulo and Ertug 2006; Patzelt and Shepherd 2008) or might become rigid and inflexible (Barnett and Carroll 1995; Poppo, Zhou et al. 2008).

Organizations, or in our case organizational units, cannot trust each other. It is rather the individuals working within and managing the units which build up a trusting relationship (Aulakh, Kotabe et al. 1996; Blois 1999) with individuals in other units. There are also trust relationships developed between employees and managers of an organizational unit (e.g. Konovsky and Pugh 1994; McAllister 1995; Kim and Mauborgne 1996; Whitener, Brodt et al. 1998; Masterson, Lewis et al. 2000). These leader-members exchanges (LMX) (Graen and Scandura 1987; Wayne, Shore et al. 1997) are important to understand the relationships *within* a unit but our focus is on the exchange *between* units. Intracompany trust between organizational units can thus be understood as similar to intercompany trust, that is as an attitude held collectively by members of a given organization towards the partner organization (Zaheer, McEvily et al. 1998; Jeffries and Reed 2000). Within the organizational unit not every individual contributes equally to generating organizational trust. Most weight is assigned to those responsible for processing information and representing their unit in the relationship. These are commonly referred to as *boundary spanners* (Aldrich and Herker 1977; Perrone, Zaheer et al. 2003). Among boundary spanners

people on the operational level differ from top managers as they perform different roles in the relationship (Ring and Van De Ven 1994; Zaheer, Lofstrom et al. 2002).[5]

The concept of trust is also covered within the TCE literature and to a large degree recognized from the discussion above. Williamson (1993) identifies three types of trust within the context of transaction cost; *calculative-*, *personal-* and *institutional* trust. *Calculative* trust is a situation when an actor puts himself at risk in a transaction because the expected gain from the transaction exceeds the risk. *Personal trust* is described as similar to that within SET. *Institutional trust* within TCE relates to the social norms representing parts of the framework within which a contract is embedded. Williamson differs from the SET-based writing on the classification of trust and the impact this has on relationships. All three forms of trust identified by Williamson are seen as being non-calculative. Since the transaction cost theory assumes a calculative behavior of the actors involved in an exchange, non-calculative forms of trust are dismissed as being irrelevant (Williamson 1993).

Intracompany relationships and power

In situations where trust has not been established, or has been violated, *power* can be an alternative informal mechanism to govern a relationship (Emerson 1962; Blau 1964). Power within SET refers to the ability of one actor to influence another (Pfeffer 1997; Vrazalic and Gould 1999). It is important to point out that having the ability to exercise power does not automatically lead to usage. Dahl defines power as something stronger than influence and states that it is the ability to achieve intended effects or goals that characterizes power (Dahl 1957). It is the use of power to achive goals which promotes it as a governance mechanism.

[5] This linking between organizational units and the people working within them, but also the different roles of those individuals, bears a direct impact on how the empirical part of this research was conducted. Organizational units represented by the internal IT department and their customers on the business side were used as research units. On the other hand, data was mainly gathered from interviews with individual representatives of those units. These interviewees, expressing personal opinions as well as acting as representatives for their units, together with secondary data describing the workings of the units, illustrates how these two levels are connected. The selection of interviewees and their roles as boundary spanners will be discussed further in the research methodology chapter.

Pfeffer (1997) lists a number of *sources of power*, including *personal attributes* and *resource dependency*. According to SET literature, resource dependency between organizations is the most common source of power (Emerson 1962; Blau 1964; Pfeffer and Salancik 1974). This means that an organization has power if others are dependent on their resources (Jackson 1993). In such situations the more powerful partner has the *ability* to dictate the conditions of, for example, a formal agreement (Lusch and Brown 1996). The weaker party might accept these conditions for two reasons: First, unless it can easily change to a different partner it has no choice but to go along (Heide and John 1992). Two, even if the contract mainly favors the other party, having the relationship formalized at least sets the "*parameters for what the more powerful party can legitimately do*" (Lusch and Brown 1996, p.21). Hence, it reduces the uncertainty for the more dependent party in terms of the other partner's behavior (Etgar and Valency 1983). On the other hand, should partner A attempt to dominate partner B without providing sufficient reward there is a risk that B will try to terminate the relationship (Lusch and Brown 1982). Applied to intracompany relations resource dependency is of a different nature than with external relationships. On the one hand, the internal customer is dependent on, for example, internal IT resources. Changing to an external provider is an option but carries both a risk and transaction costs. According to SET this should put the ISP in a strong bargaining position towards the customer. On the other hand, the internal customer has the ultimate power with the authority to outsource the ISP. The authority can also include replacing personnel, including the manager, of the ISP. The potential personal consequences facing managers of internal service providers might be sufficient for the ISP to align with the internal customer's demands. *Dependency* on a partner can develop when substantial investments are made or replacing the partner is difficult (Kumar, Scheer et al. 1995). Several researchers (Kumar, Scheer et al. 1995; Lusch and Brown 1996) have observed that the dependency levels of individual parties are important to the understanding of interorganizational structures and interactions. Resources are seen as

the primary reason for parties to engage, which is why resource dependency constitutes the main source for power (Blau 1964; Nord 1980). An actor only engages in a relationship if he wants to require resources from others (Nord 1980).

The time factor within relational governance

An important element of building up a business relationship is the *time factor*. This is because business relationships are based on an ongoing interaction and exchange (Dwyer, Schurr et al. 1987; Holm, Eriksson et al. 1996; Lambe, Wittmann et al. 2001) and the trust partners have in each other can change over time (Inkpen and Currall 2004). Long-term relationships are in general more likely to be influenced by social factors than one-time or short-term exchanges (Blau 1964; Firth, Fung et al. 2006). Repeated exchanges over time allow the participants to gain information about their partner's motives and competences (Poppo, Zhou et al. 2008), which helps to build and maintain trust. Over time a continuous development of trust will often increase the parties' commitment to the relationship (Morgan and Hunt 1994; Holm, Eriksson et al. 1996). Time, which must be understood as what is required to develop a personal relationship rather than a fix period, is therefore an important aspect of SET.

In a long-term ongoing exchange both parties modify their processes and resources to optimize the relationship (Håkansson and Snehota 1995; Holm, Eriksson et al. 1996). These modifications can result in interdependencies between the parties (Håkansson and Snehota 1995; Holm, Eriksson et al. 1996) but also increased performance (Zollo, Reuer et al. 2002; Mayer and Argyres 2004). According to Hallén et al. (1991), these gradual adjustments over time is what transforms a discrete exchange into a relational one.

Because the SET-based theory limits its focus to long-term relationships, it fails to explain relationship factors found in short- or one-time exchanges (Lambe, Spekman et al. 2000). Discrete one-time exchanges might also require relationship factors like trust, or at

least benefit from their existence (Lambe, Spekman et al. 2000). There is also empirical evidence which shows that a high level of trust can be present at the start of an exchange (McKnight, Cummings et al. 1998). This can, for example, be as a result from a provider's reputation on the market. Still, due to the character of trust, and the fact that it needs time to develop, short-term exchanges rather tend to rely more on formal governance than trust and dependency (Ring and van de Ven 1992; Lambe, Spekman et al. 2000). As a consequence, relational governance is in most cases of short-term exchanges of less relevance.

With the inherent long-term horizon of an intracompany relationship the pre-conditions for building a trust-based relationship are favorable, although there is no guarantee that trust actually does develop. Situations with tensions between representatives, potentially coupled with negative experiences, might hinder the development of trust. When the customer feels locked in the relationship a formalized agreement might be seen as a better option to protect one's interests. Figure 4 provides a simple display of how time affects the move from formal governance to a more informal, trust-based situation. Still, and as argued above, this development is not guaranteed and will not be present in all organizations.

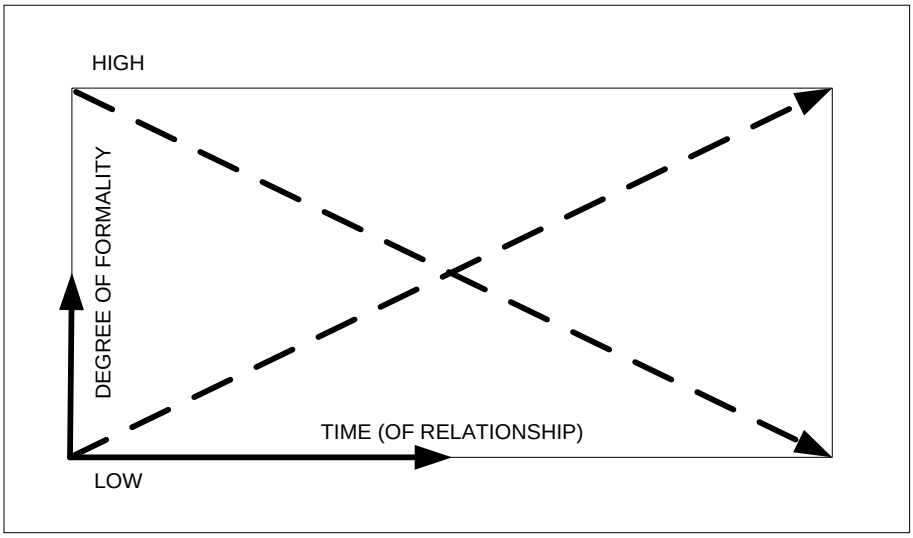

Figure 4: Impact of time on degree of formality

Figure 4 tries to visualize the relationship between time, on the one hand, and level of formality on the other. The point is that the longer a successful relationship has been ongoing, the lower the level of formality is required.

The discussion on TCE and SET has shown that there are few constellations where business relationships will be either formal or informal – and stay like that indefinitely. This is the case with intercompany exchanges, but intracompany relationships add even more complexity. The long-term ongoing exchanges provide the grounds for a trust-based relationship. Still, the lack of alternatives, proprietary know-how of the service provider, and bad personal relationships might lead to a more formal governance model. Combining both formal and informal elements is not new to the discussion on the governance of business relationships, which is also the focus of the next section.

2.3.4 Balancing formal and informal governance

In most industries and countries there is bound to be a certain degree of formalized governance required. For example, a public company must have an external auditor approve how profit and loss are captured and reported. Companies operating within the financial industry will in most countries be required to demonstrate that their IT systems are able to protect customer information or secure the transaction of assets when operating as an intermediary between a buyer and seller. These and other external requirements cannot be met without a level of formal governance of intracompany relationships. In addition, the management might decide to impose a certain level of governance to ensure that the internal service providers operate in the strategic interest of the company. Finally, there is the option of using governance as part of an operational process. In many companies there are, for example, SLAs between the internal buyer and supplier, in our case the internal IT unit. Just like with an intercompany business relationship, exchanges that are ongoing and do not require formal control, will prefer the use of informal governance. This is because it might

reflect a trust-based culture within a company but also be due to the reduced transaction costs. In summary, intracompany relationships will rely on both formal and informal forms of governance, though of a somewhat different character than what applies to intercompany relationships. The next sub-section will look at how the two governance mechanisms can be combined in order to achieve a balance that is both sufficient and cost effective.

Two different views have emerged in the study of the interaction between formal and informal governance, referred to as the *substitution view* and the *complimentary view* (Lazzarini, Miller et al. 2004; Wuyts and Geykens 2005). The *complementary* view states that formal (contracting) and informal (relational) governance mechanisms are supposed to complement each other and therefore should be considered as part of a joint solution (Möllering 2002). The idea is that incomplete contracts facilitate the voluntary development and enforcement of relational governance (Eriksson and Sharma 2003; Lazzarini, Miller et al. 2004; Wathne and Heide 2004). Poppo and Zenger (2002), on the other hand, claim that punishments defined in a contract limits short-term opportunism and fosters co-operation. The *substitution view* states that relational governance might serve as a substitute for formal mechanisms like contracts (Morgan and Hunt 1994; Gulati and Singh 1998; McEvily, Perrone et al. 2003; Lazzarini, Miller et al. 2004). Following the complimentary view, both contractual (formal) and relational (informal) governance are believed to have a positive effect on business relations (Lazzarini, Miller et al. 2004). It is also believed that combining the two provides a more efficient management of the relationship than relying on a single governance strategy (Jones, Hesterly et al. 1997; Poppo and Zenger 2002; Lazzarini, Miller et al. 2004). When combined, the mechanisms ensure that advantages are sought from each and that they are mutually enhancing (Weitz and Jap 1995; Brown, Dev et al. 2000). The positive influence of relational governance (e.g., Bello, Chelariu et al. 2003; Ferguson, Paulin et al. 2005) has also been questioned. One main critique is that exchange performance

might actually decrease when detailed contracts are used and relational governance is not well developed (Cannon, Achrol et al. 2000; Ferguson, Paulin et al. 2005).

From this brief overview it can be said that both types of governance (formal and informal) play a role in the intracompany business relationship. Adherence to regulatory requirements might in most cases leave companies no choice than to rely on formal governance even though this can be limited to the specific regulatory requirements. The alignment of internal services to overall corporate strategy is another area where formal governance can be used. At the same time, each formal activity, like formulating and monitoring SLAs, creating and acting on specific reports, or implementing specific units and processes, means that employees are spending time on controls rather than generating revenue for the company.

In addition to Table 5, which gave a general overview of when and how companies might decide between formal and informal governance, Table 6, as suggested by the researcher, takes a rather operational approach. From the discussion so far, the drivers for governance types that are applicable to intracompany relationships can be divided into three categories; *regulatory*, *strategic* and *operational*. Regulatory governance is driven by the requirement that the company must be compliant with laws and policies defined by regulatory institutions. Formal governance mechanisms are sometimes required, for example processes and dedicated units for internal audits. Even when formal mechanisms are not formulated and required, the risk of non-compliance from relying totally on informal mechanisms, like trust, is one that most companies might be reluctant to take. Hence informal governance mechanisms to ensure regulatory compliance are not seen as an option. Strategic governance drivers are those related to ensuring an internal service provider operates in the overall interest of the company. In the case of internal IT, this was discussed when aligning IT to the company's objective, often with the help of formal governance mechanisms like SLAs. Informal governance can be both an option and an alternative to

ensure strategic governance. It will require a high level of interaction between the customer and service provider to ensure that business objectives are understood and activities performed to support such objectives. The customer can choose to trust the service provider without frequent interactions if the potential risk of "de-alignment" is accepted. In other words, the two parties' activities might drift away from each other because there is a lack of frequent control points that ensures continuous alignment. The final driver relates to operational effectiveness, where processes and policies are formulated explicitly to support an effective operation of internal services. In the case of IT there might be sufficient tacit know-how among the staff to ensure systems are operated and services produced without explicit written documentation or formalized processes. At the same time, and in particular within larger or geographically dispersed organizations, there is a risk that operations will be inefficient without any formal governance mechanisms. Relying fully on informal governance can easily result in different interpretation and practicing of core processes, like how to handle problems and changes within the IT infrastructure. Employees, who are the main carriers of knowledge, might leave and replacement staff will have to learn to operate systems from their own experience, unless there are additional staff members with the required tacit know-how. These are examples of where lack of formal governance might lead to both inefficiency and increased risk. On the other hand, the same principle applies that each formal governance mechanism carries a price tag in terms of increased transaction costs. Companies, in this case the internal IT service provider, must therefore base their operational governance model on the optimal balance between cost, risk and efficiency.

	Regulatory drivers	Strategic drivers	Operational drivers
Formal governance mechanisms	When not explicitly required still used to manage risk	If justified from a cost perspective	Advisable to capture know-how and avoid parallel processes
Informal governance mechanism	Might not be required, but with an inherent risk	Often compensated by frequent personal interaction	Used as supplement to formal governance

Table 6: Drivers for intracompany governance and their applicability in terms of formal and informal governance mechanisms

In summary, intracompany relationships promote the use of formal governance mechanisms to meet all relevant drivers, either as a single strategy or in combination with informal measures. The case studies will therefore look for evidence of both governance types. It is assumed that examples of both formal and informal governance will be found. In the researcher's opinion, the interesting findings will be how each country combines formal and informal governance.

Before moving on to the chapter summary and research questions, one final section will look at how the industry-specific context of Professional Service Companies might have an impact on the governance matrix suggested in Table 6. The PSCs are in general more prone to favor informal governance than regular public companies. If so, this information is required when interpreting the results of the findings.

2.4 Professional service companies and intracompany governance

2.4.1 Introduction

From the discussion so far it can be concluded that the governance of business relationships differs between inter- and intracompany relations. It has been suggested that informal governance mechanisms are more dominant when it comes to intracompany relations. This is mainly due to the length of the relationship (no contractual end-date), frequency of exchanges (constant) and informal governance mechanisms found in the organization's hierarchy and processes. The next section will look at how the type of industry might also matter. Since research was conducted within a Professional Services Company it is important to understand how industry characteristics might influence the governance model. Even though auditing is not the only service provided by the companies constituting the case studies, controlling other companies is one of their core services. Consequently, the large populations of the companies' professionals are subject matter experts in the area of financial and risk control. This fact is in itself not a guarantee that formal control mechanisms are particularly present within audit firms, but it seems a fair assumption that to some degree the cases would reflect the nature of the business and their employees.

2.4.2 What are professional service companies?

PSCs have been defined as companies *"whose primary assets are a highly educated (professional) workforce and whose outputs are intangible services encoded with complex knowledge"* (Greenwood, Li et al. 2005, p.661). Emphasis is often on the term *professionals* (von Nordenflycht 2010), which is regularly used to characterize people with mastery of a particular type of knowledge (von Nordenflycht 2010). This makes *knowledge,* and in particular proprietary knowledge, a key feature of PSCs (Abbott 1991; Torres 1991; Starbuck 1992). Hence, PSCs are characterized as knowledge-intensive or knowledge-based companies (Winch and Schneider 1993; Anand, Gardner et al. 2007). Torres (1991) pointed

out three particular features of know-how that are specific to a profession. First, it consists of a particular knowledge base. Second, this knowledge base and its usage is regulated and controlled by the profession and not by the state. Finally, applying this proprietary knowledge is guided by a professional code of ethics (Goode 1957). PSCs are also seen as *"knowledge engines for businesses"* (Lorsch and Tierney 2002) by providing knowledge not available internally. Further characteristics of PSCs are autonomy, self-regulation and a high degree of customer participation and customization (Hill and Neeley 1988; Løwendahl 2000; Hausman 2003). Despite intensive interaction with the customer, the production of services often requires an extensive use of personal judgment by the professionals (Lovelock 1983; Schmenner 1986). One further main characteristics of PSCs is that they operate as partnerships with a distribution of its profits among its partners (Levin and Tadelis 2005). Finally, most PSCs don't have a need for substantial external funding in order to operate. This reduces the dependency on sources of capital and potential agency conflicts.

2.4.3 Knowledge sharing and autonomy

Knowledge-intensive companies are known to pose management challenges when it comes to productivity, efficiency and governance. This is partly due to the resource intensive need for customization and customer involvement (Bettencourt, Ostrom et al. 2002). Knowledge is not only needed in order to serve the clients but also represents the PSC's main asset. Knowledge sharing is a prerequisite for success, which again assumes a trusting relationship between the members of the company. Too much formal control is believed to pose a potential risk towards building and sharing knowledge (Starbuck 1992; Winch and Schneider 1993; Greenwood and Empson 2003; Vera-Muñoz, Ho et al. 2006). Hence, allowing certain employee autonomy is one of the main features of PSCs (Bailyn 1985; Greenwood, Hinings et al. 1990; Alvesson and Kärreman 2006).

2.4.4 The impact being financially self-sufficient

As stated already, the partnership model, with company founding provided by the partners, makes agency problems less relevant for PSCs (Levin and Tadelis 2005). This financial self-sufficiency also impacts upon the governance model of intracompany relations (von Nordenflycht 2010). First, if external capital is not the main input into the production of services, employee know-how becomes even more important (Starbuck 1992). Since the main asset within PSCs is not capital or production infrastructure, but rather employee know-how, protecting this asset becomes a matter of importance. This relates first of all to know-how within a profession and not a particular company (Abbott 1991; Torres 1991; Starbuck 1992). Second, low capital requirements lower the barriers to market entry for those with specialized know-how, which can lure professionals to leave the company to set up their own business. Employees in many PSCs are therefore in a stronger position to negotiate their terms of employment, including the degree of explicit control of their work.

Reputation and ethical codes of conduct are additional PSC characteristics where formal governance is considered as rather counterproductive. Many PSCs are dependent on a reputation of being professionals with a high level of integrity and ethical standards. This is since the data they receive from customers can be highly sensitive and will only be made available if the customers trust the PSC. Exercising integrity and a high ethical standard towards external customers might prove to be difficult if the internal culture is mainly based on formal control-based governance.

Linked to reputation and ethical standards is the concept of trust. One core idea is that PSCs have a responsibility to protect the interests of its clients (von Nordenflycht 2010) as opposed to "only" focusing on profit and self-interest (Lipartito and Miranti 1998; Greenwood, Suddaby et al. 2006). This sometimes results in decisions to prevent *"commercially oriented nonprofessionals"* (von Nordenflycht 2008) outside ownership or organizing the PSC as a nonprofit organization (Hansmann 1996). Within PSCs, with their

strong commitment to the clients, trust is believed to be particularly available (Oliver 1997; Laing and McKee 2001). Since professionals are used as subject-matter experts where customers do not possess sufficient knowledge, there is an inherent "power imbalance" in the PSCs intercompany relationships (Hogg, Laing et al. 2003). In many cases the customer cannot even formulate their own need for services (Thakor and Kumar 2000) or evaluate its quality once delivered and consumed (Mills and Moshavi 1999; Sharma and Patterson 1999). This leaves the customer in a potentially vulnerable position towards their supplier of advisory or audit services, which again requires a trusting relationship between the two parties.

Ethical standards and norms for conduct are enforced by professional associations that are often developed through intensive internal training (Leicht and Lyman 2006). On the other hand, scandals, like the ones involving Arthur Andersen, Enron and WorldCom, brutally exposed the weaknesses of auditing companies' lack of control (Jenkins, Deis et al. 2008; Gendron and Spira 2009). It saw how the *"cultures of the firms had gradually changed from a central emphasis on delivering professional services in a professional manner to an emphasis on growing revenues and profitability"* (Wyatt 2004, p.49).

2.4.5 PSCs and intracompany governance

In terms of intracompany governance, law and accounting companies in particular are found to use mainly informal mechanisms with little formal control (Greenwood, Hinings et al. 1990; Hinings, Greenwood et al. 1999; Malhotra, Morris et al. 2006). These are companies where both knowledge sharing and customer interaction are particularly essential. As pointed out by Mintzberg (1983, p.165) the system of authority is considerably weakened when *"an organization has to grant considerable discretion in the performance of its work to experts and professionals".* One direct consequence from knowledge workers' preference for autonomy is the difficulties in applying formal governance mechanisms to PSCs (Løwendahl

2000; Lorsch and Tierney 2002; Teece 2003; Anand, Gardner et al. 2007). Rather than trying to impose formalized governance, the response can be to allow employees more freedom and involve them in the company's decision making process (Greenwood, Hinings et al. 1990; Hinings, Brown et al. 1991; Greenwood and Empson 2003; Malhotra, Morris et al. 2006). Informality can be expressed through fewer formal rules and less strict hierarchical reporting lines (Greenwood, Hinings et al. 1990). Internal control is further complicated by the fact that much of the work PSCs do *"cannot be decomposed into discrete sets of activities"* (Greenwood, Hinings et al. 1990). In most cases it is the lead partner who is responsible for signing off on the delivery of a total product to the customer, for example a final report, including the quality of the services provided. Greenwood et al. (1990, p. 733) refer to professionals within PSCs as being "self-contained", which makes standardized control a challenge. Empirical research has found that administrative partners prefer internal bureaucratic control mechanisms, whereas the partners managing the customer relationships rely more on organic, or clan, control (Dirsmith and McAllister 1982; Gendron 2001).

2.4.6 Summary

Many PSCs are moving towards being *Managed Professional Businesses* (MPB), which focus on operating more like public companies (Pinnington and Morris 2003). This includes more formalized management practices (Pinnington and Morris 2003) as opposed to the traditional P2 (*Professional Partnership*) model (Greenwood, Hinings et al. 1990). The P2-model emphasizes consultation among the partners and rather loose internal controls (Greenwood, Hinings et al. 1990; Jones, Hesterly et al. 1998). The MPB aims to centralize and speed up decision making, to some degree at the expense of the partners (Brock, Hinings et al. 1999). This also includes a closer control of each partner's financial performance. According to Jenkins et al. (2008) PSCs use both formal and informal mechanisms to help

achieve their objectives. Still, they see culture having a stronger impact on how PSCs operate than formal mechanisms.

The section on balancing formal and informal governance concluded that formal mechanisms play an important role in addressing the three drivers (regulatory, strategic, and operational) for governance that is deemed applicable to intracompany relationships. The discussion regarding PSCs has shown that formal governance potentially conflicts with the corporate culture of PSCs, in particular those companies with a high degree of specialized knowledge workers. Applied to intracompany relations, this represents a potential conflict between what would be a recommended approach (extensive use of formal governance) and what a company like KPMG might deem both required and preferred.

2.5 Summary and research questions

In this chapter regarding the theoretical framework of the thesis, it has been argued that companies need to be clear on what type of governance is required in order to balance both the need and benefit from formal and informal solutions. Formal governance is often the preferred strategy to address regulatory, strategic and operational requirements. In companies operating in a highly regulated environment, but also with a high risk profile, the need for formal governance might even be required. In other situations, for example when aligning internal IT with the company's overall objectives, informal governance might be sufficient. When formal governance is required, companies should calculate the best model that balances cost, risk and efficiency. At the same time, the particular business model and culture of Professional Service Companies tend to prefer informal governance mechanisms. The industry- and company specific context should therefore be considered alongside cost, risk and efficiency. Studying intracompany relationships within a Professional Service Company therefore benefits from an integrated – or expanded – theory model. Combining TCE and SET provides a baseline which reflects that both control and relationships are present within most organizations. The discussion above has further highlighted the particular nature of IT governance as well as governance within PSCs, which is why elements from those should complement what has been extracted from TCE and SET.

The scope of this research project does not allow a test of each of these variables in a multi-case study. Rather the research is limited to exploring the governance model used within each of the three organizations studied. From the overview, it drills down one level into formal versus informal governance to better understand both the similarities and differences between the cases. The researcher's objective is to gain a good overall understanding of how the intracompany relationship is governed within the countries studied and to generalize about PSCs overall. Secondly, a governance model for managing the

relationship between internal IT and its customers will be provided. Finally, the objective is to identify and suggest areas for further research.

To help meet these objectives, the thesis sets out to answer the following research question: (RQ) *How can Professional Service Companies use formal and informal mechanisms to govern internal business relationships?*

Using the word "can" (instrumental) rather than "how" (descriptive) or "should" (normative) points the research in a more operational direction, which corresponds with the philosophy of a DBA (Doctor of Business Administration) thesis.

In order to answer the research question, the study also seeks to address the following:

(SQ1) What are the main characteristics of intracompany governance within Professional Service Companies?

(SQ 2) How do the case countries practice the governance of intracompany business relationships?

(SQ 3) What are the main drivers for each intracompany governance model studied?

(SQ 4) If applicable, what explains the differences between the three organizations studied?

The research question drives the data gathering and data analysis. From comparing and contrasting the findings, as well as answering the research questions, the question of how PSCs can combine formal and informal governance will be addressed in Chapter 8.

The next chapter on the research methodology will explain the approach the researcher took in terms of data gathering, data display and data analysis.

Chapter 3 – Research methodology

3.1 Introduction

Leading on from the literature review and formulation of the research questions, this chapter presents the method used to gather and analyze empirical data for this research. More specifically, it covers the set of rules and procedures to guide the research, against which the outcome can be evaluated (Pinsonneault and Kraemer 1993; Hughes and Sharrock 1997; Miller and Brewer 2003). It starts with a section on *research philosophy*, which positions the research in terms of ontology and epistemology. Here the arguments in favour of conducting a qualitative study based on case studies are presented. The *research design* section covers multiple-case methodology, the unit of analysis and the sampling of cases. Then, in the *data management* section, the techniques for gathering, displaying and analyzing data will be discussed. The final part attempts to take a critical look at the overall research process in terms of its validity and reliability.

3.2 Research philosophy

3.2.1 Introduction

All empirical research is conducted within a particular *research paradigm*. The term *paradigm* describes a set of assumptions, theories and models that are commonly accepted within a particular field of activity (Collins 1996). According to Burrell and Morgan (1980), a paradigm involves a consideration of the researcher's *ontological view* of organizations and the *epistemological approach* to studying them. These considerations can also be referred to as *research philosophy*. A research paradigm relates to whether the research builds on *positivism* or *nonpositivistivism* (e.g. phenomenology). While positivism searches for *causal relationships* and seeks to *explain what* happens, nonpositivism searches for incidents and is concerned with *understanding a phenomena* without necessarily looking for causal explanations (Stake 1995). It has been suggested that positivism is better suited to conducting quantitative studies, just as nonpositivism supports qualitative research (Easterby-Smith, Thorpe et al. 1991; Creswell 1998). This will be discussed further in the following sub-section, which starts by positioning the research in terms of ontology and epistemology.

3.2.2 Positioning the research in terms of ontology and epistemology

Ontology concerns the study of organizations and asks whether or not these social units can be studied as objective entities without considering its members. Alternatively, they should be considered as constructs built on the perception and actions of the people populating them. In defining the research unit it must be clear if an organizational entity can be studied independently off its members. *Objectivism* and *constructionism* are the two main ontological positions. *Objectivism* states that social phenomena, for example the organizational units, have an existence that is independent of its social actors. In the study of

organizations, objectivism assumes each organizational unit to be a tangible research entity with their own rules and regulations, for example processes and job descriptions. *Constructionism*, which relates to nonpositivism, argues that organizations are continually being defined by its members. This means that the units are not only formed through interaction but are also in a constant state of revision. The categories that people use to help them understand their organizational surroundings are in fact the products of interactions with other members. In summary, objectivism and contructivism differ in their view of organization and culture when it comes to what role the individual, as a social actor, has in the construction of organizational units (Bryman and Bell 2003).

The researcher's ontological approach cannot be exclusively assigned to one label. Even though the organizational departments *IT* and *customers* are used as research units, the individuals populating each of the units studied have a large impact on how the organization operates. Business units in PSCs are often managed by partners, who are also the owners of the company. Hence, it is both accepted and expected that the partners will decide much of the units' activities. Factors like the role of partners and the endeavour towards individual autonomy within PSCs are arguments in favour of a nonpositivistic approach. The main part of data gathering was also done by interviewing individuals as opposed to studying the specific features of each organizational unit. This could, for example, have been written policies and processes. The selection of interviewees representing an organizational unit was done with the assumption that a majority opinion would be expressed, at least when it came to descriptive features. In addition, questions were asked about whether the respondents could also express their personal opinion about these features. The researcher acknowledges that this approach did not guarantee that the opinions expressed applied to the whole population within a particular unit. Still, through coding and reflection, in addition to support from theory, the approach allowed the researcher to identify the common features of each unit based on their member's responses. In summary, the organizational units of IT and the

customers within the case countries also represented the research units. At the same time, each units' features were to a large extent defined by its members. Since other factors also influence how each unit operates, for example corporate policies, position within the organization and other external factors, one cannot study the units based only on constructivism. Rather the researcher argues that both this and objectivistic view are reasonable.

Epistemology discusses what is deemed as acceptable knowledge. Here the philosophical positions mainly differ in terms of assumptions about the sources and development of knowledge, the nature of physical and social reality, and the relationship between theory and practice (Orlikowski and Baroudi 1991). *Positivism* is the philosophical approach that advocates the role of natural science by claiming that only phenomena that are confirmed by the senses can genuinely contribute to knowledge (Lee 1989). Theory is used to formulate a hypothesis to be tested (principle of *deductivism*) and knowledge is obtained through the gathering of facts to formulate laws (principle of *inductivism*). Further characteristics are that science must be conducted in a way that is value free (*objective*) and that there is a clear distinction between scientific and normative statements (Bryman and Bell 2003). The researcher is seen to play a passive, neutral role, and does not intervene in the phenomenon of interest. Contrasting is the epistemological view referred to as *interpretivism*, which states that the differences in the *relationship* between people and objects in natural science must be understood in order to grasp the meaning of social actions. Accepting such differences requires that the researcher understands the subjective meaning of social action, which again assumes that the research phenomena cannot be treated objectively. Another non-positivistic view is that of *phenomenology*, which is concerned with how individuals make sense of the world around them. Here the social reality in which people live and operate has a meaning to the individual as they use that meaning to guide their own actions and to interpret the actions of others. The challenge for the researcher is to

understand how the individual interprets their social environment and how this interpretation influences their actions. In non-positivism the focus is on the underlying phenomena causing incidents without necessarily looking for causal explanations (Stake 1995).

This research studied how intracompany customers and service providers managed their relationship. Research questions were derived from the theory and tested with a deductive logic and analysis of the empirical data collected from the three cases. Both *a priory* and *emergent* codes were used for the data analysis. In terms of epistemology, this approach corresponds with both positivist (a priory) and interpretivist (emergent) approaches. Due to the role individuals play in the data gathering and analysis of this research it is positioned as mainly interpretivistic.

3.2.3 The qualitative approach

The objective of this research is to study how the intracompany customer and service provider manage their relationship using formal and informal governance mechanisms. There are a number of reasons why a qualitative approached was deemed most appropriate for this research. First of all, qualitative studies put emphasis on the context of the research phenomena (Miller and Brewer 2003). Trying to understand intracompany relationships without taking the features of the organization into consideration might have provided limited understanding and even lead to wrong conclusions (Remenyi, Williams et al. 1998). The section on PSCs in the literature review pointed out the importance of the context of a research phenomenon, in this case the professional services industry. IT Services' position within each company and their level of alignment to the business strategy would be another contextual factor. Second, qualitative research welcomes diversity, for example one case among several that displays different features. Accepting deviations can give a richer overall understanding of the phenomenon, whereas in quantitative research a deviation might pose a risk to any generalization. The three cases used all belonged to the same company but were

selected partly due to their differences in how intracompany relationships were structured. Hence, differences in how intracompany relationships were practiced were both expected and welcomed. Third, the qualitative research encourages the collection and analysis of multiple sources of data in order to provide a richer picture of the phenomenon. Performing research within ones own company meant that, in addition to interviews, the researcher had access to internal documentation and observations as further sources of data. Using multiple sources of data in quantitative research is a possibility but the purpose would mainly be to further generalize the results of the study, not to open up alternative interpretations or conclusions. The researcher considered all three arguments to be important and therefore decided on a qualitative approach.

3.2.4 Summary of research philosophy

The discussion above has positioned both the researcher and the thesis in terms of ontology and epistemology based on the individual preferences and opinions but also the nature of the research conducted. Further, the reasons for choosing a qualitative research method have been explained and justified. The next section will discuss the research design, which is how the research was planned and conducted.

3.3 Research design

3.3.1 Introduction

This section on *research design* provides an overview of how the study was operationalized. It includes arguments for a multiple case methodology, defines the unit of analysis and explains the sampling of cases. It starts by re-stating the research objective, moves to a brief description of the pilot study conducted at the start of the project, before discussing the case study.

The overall *research objective* of this study is to understand how intracompany customers and service providers within professional service companies manage their relationship in terms of using formal and informal governance mechanisms. This understanding would also support two sub-objectives. First, it aims to further develop the existing theory on intracompany relations, governance, and professional services. Second, it proposes an operational model to help companies better balance internal formal and informal governance.

3.3.2 The unit of analysis

Within exploratory case research, using units that can confirm or disconfirm a hypothesis derived from theory is critical (Markus 1989). In an exploratory case study, *"a clear definition of the unit of analysis helps define the boundaries of a theory, which in turn set the limitations in applying the theory"* (Dubé and Paré 2003, p. 610). According to Miles and Huberman (1994), the cases used also represents the units of analysis. In this research it was the intracompany relationship between organizational units in three companies which represented the cases.

3.3.3 Findings from the pilot study

The doctorate program started with a pilot study, which can be particularly useful in an exploratory study (Yin 2003). It can help determine the units of analysis, to refine the data collection and get more familiar with the overall phenomenon (Bryman and Bell 2003). The pilot study was conducted within a financial service institution. The objective was to identify any evidence of an explicit stakeholder strategy guiding the intracompany relationship between IT and its customers. Literature was limited to *stakeholder management theory* (Freeman 1984; Clarkson 1991; Donaldson and Preston 1995; Frooman 1999; Friedman and Miles 2002; Ackermann and Eden 2003; Friedman and Miles 2006) and *agency theory* (Jensen and Meckling 1976; Eisenhardt 1989; Key 1999; Heath and Norman 2004; Mason and Slack 2005). Data was gathered using structured interviews and observations. The pilot study identified two main areas for improvements in the research design. First, stakeholder management and agency theories were found to focus more on the units and less on the relationship within and between them. Instead, other theories were believed to be more appropriate in explaining intracompany business relationships, introducing TCE and SET. Second, semi-structured interviews with more open questions were considered to be more effective in gathering rich data compared to the closed questions used in the pilot study. Overall, the researcher's own experience from conducting a pilot case study confirmed the benefits listed by Yin above (2003), as it both led to a better understanding of the phenomenon as well as optimized the design of the main research.

3.3.4 Multiple case studies

There are several methods used within qualitative research, in particular *grounded theory* (Glaser and Strauss 1967; Corbin and Strauss 1990; Strauss and Corbin 1990; Strauss and Corbin 1994), *ethnography* (Hammersley 1983; Clifford and Marcus 1986; Clifford 1988; Van Maanen 1988; Atkinson and Hammersley 1994; Marcus 1995), *case study* (Eisenhardt

1989; Ragin and Becker 1992; Yin 2002; Yin 2003; Eisenhardt and Graebner 2007), and *action research* (Lewin 1946; Corey 1953; Susman and Evered 1978; Carr and Kemmis 1986; Whyte 1991; Mills 2000; Reason and Bradbury 2001). When considering the most useful method, there were features that discouraged the choice of some approaches and others that favored the choice of case studies. *Grounded theory* was dismissed due to the nature of this research, which was to better understand a relationship by relying on existing theories as opposed to formulating them based on findings. *Ethnography* would require the researcher to *"immerse himself or herself in a setting and to become part of the group under study"* (Easterby-Smith, Thorpe et al. 1991, p. 38). This approach would have raised some major difficulties in terms of separating the roles of a practitioner and objective researcher within the same company. *Action research* shares some features with case studies, for example the importance of the context of the phenomenon studied and also the focus on performing in-depth studies. On the other hand, just like with ethnography it would pose a challenge to balance the roles of the practitioner and objective researcher within the same organization. In the end, a *multiple case method* was chosen. It was considered to offer the most effective approach where similar types of data could be gathered from multiple units within a limited time frame. The research had both an exploratory and explanatory purpose (Yin 2003). First, it explored the cases in order to *discover* what is available in terms of formal and informal governance mechanisms. Second, and leading on from the exploratory phase, it sought to *explain* the findings using extant literature and personal reflections. For both purposes, case study is considered to be a good approach (Eisenhardt 1989; Yin 2003). Case studies also support the three features listed in favor of a qualitative approach mentioned earlier in this chapter. First, they emphasise the context of the phenomenon (Benbasat, Goldstein et al. 1987; Dubé and Paré 2003; Yin 2003). Second, case studies allow for flexibility and variation (Cavaye 1996), and third, they often rely on multiple data sources (Yin 2003). In summary, case studies examine *"a phenomenon in its natural setting,*

employing multiple methods of data collection to gather information from one or a few entities (people, groups, or organizations). The boundaries of the phenomenon are not clearly evident at the outset of the research and no experimental control or manipulation is used" (Benbasat, Goldstein et al. 1987, p. 370).

3.3.5 Case studies within IT research

There has been an increase in the use of qualitative methods in general and case studies in particular within information technology (IT)[6] research (e.g. Benbasat, Goldstein et al. 1987; Orlikowski and Baroudi 1991; Benbasat and Weber 1996; Klein and Myers 1999; Romm and Pliskin 1999; Trauth 2001). The popularity of case studies within IT research is due to several reasons (Dubé and Paré 2003). First, IT-related research has gradually moved away from studying technology in isolation to focus more on the use of IT within organizations (Benbasat, Goldstein et al. 1987). Second, case research, with a focus on real-time phenomenon, helps both academics and practitioners to keep up to date on a fast developing area. As a third argument, Dubé and Paré (2003) point to the output, including opportunities, challenges and issues, which are easier to detect from an in-depth investigation. Finally, case studies fit both inductive and deductive strategies by allowing both exploration and hypothesis generation as well as providing explanations and the testing of hypotheses (Benbasat, Goldstein et al. 1987; Cavaye 1996; Yin 2003). All of this helps to contribute to the development of knowledge within IT-research.

3.3.6 The case and its context

The case is defined as *"a phenomenon of some sort occurring in a bounded context"* (Miles and Huberman 1994, p. 25). Examples of a phenomenon are single or multiple organizations,

[6] In terms of describing an area of research within this thesis, *IT* (Information Technology) and *IS* (Information Services) or Information Systems are all understood as the organizational aspect of IT and not the technology itself.

locations, people, programs, processes, or events (Creswell 1998; Bryman and Bell 2003). When conducting a multiple case study, the same phenomenon is studied within several but similar contexts. In this research the phenomenon of how organizational units manage their intracompany relationship was analyzed within the context of different country organizations. The context of the case is important because it is likely to influence the phenomenon as well as provide a boundary for the case (Miles and Huberman 1994). But in the end the *"case is an object of interest in its own right and the researcher aims to provide an in-depth elucidation of it"* (Bryman and Bell 2003, p. 54). Within this research the context is made up of several components. The company (KPMG) provided the immediate context of where the relationship existed. Second, each country's legal and cultural structures had an impact on how the companies operate. Finally, the context included Professional Service Companies as an industry. PSCs were discussed in the literature review and a dependency between the culture within certain PSCs and how intracompany governance is practiced was identified. KPMG country organizations in the United Kingdom, Germany and Switzerland are covered when presenting the results from each case study. The impact of country-specific features is not discussed *a priori*, for example in the literature review, but references are made when analyzing and interpreting the results of the empirical studies.

3.3.7 Sampling of cases

Writings on qualitative research methods and case studies do not agree on what is the appropriate number of cases. Eisenhardt (1989) suggests this is between 4 and 10, while Miles and Huberman (1994) suggest up to 15. Case studies are also different to sampling research (Benbasat, Goldstein et al. 1987; Yin 2003). Even a single case can be sufficient to establish or disconfirm a theory (Markus 1989). Three factors influenced the sampling of cases in this research. First, each additional case included was believed to improve the

external validity of the research. Second, the sampling of cases had to be viewed in light of how the cases were supporting an inductive or deductive strategy. Finally, the number of cases would have to provide the best ratio between the results and time available.

Covering three cases as opposed to one hardly makes the results more valid for all types of companies or even professional services as an industry. What it does is to increase the validity of the results applied to KPMG as a company. From there, certain assumptions can be made about similar types of companies, for example the other so-called Big Four (PWC, Ernst & Young and Deloitte). Even if only three out of more than one hundred KPMG country organizations were studied, the case countries differed in terms of organization and size of IT, use of outsourcing, role and position of the CIO, and a number of other factors that could directly or indirectly influence how intracompany governance was practiced. This approach can best be referred to as being based on the non-probability use of convenience sampling. The calculation of the number of interviews times the number of cases gave an indication of how much time would be required to conduct, transcribe, translate and analyze the interviews. Three cases, with their corresponding scope, were believed by the researcher to be a feasible number. Settling for three cases was thus assumed to provide the best ratio between time available and expected outcome.

3.4 Data management

3.4.1 Introduction

Once the cases had been identified, the process moved towards data gathering, which was mainly done by conducting interviews. How this data was prepared for analysis is also within the scope of data management, which will be discussed next.

3.4.2 Data types

Four types of information are considered to be particularly relevant to qualitative studies (Creswell 1994): *observations*, *interviews*, *documents* and *audio-visual material*. Of these, interviews are the most frequently used within qualitative research (Bryman and Bell 2003). Interviews were also the main data type gathered for this study. Other types of documentation, in particular newspaper articles, annual reports and internal documents, were included to provide a context within which the interviews were conducted (Remenyi, Williams et al. 2000). Additional documentation also helped improve the reliability of the research by allowing some triangulation between interviews and other types of data (Payne 2000). This was particularly useful when conducting interviews outside Switzerland. Here statements made by interviewees relating to organizational features could be checked against other types of documentation. One final source of data was the researcher's own observations. Conducting research within the organization being researched also meant easier access to data and informants. Constant reflections on the potential pitfalls and loss of objectivity were made to guard against biases stemming from operating within the same organization as where the research was conducted.

3.4.3 Sampling of informants

The sampling of interviewees should be done with the purpose of gathering relevant data. This again is required to answer the research questions (Miles and Huberman 1994; Stake 1995). Conducting multiple interviews within each unit helps to improve the internal validity and reliability (Eisenhardt 1989; Yin 2003).This meant focusing on KPMG staff directly involved in the intracompany relationship between IT and its customers within the three case countries. Convenience sampling was used where the CIO in each country, plus members of his management team, were approached. In addition, IT staff members directly tasked with managing the relationship to the internal customers, the so-called account managers, were included in the category "IT". Since the researcher was relatively new to the organization when the interviews were conducted, an existing relationship between the Swiss IT management and that in the other case countries was utilized. By being introduced to the head of IT (CIOs) in the other case countries through the Swiss CIO, a contact was established that was further utilized within each country. With the help of IT account managers, an introduction was made to their direct counterparts on the customer side. These were staff members representing their business units in the ongoing relationship with IT and hence were considered suitable informants.

The informants were contacted by email to establish initial contact and agree on timing for the interview. The email contained a brief introduction to the research topic, the purpose of the interview and a broad outline of the questions to be covered (see example in Figure 5).

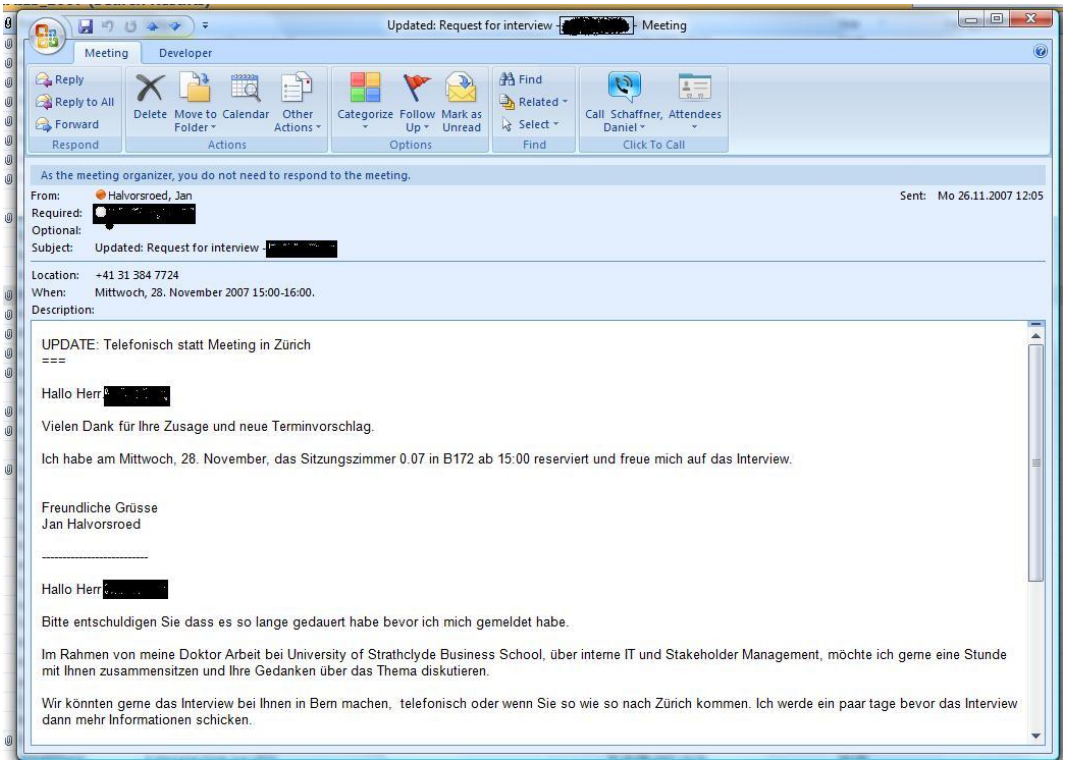

Figure 5: Example of meeting invitation for interview

Of all the interviewees contacted, everybody accepted the invitation to be interviewed and only one (a customer in Germany) asked for explicit approval from the local CIO.

3.4.4 Semi-structured interviews

In total, 33 interviews with representatives from both KPMG IT and their internal customers were conducted (see Table 7). In addition to those listed for Switzerland, the United Kingdom and Germany, an additional two interviews were conducted with representatives for IT Services in the Netherlands. Mainly due to personal capacity issues (time available) it was decided to exclude the Dutch practice from the scope of the research.

Number	Country	Category
CH_1_01	Switzerland	Internal IT
CH_1_02	Switzerland	Internal IT
CH_1_03	Switzerland	Internal IT
CH_1_04	Switzerland	Internal IT
CH_1_05	Switzerland	Internal IT
CH_1_06	Switzerland	Internal customer
CH_1_07	Switzerland	Internal customer
CH_1_08	Switzerland	Internal customer
CH_1_09	Switzerland	Internal customer
CH_1_10	Switzerland	Internal customer
CH_1_11	Switzerland	Internal customer
UK_1_01	United Kingdom	Internal IT
UK_1_02	United Kingdom	Internal IT
UK_1_03	United Kingdom	Internal IT
UK_1_04	United Kingdom	Internal IT
UK_1_05	United Kingdom	Internal IT
UK_1_06	United Kingdom	Internal customer
UK_1_07	United Kingdom	Internal customer
UK_1_08	United Kingdom	Internal customer
UK_1_09	United Kingdom	Internal customer
UK_1_10	United Kingdom	Internal customer
DE_1_01	Germany	Internal IT
DE_1_02	Germany	Internal IT
DE_1_03	Germany	Internal IT
DE_1_04	Germany	Internal IT
DE_1_05	Germany	Internal IT
DE_1_06	Germany	Internal customer
DE_1_07	Germany	Internal customer
DE_1_08	Germany	Internal customer
DE_1_09	Germany	Internal customer
DE_1_10	Germany	Internal customer

Table 7: List of interviews conducted

The interview period lasted four months from November 2007 to February 2008. The timing of the interviews was not ideal but this illustrates the impact context can have on case studies. In the summer of 2007 the partners in the Swiss KPMG practice voted in favor of joining the German and UK firms to create a regional cross-border company – KPMG Europe. The German and UK practices had voted in favor of a merger half a year prior to the

Swiss. The researcher joined KPMG in the summer of 2007 and was therefore still new to the organization four months later. The implication from the pilot study, with a changed theory focus, not been fully digested when the interviews started. On the other hand, the later the interviews would start, the further the interviewees would be in their merger activities. When the interviews took place, the local country organizations in Germany, the UK and Switzerland were still very much intact. This meant that responses reflected the current status with local country organizations and not a recollection of past practice. In summary, conducting the interviews early in the research project was a compromise between the researcher's preparedness and the impact of an ongoing contextual change.

Apart from the face-to-face interviews conducted in Switzerland, all others were phone-based. All interviews were recorded with the interviewees' verbal permission granted. Recording meant that the interviewer could concentrate more on the answers and pay attention to both the wording and how responses were provided, for example pauses, laughter, or someone taking a deep breath before answering. The recordings were kept under the researcher's control and all names in the transcripts were replaced by a code to ensure anonymity. Most interviews were conducted during working hours and from the researcher's office. This ensured that the phone-based interviews were not disturbed by external noise. One interview was conducted from the researcher's home office but was repeatedly interrupted by younger family members. Even though the interviewee showed understanding it underscored the importance of conducting interviews in a quiet setting. The interviews were of different lengths, with some only lasting 30 minutes and the longest 90 minutes. In the short interviews informants answered many questions with "yes" or "no" and only after being repeatedly probed were willing to expand on their answers. These short interviews were a minority and the average length of all interviews was approximately 50 minutes.

The interviews started with the researcher providing a brief introduction to the research project as well as to the topic of intracompany relations. Each interviewee was

asked for their permission to have the interview recorded, while the researcher also ensured a secure and discrete handling of the data. All interviewees provided their informed consent to the interviews taking place and also to having them recorded. The only concern raised by some was the sensitivity of the data and the consequences should it be made public. This also reflected the sensitivity of the ongoing merger activities, which was pointed out by several interviewees. The interviews followed an interview guide (Appendix 3), which was repeatedly reviewed and improved during the data gathering phase. In part this was due to some questions being irrelevant once the first interviews had been conducted. Other questions had to be phrased differently and some required the researcher to provide an example as the initial questions often resulted in some confusion. For example the concept of *power* and *control* were explained with relevant examples from the work environment to ensure they were understood in similar ways by all informants. The first two interviews conducted in Switzerland also served as pilots in terms of clarity of questions as well as the whole logistics regarding time required and use of a recorder. Following the introduction to each interview, the informants were asked to briefly describe their role within KPMG before maneuvering through the interview guide.

The guide took the interviewee through the following main topic areas:

- The role and importance of IT within the organization
- Level of formalization (related to the intracompany relationship)
- Balance between trust and control
- Existence and use of power within KPMG (with a focus on the intracompany relationship)
- Dependencies and cooperation among KPMG's internal service providers

The questions sought to gather responses regarding the formal and informal elements of intracompany governance, which was derived from the literature review and the research questions. In addition, more general questions were asked to better understand the context of

each organization. This was particularly important for the United Kingdom and German cases where the researcher had less prior insight. The researcher used different types of questions, depending on the purpose and situation. Examples were:

- Introducing questions ("Please explain your role …"),
- Follow-up questions ("So you are …"),
- Direct questions ("Do you think there is …"),
- Indirect questions ("What do most people at KPMG think about …")
- Structuring questions ("I would like to move to a different topic …"), and
- Interpreting questions ("Is it correct then to say that …").

The use of semi-structured interviews allowed more time and flexibility to build a rapport with the interviewees (Easterby-Smith, Thorpe et al. 1991). Certain topics related to the use of power or the level of trust were sensitive. Here the researcher felt that including additional comments and follow-up questions helped identify the interviewees' true opinions. This was mainly due to building on prior interviews, although not revealing names and locations, and referring back to statements made. If, for example, a person had described the relationship between ITS and customers to be trust-based, the interviewee would be asked to comment and expand.

3.4.5 Transcribing and translating interviews

A total of 30 hours of interviews were recorded, and based on both general recommendations (Bryman and Bell 2003) and personal experience, each hour of spoken content required 5-6 hours for transcribing. In those cases where the interviews were translated from German to English, an additional 2-3 hours were required per one hour of recording. Managing this workload in addition to a full-time job resulted in the whole process of transcribing and translating taking approximately six months. The interviews were transcribed in a two-phased approach. First, the interview questions and answers were transcribed with the help

of *"Dragon Naturally Speaking"*, a computer software which translates spoken words into written text. In the second phase, each transcribed interview was re-read to correct spelling mistakes or logical errors. Due to the researcher's time constraints a turn-around time for transcription and translation could not be guaranteed. Hence, it was decided not to provide the transcribed interviews for review and approvals by the interviewees. This lack of feedback represents a potential weakness in the data quality. On the other hand, the fact that the interviews were recorded ensured that the transcription could be compared against the recordings.

All interviews with German informants and most of those with Swiss informants were conducted in either German or the Swiss-German dialect. To make coding and cross-country analysis easier, these interviews were translated into English as part of the transcription process. Even though the researcher is not a certified translator, he has lived in the German-speaking part of Switzerland more then fifteen years and is proficient in both German and English.

3.5 Displaying and analyzing data

The transcribing and translating process was followed by analyzing each interview. This included applying codes and displaying meta data and codes in figures and tables.

3.5.1 Coding

Data, represented by the interviews, was reduced by applying codes (Miles and Huberman 1994). This was done to better structure the data into similar categories, which again supported the process of writing both a storyline for each case as well as conducting within-case and cross-case analysis. According to Miles and Huberman, codes are *"tags or labels for assigning units of meaning to the descriptive or inferential information compiled during a study"* (1994, p.56). Codes were structured in a hierarchy with a main code and sub-codes for each group of interview question. The codes were assigned values like "yes", "no" or "other". An example is provided in Table 8 for the "question group" related to *formalization*. In the left hand column the purpose of each interview question is listed. These "purposes" were each assigned a sub-code, which is listed in the second column from the left. Each sub-code, or purpose, were assigned a value (Yes, No, Other) with a corresponding code. For example, the code "FO-AVAIL-N" meant that the interviewee did not consider the relationship between IT and the internal customer to be formalized. Statements that could not be classified as a yes or no answer were assigned the value "other". This information was considered particularly interesting as it provided more richness to the interviews than there would have been had the questions been strictly structured.

Main code	Sub codes		Value	Code	Value	Code	Value	Code
FO - Formalization								
To see how relationship between IT and cust is formalized	FO-AVAIL	Available	Yes	FO-AVAIL-Y	No	FO-AVAIL-N	Other	FO-AVAIL-O
To see if there is an area the interviewee would like to see being formalized	FO-GAPS	Gaps	Yes	FO-GAPS-Y	No	FO-GAPS-N	Other	FO-GAPS-O
To understand which part of the relationship is mainly informal	FO-INFOR	Informality	Yes	FO-INFOR-Y	No	FO-INFOR-N	Other	FO-INFOR-O

Table 8: Example of interview coding

To give an indication of volume, 365 codes were assigned to the five Swiss IT interviews. The overall number of codes assigned to each interview corresponded with the length of the interview. This might be seen as a high number but the technique used meant adding a code for each statement that had a value (corresponding to the coding table). This resulted in statements sometimes being assigned more than one code.

In addition to the *a priori* codes, emergent codes were added when additional relevant information was provided, which could not be assigned a pre-defined code. The coding process was supported by the use of the Microsoft Office programs Word and Excel. As a result of the transcription process all interviews were already in a Word-format. When reading through the interviews, relevant sections were highlighted and a code assigned, often together with an additional comment from the researcher. An example of a coded page of an interview is provided in Appendix 5. Having completed the coding of an interview, all codes were copied and pasted individually into an Excel-spreadsheet (see Appendix 6 for an

example). By first listing the code for each interviewee, followed by a column of content-related codes and another for any comments, all codes were consolidated into one document. Using the filtering function in Excel, it was then easy to identify the codes based on either the unit or category of answers. For example, all IT responses could be compared across the cases or all answers related to, say, power could be listed and compared. This filtering function then allowed the researcher to start writing the storyline for each particular case as well as providing the input for the case analysis.

3.5.2 Data display

The use of Excel helped to organize the data and was one element of the data display process (Miles and Huberman 1994). In addition, the relationships between data sets were visualized. First the relationship within each organizational unit (IT and customer) was displayed (Appendix 6), followed by one display per country and another for all similar units across countries. In this research the software provided both a two-dimensional structure between the unit and topic, but also the flexibility to assign codes to an applicable location.

3.5.3 Data analysis

The objective of the data analysis was to understand how intracompany units used informal and formal features to govern their relationship. Codes were applied to the transcribed interviews and the results, in particular patterns and themes, were displayed visually. This prepared the data to be analyzed by looking for causal networks and writing storylines. This approach followed the guidelines provided by Yin (2003) and Eisenhardt (1989). The cases were analyzed using an *embedded* design (Yin 2003), where elements of the intracompany relationship were studied. The alternative *holistic* design would look at the relationship overall and would require more data to be collected and time invested in the analysis process.

This chapter concludes with a brief reflection on the issues surrounding validity and reliability faced in this research project.

3.6 Validity and reliability

The final section in this chapter on research methods covers a brief discussion on issues related to validity and reliability. This relates to quality research in general and this particular project specifically. The researcher's approach to addressing issues related to both areas is also included. The section also discusses the concept of the "three-horned dilemma" and compromises the researcher was forced to make.

3.6.1 The three-horned dilemma

When Runkel and McGrath (1972) introduced the concept of a "three-horned dilemma" they referred to *realism*, *generability* and *precision*. Because of inherent flaws in the process of collecting data, no method can satisfy all those three things at the same time. The research conducted within the scope of this project, as with qualitative research overall, does not primarily aim for precision. Case studies conducted within an organizational setting have too many variables which cannot be controlled. One statement given in an interview today might be different a week later due to changes in the actor's environment. Statements given in an interview are also influenced by a number of factors outside the researcher's control that are often even hidden and unknown. Elements like the interviewee's value-belief, relationship to colleagues, and loyalty to the organizations are just some examples that can influence the responses. Generability, as has been mentioned earlier, is also limited when conducting case studies. For example, the outcome of this particular research cannot be applied to all intracompany relationships regardless of the type of organization. What it does, though, is to present the reader with a minimum set of common features for all or most organizations. An example can be that all internal IT organizations structured as cost centers are dependent on internal funding. Thereby the internal customer (the "sponsor") has an implicit power position versus the internal service provider. Further, the type of industry or country specific

regulatory requirements might be applicable to all or most relationships within the same type of industry or country. Hence the case must be studied within its context. When the minimum criteria regarding validity are met the reader should be able to judge whether or not the results of the study are realistic, or rather coherent and logical. In other words, understanding the context and strength of the method's validity should allow the reader to conclude if the results are reasonable. What the reader finally takes away from the case study and applies to their own research or organizational setting depends on the research's usability and relevance just as much as the formal criteria regarding the method.

3.6.2 Validity and reliability

This researcher shares Wolcott's (2001) opinion that validity within qualitative studies is more about understanding the phenomenon than proving something is right or wrong. To support this understanding, several techniques were used to improve the quality of the research (Creswell 1998). First, triangulation of the interview data was done by referring to internal documents like presentations, emails and written processes. In understanding the context of the cases, public documents like annual reports and press clippings were also consulted. As a practitioner within the same company, observations were an additional means of triangulating the interview data. Second, a peer review of the methodologies for data collection and analysis were done during the whole extent of the research project. This was mainly through conversations with research colleagues, but was often supported by the use of whiteboards and reading of drafts. Third, both formal and informal audits of the research process, including data collection and analysis, were conducted through formal progress reviews and frequent discussions with the researcher's supervisor.

What was left out of the scope of the research, in particular the data analysis, was to develop any type of weighting of the responses based on how far the organization was in the merger process or to what extent each interviewee was directly impacted. Here a longitudinal

case study, with multiple points of data collection, would have been the ideal strategy as it would have better captured the dynamics of the events over time (Benbasat, Goldstein et al. 1987).

In terms of reliability, and referring back to the arguments on the precision element of the three-horned dilemma, it is clear that case studies might provide less reliable results compared to other methods. Hence, definite conclusions can only be drawn as they relate to the specific type of relationship being studied, including its context.

To address the issues surrounding validity and reliability in qualitative research, Howe and Eisenhardt (1990) suggest focusing on some broad standards. First, they ask if the research questions drive the data collection and analysis rather than the other way around. Second, the techniques for gathering and analyzing the data should be technically correct and accurate. Third, the researcher's subjective opinions and assumptions must be clearly distinguished from the objective elements of the research. Fourth, they ask whether the research process and findings are robust and embedded within a theoretical context. Fifth, it should be obvious to the reader that the research provides value in further developing both the theory and practice.

In summary, this section has pointed out some of the challenges in conducting case research, in particular if the goal is to produce perfect results that can be generalized to a large population of cases. Being aware of the method's limitations and compensating for deficiencies as far as possible has also been discussed. In the following chapters the results of the data analysis will be presented in three chapters (one per case), followed by a comparison of the three cases.

Overall, the methodology was chosen as case studies were expected to help the researcher both explore and explain the research phenomena. The selection of cases was guided by a number of factors: variation, availability, and the researcher's capacity in terms of time available. To support the interpretation of the interview data the researcher

developed a coding table, which both helped structuring the data as well as comparing the cases. The research method provided a “run book” for the interviews of representatives from the two research units within the three cases. The results of the data gathering and interpretation from each case are presented in the following three chapters.

Chapter 4 – Findings from KPMG United Kingdom

4.1 Introduction to case study on KPMG UK

This chapter presents the findings from the first of three case studies and covers KPMG in the United Kingdom (UK). The case write-ups are structured in three sections. First, an overview of the internal IT department and its organizational context is presented. The second part presents the usage of formal governance mechanisms in managing intracompany relations, whereas the third part covers informal governance. The findings presented in parts two and three are used to answer the question: *How do the case countries govern their intracompany business relationships in terms of formal and informal mechanisms?* In the summary the findings are discussed and also linked to the question from Chapter 2: *What are the main drivers for each intracompany governance model?*

4.2 KPMG UK and its internal IT

4.2.1 Introduction

At the time of the data gathering, KPMG in the UK employed about 10’000 staff and partners, working out of 22 different locations. This made it the largest KPMG member firm in Europe. In 2006, the two KPMG country organizations in the United Kingdom and Germany had started a merger process. The goal was to form a new joint entity called *KPMG Europe*. However, when the data gathering for both UK and Germany took place (from 2007 into 2008), all the pre-merger key staff, processes and organizational units were still intact for both countries.

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KPMG UK’s internal IT was divided into a *business*- and an *infrastructure* unit. The latter was part of KPMG’s overall global IT Services (ITS) and served all business lines and geographical regions with infrastructure and support. Most business specific development and support was done by the respective IT unit within the business functions (Audit, Tax and Advisory). The dual operational IT model was supported by IT Services, as*business*- and an *infrastructure* unit. The latter was part of KPMG’s overall global IT Services (ITS) and served all business lines and geographical regions with infrastructure and support. Most business specific development and support were done by the respective IT unit within the business functions (Audit, Tax, and Advisory). The dual operational IT model was at least

supported by IT Services as *"we don't prevent, and we never have prevented, functional IT looking at specific functional applications that are needed because Tax is far better off looking at Tax applications than IT Services are"* (UK_IT_03). Business IT representatives had a similar approach as *"we really only do it this way because it has worked out like this. It is the only practical way that we have come across to do it"* (UK_CU_04). Even when trying to merge these units it *"always defaults back to having a separate knowledge community and a technology community"* (UK_CU_02). The impact each country's IT support model had on both the strategic alignment and governance model will be discussed further in Chapter 7.

The size and role of the business IT units varied between the functions. For example, Audit IT relied very much on globally developed standard solutions. Tax IT, on the other hand, employed close to 100 dedicated IT staff in the UK to develop and support tax-specific software. As a consequence the UK business IT departments would have a different demand for support from IT Services. Tax IT, developing their own solutions, would require a more technical specialist, like for example programmers and application testers. When such resources were not available within IT Services, external service providers would be approached to source the right skills. In such cases, IT Services would act as both the primary interface to business IT and also manage the contracts with external parties. For the other two units, Audit and Advisory, IT Services were able to provide more end-to-end services since the demand was more based on standardized solutions. In addition to the split between an infrastructure and business IT, the IT support model also used selective outsourcing. Services like network, data center hosting and end-user helpdesk were sourced out to various external service providers. As already mentioned IT Services managed both intracompany and intercompany relationships but remained the responsible service provider for the internal customer.

The interviewees from ITS represented the internal service provider in this research, whereas the internal customers were almost all employed within various business IT units.

4.2.2 Alignment of business and IT

In addition to collecting feedback regarding governance methods, the research also aimed to understand ITS' position in terms of strategic importance within the overall organization. This helped to better understand the intracompany relations as it provided some of its context.

As discussed in Chapter 2, the concept of alignment is central in understanding the relationship between the two parties – ITS and their internal customers. Overall, IT Services considered themselves to be very much aligned with their internal customers' goals and strategies. In particular, the regular and ongoing working relationship with various business IT units was pointed out. As stated by one of the ITS representatives, *"on a strategic level there is a recognition that we are very much aligned with the business intent"* (UK_IT_01). Another ITS interviewee claimed that *"the IT function interacts with the business in all aspects really. It underpins all the things that the firm is trying to do and probably increasingly so as time moves forward"* (UK_IT_02). This relationship was to some extent made easier when IT staff had previously been working for business IT units. At the management level there was less alignment, at least according to feedback like *"ITS is still not well enough connected to our business strategy. So you have a lot of people in ITS who are trying to ride things from a technology perspective but have difficulties aligning that technology with the firm's business strategy"* (UK_CU_01). The fact that most of ITS was in a different geographic location to the majority of business directors and partners was highlighted as a reason why close relationships with seniors was difficult. Despite different opinions on the degree of alignment, the day-to-day operational interaction was considered to be working well. Judging from the data it can be assumed that there was a good

operational alignment between the two parties but less so strategically. Representatives from ITS also recognized that strategic alignment was not as strong as the operational one: *"I think I'm pragmatic enough to know that you are never going to get quite as tightly linked as we'd like"* (UK_IT_01).

KPMG, like many other professional service companies, offers advice on a number of different topics. Here capturing and sharing know-how about customers and solutions is the key to survival in the marketplace. IT provides valuable tools for this capturing and sharing of know-how, which makes IT solutions strategically important. Still, this is not to say that KPMG and their likes are IT-driven companies. One statement made by a customer representative summed up the position of IT as: *"I just think that it is unlikely that the partners will decide to spend 12 percent of the profits on technology. I think that is a fact which is not saying we won't invest appropriately in the business but I don't think we are going to be a technology led business …"* (UK_CU_02).

4.2.3 Summary of internal IT in KPMG UK

The IT operational model within KPMG UK was not easy to manage effectively. The split between business- and infrastructure IT provided potential for both uncoordinated parallel activities as well as delays due to disagreements on solutions and priorities. Such potential conflicts were also acknowledged by ITS. Further, relying on outsourcing partners might have improved ITS' ability to provide a scalable and state of the art infrastructure and service, but it also introduced a number of dependencies on the external partners. Ultimately the internal customer looked to ITS as their "one stop" IT service provider which required a consistent end-to-end service delivery.

The comments made by ITS representatives regarding the alignment of IT suggested that *alignment* was mainly translated to mean *relationships*. Where ITS respondents referred

to good working relationships between individuals within the ITS and business IT, the customer side referred more to alignment on a strategic level.

The next section will look at evidence found regarding the formal features used to govern the intracompany relationship between ITS and their customers.

4.3 Intracompany relations and use of formal governance mechanisms

4.3.1 Introduction

Chapter 2 introduced a number of relevant formal mechanisms, including *leadership*, *organizational structures*, *processes* and *other control mechanisms* to help govern an intracompany business relationship. This section looks for evidence of such features in the UK intracompany relationship between IT Services and their customers. The concept of "leadership" is not explained in detailed within the IT Governance framework literature. It can mean leadership *style*, but also refers to *organizational roles and responsibilities*. In order to better structure the respondent's feedback in this research, *leadership* is treated as an element of the internal unit's *organizational structures*. In cases where leadership is clearly referencing something else, for example style, it will be discussed in light of its intended context and meaning.

4.3.2 Organizational structures

Despite there being several units within KPMG that are responsible for information technology, the title *Chief Information Officer* (CIO) was used by the head of IT Services. During the data gathering period, KPMG's CIO was also a partner and shareholder of the UK firm. This allowed the CIO direct access to all levels of the business on the customer side. Further, within the day-to-day operations there were several organizational units within ITS involved in managing the relationship with the customer. Various support, engineering and project teams carried out changes and implemented projects. Within IT Services there was one team explicitly tasked with managing the relationship with the internal customers. This *Relationship Management Team* assigned each of the main business units with a dedicated relationship manager, whose main purpose was to gather new service

requirements, help initiate projects and report back on status. Further, they informed the customers about IT changes that could impact on their business operations. The majority of business requests came from technology units for infrastructure needed to install business applications.

Even though *relationship management* as a function was created explicitly, the interaction between the parties was kept rather informal. According to ITS, this was *"probably more at the request of the function rather than the way that we would necessarily do it"* (UK_IT_2). This was mainly through meetings that focused on the status of ongoing projects. This indicated that the unit was created with the pragmatic objective of streamlining the communication between ITS and their internal customers. On the other hand, formalization was kept to a minimum in terms of how this unit actually operated.

Another organizational unit within KPMG UK, the *Infrastructure Executive Committee***,** helped govern the relationship between the different ISPs and the customers. The committee consisted of the heads of the various ISPs and operated under the supervision of the COO. Its objectives were partly to coordinate processes with mutual dependencies plus the overall infrastructure operating budget. The expected benefit was that processes involving more than one ISP would be better managed end-to-end. An example was the *employee joiner and leaver process* as this required inputs and actions from several service units. In terms of budgeting, each ISP provided their own budget, based on a bottom-up calculation, after which the total infrastructure budget was agreed jointly among the members of the group. The Infrastructure Executive thus did not deal directly with KPMG's internal customers as a unit but still impacted upon the relationship. The coordination among the ISPs made it easier for the customer to address complex infrastructure requirements. In the IT Services' opinion, the committee's work "*has been very effective, and I think we are now at the stage where the Infrastructure Executive accepts common responsibility for the [relevant] business processes*" (UK_IT_1).

4.3.3 Processes

There were a number of processes used by IT Services that helped govern various parts of the intracompany relationship. Examples were processes for *incident management*, *project management* and *change management*. Both the process for *incident management*[7] as well as *change management*[8] included a number of interaction points between ITS and their customer. Examples of such interaction points were service levels, measuring and reporting, specified roles and responsibilities and escalation procedures.

Perhaps the process with the greatest impact on intracompany relationships was the *financial process*, as this decided the level of autonomy the ISP had in terms of spending resources on behalf of the company. The IT Services unit within KPMG UK operated as a cost center, where a budget for operations and projects were negotiated and agreed between the ITS management team and the COO on a yearly basis. Any major budget adjustments during the financial year would be subject to negotiations between ITS and the business units. Project costs were charged back to the requesting business unit and a process for budgeting, approving and controlling cost was included in the overall project management process. Apparently the IT Services had previously used a model to recharge their services. Some years prior to the data gathering a decision was made to switch to a cost center model. The motive was that the administrative (transaction) costs did not justify maintaining the charging model. It was commented that the model did little to improve the quality and availability of services. One customer representative said that *"our executives … thought they had better things to do than to administer a system that effectively recharges internal pounds"* (UK_CU_02).

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[7] *Incidents* are events where a certain IT service is temporarily unavailable to one or several users. An *incident management process* instructs the IT unit how different types of incidents should be handled in order to restore the service as quickly as possible.

[8] Changes in this context are planned alternations of the IT infrastructure or service, for example a version upgrade of a system. The change management process helps IT plan and test the change in order to minimize the risk related to altering the IT infrastructure.

When asking if controls were available to measure how ITS used its resources, it was confirmed that processes were in place. This model was *"just a different cost control model"* (UK_CU_02) without the details being specified. In the current model investments and depreciation of core infrastructure, which constituted most of ITS' budget and activities, were not recharged. What was running on this infrastructure, in particular applications for the various business units would be subject to more detailed reviews and, occasionally, recharged to the owner of each application. Even without detailed financial control mechanisms, at least around internal charging, it would be fair to say that the financial processes were explicitly designed to help govern the intracompany relationships between ISPs and business overall.

4.3.4 Contracts

As discussed in Chapter 2, the most common contract type used between internal service providers and customers is a *Service Level Agreement* (SLA). Two types of business relationships involving KPMG UK's IT Services might have justified the use of either legal binding contracts or SLAs. One was the relationship towards external outsourcing partners and the other with the internal customers. In the first instance, IT Services, on behalf of KPMG UK, acted as a customer whereas in the second case IT Services was a supplier. Contracts were only used to govern the relationship between KPMG and their external outsourcing partners. For the intracompany relationship there were no signed agreements. Various arguments were given as to why the intracompany relationship was not governed by SLAs. One representative from the IT management thought "*the business felt they didn't want that [formalized agreements]*" (UK_IT_2) as "*… it is a huge cost and at the end of the day the business doesn't have any choice to go elsewhere*" (UK_IT_3). Similarly it was said that "*we don't suffer from it at all and we don't have our business shouting about it either*" (UK_IT_5). Another justification for the lack of SLAs was that "*we're not getting huge*

pressure from the business to do it, and I think from my point of view, we would rather get on doing it instead of negotiating poor SLAs" (UK_IT_3). The fact that ITS in the UK operated as a cost centre also explained the lack of formalized agreements as in „… *we are not a shared service and we don't recharge our services back to the business. We are a cost centre, so we can only provide services based on the budget that we get at the beginning of the year. That is why you'll find that we don't have more formalized SLAs*" (UK_IT_5). Further, there was an argument that the robustness of the infrastructure negated the need for an SLA.

4.3.5 Summary of formal governance mechanisms

Due to the size and complexity of KPMG UK's IT operations, a degree of formal governance was deemed necessary. Despite the presence of formal governance it was acknowledged that the internal customer would sometimes choose to ignore formal processes if this was considered appropriate. This "flexible" interpretation of formality was justified as in *"…if we need something urgently, then normally we can get it through quicker than officially they are allowed to say"* (UK_CU_03).

A general interpretation based on the interviewee's responses was that both research units considered the governance structure around the intracompany relationship to be rather formal. That is, most requests for products and services required both the requestor and provider to adhere to a set of processes. In the customer's opinion this formality impacted ITS' flexibility to react to demands in an efficient fashion. For example, when initiatives were too small to justify the use of a project methodology there was no "next level" process to handle the initiative before it was treated as an operational issue. Initiatives were either handled with too much, or insufficient, formality. On the other hand, there were less formal governance structures that explicitly controlled ITS' financials and operations. Instead there were decentralized functions within the firm that monitored different parts of ITS' activities.

The arguments against the use of internal SLAs gave no clear indication that someone had actually calculated their transaction cost and compared those to potential benefits stemming from a more formal type of internal contract. The decision regarding how much formalization an intracompany relationship requires is clearly at the company's discretion and should include the use of informal governance as a supplement. In the case of KPMG UK the data gave no clear indication as to whether or not such calculations were done. Rather the researcher was left with the impression that decisions around level of formality were to a large degree based on expectations and assumptions of how ITS would behave. Given the interviewee's length of service at KPMG it would be fair to expect that experience from years of dealings would influence the level of formality considered to be sufficient. The discussion on trust, and how reduced formality was compensated by trust, will be discussed below. Still, this section has shown that both explicit organizational units and dedicated processes were in place to manage the intracompany relationship between KPMG UK's IT and customers. The drivers for the elements of formal governance are also relatively clear, including size and complexity of operations. The more detailed and informed decision as to where and how formal governance should be used as opposed to the informal decision did not present itself in the respondent's feedback. The next section will move on to informal governance features and to what degree they were present in KPMG UK's intracompany relationship.

4.4 Intracompany relations and use of informal governance mechanisms

4.4.1 Introduction

This next section presents the findings on informal governance features present in the intracompany relationship between IT Services and their customers. Referring back to Chapter 3and the discussion around *Social Exchange Theory* (Homans 1958; Emerson 1962; Blau 1964) it focuses particularly on *power*, *trust* and *personal relationships*. As these features are implicit they are also more difficult to observe. Whereas a researcher can observe a formal feature, for example a written contract, from a distance, it is more difficult to observe how trust and power are used in a relationship. For the case studies of KPMG in the UK and Germany all data gathering was done remotely. The findings regarding informal features are therefore based predominantly on statements from the interviewees. Similar limitations were applied to the triangulation of data since on-site observations were not feasible within the scope of the research project. As a compensating activity the researcher focused on the consistency of feedback both within each country unit and between countries. The assumption was that a high degree of consistency in the feedback supported the validity of the data. Despite the questions on the data quality concerning informal governance the researcher felt confident that both the quantity and quality of the feedback were sufficient to build a storyline for each case. This is attempted in the next section.

4.4.2 Power

The UK's responses regarding the existence and use of power provided some interesting results. First of all, there was very little feedback to support that the customer representatives used, or rather misused, power to gain particular benefits. Examples of power use could be circumventing agreed standards and processes or pressuring IT resources to work on a particular problem or project. Based on the respondent's feedback a cultural change had

taken place within the UK firm over the last five to ten years. Earlier power, mainly stemming from someone's hierarchical position, was frequently used to obtain individual advantages or to favor one's business unit. Today senior management, in particular, was considered to act much more professionally and, in most cases, accepting established roles and processes. This led to less *"bizarre requests"* (UK_CU_02) being made. Rather than accommodating individual requests, priorities were now largely set to reflect actual business priorities. The priority list defined by the company's COO was considered to overrule most resource-related conflicts between business units – at least those involving ITS. An example was the situation during the data gathering where a number of IT resources had been earmarked to work on various European integration projects as opposed to local customer initiatives in the UK. In terms of power this priority list would indicate a relative level of power with the COO position versus individual business unit heads.

Within ITS the position of the CIO was considered to both have and, occasionally, exercise power. Because the CIO was a partner his power base would not only be as a representative of ITS but also as a part-owner of KPMG UK. There were no references to the CIO misusing this power base.

IT Services, like other internal service providers, had *competence power* to make and enforce certain decisions within their area of responsibility. Such power would be granted to every unit to ensure they would function effectively without having to constantly request resources or permission to perform tasks. Due to the split between infrastructure- and business IT the area of responsibility was limited for both parties. Just as IT Services would not be expected to suggest the most appropriate software to manage, say, the handling of advice on mergers and acquisitions, business IT was discouraged from making decisions around core infrastructure. The following statement confirmed this: *"If they [business IT] were to go out and find their own email system, then we would absolutely prevent that because clearly that is not right for the business"* (UK_IT_03). In addition to making IT-

related decisions, investments above a certain size or with an overall strategic importance would be made by KPMG's senior management. Here ITS' role would be to advise, which in effect was a way to influence business decisions. According to one ITS representative *"we don't necessarily have the need to have power as often it is sufficient to make recommendations"* (UK_IT_05). Overall ITS' competence-based power position seemed to be accepted by the internal customer as *"we get very few other agendas being applied to try and move us"* (UK_IT_03).

One area where it can be argued that IT Services actually exercised a level of power beyond their intrinsic competence was budget reductions. During times of overall financial constraints business IT would request ITS to reduce its budget, as would most likely be the case with other ISPs as well. Such requests for reductions were met with sending a list of IT services back to the business management where the customer was asked to pick which ones should be closed or reduced. In most cases the customer would not have sufficient IT know-how to appreciate all the implications of a particular service reduction. ITS would then tend to respond and say they could not make decisions about service reductions without clear guidance from the customers. The responses from the interviews did not provide clear feedback as to how often IT Services chose to play this "proprietary know-how card".

4.4.3 Trust

Above it was argued that IT Services had permission to make decisions within their area of responsibility, referred to as competence power. Assuming such competence power is not deliberately misused, the theories on both TCE and SET would suggest that, over time, control of ITS's actions would be replaced by a degree of trust.

The feedback from the interviews clearly confirmed that the UK customers trusted IT Services to make the right decisions within their area of competence. As one interviewee said: *"where there is trust is where ITS clearly understands technology"* (UK_CU_01).

Despite the finding regarding the potential misuse of competence power presented above, the overall ITS budget was not subject to any detailed control by the internal business. Representatives from the business side claimed to have a good overall overview of IT costs. If there were detailed controls, it was limited to the infrastructure managers within each business unit controlling the IT expenditures directly related to their areas.

As stated in Chapter 3, trust is established when two parties work successfully together over a period of time. This was also the case with the intracompany relationship at KPMG UK, at least those involving IT Services. For example, one individual stated *"I think there is definitely some trust and I think this has also been built up over a period of time"* (UK_IT_02). Another IT representative said trust was *"based on the quality of the work we have been doing historically"* (UK_IT_04). According to yet another ITS representative the successful delivery of agreed objectives was key because *"as long as we achieve those there is a high degree of trust* (UK_IT_03). Business representatives also characterized the intracompany relationship to be trust- rather than control based. Just like ITS was trusted to advise on future technology solutions and investments, business IT had autonomy to manage their own projects. Here some groups within business IT were even given "permission" to engage directly with ITS' operational staff without having to channel this through service- or project managers within IT Services.

4.4.4 Personal relationships and the time factor

As discussed in Chapter 3, when trust is developed between two parties it is mainly because the individuals representing each unit have had the chance to interact over a longer period of time. Even though the informants in this research only represented a fraction of the employees within the company, the majority of them had been with KPMG UK for more than 10 years. Developing personal relationships into a degree of trust-based relationships thus had sufficient time. In addition to the areas related to competence power, the trust-based

relationship was also seen as the key to effective ongoing operations. As one IT representative said, there was always a risk that formal processes would dominate internal operations, so *"actually it is the informal things that we need to encourage more of and I think one can be too descriptive in terms of process"* (UK_IT_01).

4.4.5 Summary of informal governance mechanisms

Thanks to the domain expertise IT Services had in the area of technology, such expertise came with a degree of *competence power*. ITS' role was to provide KPMG with IT services at the right specifications and cost. Any evidence of use of power further to what was required and granted for ITS to perform this role effectively was not found during the data collection. That is not to say that ITS could not influence decisions beyond the scope of their competence power. Just like trust, influence was based on established and successful personal relationships. In particular, the CIO's position as a partner at KPMG UK granted both a say in all major decisions and also provided access to senior management within the business units. ITS' power towards their internal customers at KPMG UK can therefore be said to be a combination of formal and informal components.

Further, due to the length of service years of employees within both IT Services and business IT, there was a clear indication of personal relationships that had resulted in general trust between the intracompany entities.

4.5 Summary of case study on KPMG UK

Finding the right balance between formal and informal governance was acknowledged as an area of focus by IT Services. Situations where formal processes were deliberately ignored seemed to be few and random and were often driven by a lack of sufficiently flexible processes to capture all types of activities. What did seem to be working particularly well in the UK operations was the role of ITS account managers. Having a single interface for making requests seemed to be appreciated. On the other hand, the interviews also showed that trust had to be earned and did not come automatically with a particular role. Account managers lacking extensive experience with KPMG UK's operations seemed to create more difficulties in building an effective trust-based relationship with the customer representatives.

Refraining from the use of internal SLAs might be seen as a way to reduce the complexity in managing the intra-company relationships. On the other hand, because the relationship with external providers was based on formal agreements, IT Services were in effect locked into these agreements for all services involving external parties. One might therefore suggest that an end-to-end formalization of the service offerings might have provided more transparency for the customer.

Overall, there was clear evidence of both the formal and informal governance used in the intracompany relationship between IT Services and their customers. It also seemed to be acknowledged by both parties that formal governance could be excessive unless it was closely questioned and managed. Trust was certainly present, and to some extent seemed to have replaced more formal control mechanisms. The drivers for the balanced UK model, at least seen from ITS' perspective, seemed to acknowledge the need for formal governance due to the size and complexity of the operations. Towards external service partners, such formal governance would be regarded as standard practice.

In areas where formal governance was forsaken, as for example around internal service level agreements, there were no clear indications that less formality was the result of a conscious decision based on (transaction) cost versus benefits. Rather it seemed to be that the established governance model had developed "organically" over time. It would be beyond the scope of this research to investigate whether or not a different governance model would provide an even better cost-benefit ratio. What can be suggested is that the decision making parties within both intracompany units might benefit from performing such a calculation themselves. In the next chapter a similar case write-up will look into the intracompany governance model between IT Services and the customers at KPMG Switzerland.

Chapter 5 – Findings from KPMG Switzerland

5.1 Introduction to case study on KPMG Switzerland

This second case write-up covers the findings from within KPMG in Switzerland. The chapter follows the same structure as the previous case write-up for the United Kingdom (Chapter 4). It starts with an overview of IT within the Swiss organization, with a particular focus on alignment between IT Services and the business functions. The second section covers examples of formal governance and the third looks at informal governance features. What the researcher considered as significant findings, here understood as features directly impacting the informal and formal governance model, will be discussed in the chapter summary.

5.2 KPMG Switzerland and its internal IT

5.2.1 Introduction

During the data gathering in 2007 and 2008 there were two main events impacting the ITS organization of KPMG Switzerland. One was driven by the Swiss organization and the other by changes within KPMG in Europe. In 2006 a corporate strategy initiative referred to as *KPMG 2000* was launched. The initiative was based on aggressive growth targets for the Swiss organization, including increasing the number of staff from around 1,600 to over 2,000 by 2010. In reviewing ITS' readiness to support the new strategy, one conclusion was that the organization was considered to be inefficient in terms of processes. Too much was done ad-hoc and often standard tasks were performed differently from team to team. The organization was considered to be *"mainly based on the "family business" that we had with 20 – 30 IT employees and when everyone did more or less everything and everyone knew what was going on"* (CH_IT_01). It was therefore decided to implement an IT process framework called ITIL (IT Infrastructure Library). ITIL was developed by the Office of Government Commerce (OGC) in the UK in the 1980s and has later developed and matured to become an industry best practice for managing internal IT service.

The external factor impacting the Swiss IT organization during the data gathering period, and indirectly affecting the intracompany relationship with the business functions, was the decision of the Swiss partners in the summer of 2007 to join KPMG in the UK and Germany in KPMG Europe. Since the decision in Switzerland was taken after the UK and Germany made their decision, the Swiss IT organization and governance structures were not yet directly impacted by the merger. Still, there was certain insecurity around the future of the local Swiss IT Services. In addition to future reporting lines, the main concern was on the level of outsourcing to be used in a future operational model. This concern was mainly caused by the extensive use of outsourcing within the UK operations.

The IT organization in Switzerland consisted of the globally aligned IT Services plus a number of IT support functions spread throughout the business units and other corporate center functions. Some, like the Swiss *HR* and *Finance* departments, had technical staff to both support and develop the core HR and finance applications. The business unit *Tax* developed minor applications targeting their specific business needs, whereas *Audit* supported a resource management application but didn't do any development. Hence most of the core business IT applications were supported by IT Services but the application ownership resided with the individual business units. Four of the six business representatives in this research case were owners and managers of IT business applications and thus relied on IT Services for hosting and general infrastructure support. As such, the Swiss business representatives had similar roles to those in the UK but were positioned more on the management layer as opposed to engineers and project managers.

5.2.2 Alignment of business and IT

The Swiss IT Services unit was led by a *Chief Information Officer*. The Swiss CIO position was placed at a director level, as opposed to the CIOs in the UK and Germany who were both partners. As such, the Swiss CIO was an employee of KPMG whereas the CIOs in both Germany and the UK were also owners of the respective country organization. This fact in itself did not necessarily mean that IT in Switzerland was considered to be of a lesser strategic value. What it meant, though, was an exclusion from KPMG Switzerland's decision making body. The researcher thinks it is fair to assume that this exclusion had an impact on the CIO's ability to position IT Services within the Swiss organization. There were several examples where a better positioning of IT Services was desired by both the customer and ITS. In terms of general understanding and appreciation of ITS' role, one partner on the customer side claimed that *"even members of the executive board have no idea how IT really works and end up putting the blame on [IT] when something is not working. Every element*

that is part of this causal chain of events and infrastructure pieces, and where [IT] have limited or no influence, cannot be understood by the other party due to his general frustration" (CH_CU_04). In effect, what this meant was that there was an overall lack of knowledge by all parts of the Swiss organization as to how IT Services operated. The same partner felt that IT Services could have a strategically more important role, for example within the area of *knowledge management*. For this to happen, *"IT would have to be assigned to areas that drive strategy as a matter of priority and not just where there is currently a problem"* (CH_CU_04). Rather than having a more strategic role there was a perception, expressed by the majority of the IT representatives, that IT was not sufficiently recognized or treated as a business partner. Some of them even went as far as to suggest that IT Services should have a seat in the Executive Committee alongside the heads of the main business functions as a reflection of IT's strategic role. During the time of the data gathering, the Swiss CIO reported to a person one level below the Executive Committee.

Based on the interviews, there seemed to be an expectation within ITS to be invited into discussions with the business, whereas the business anticipated IT to be more proactive in explaining and propagating business opportunities from and with the use of IT. Put simply, ITS waited for an invitation at the same time as the business wondered why they [ITS] had not come up with some ideas a long time ago. In the customer's opinion IT should at least *"come up with ideas of what is available"* (CH_CU_06). Instead there was a notion that ITS was in a *"reactive mode"* and that they operated *"somewhere between tool support and enabler"* (of business processes) (CH_CU_02). As stated by the same business representative *"what I definitely do not see is where IT would take the lead and bring ideas to the business"* (CH_CU_02). Based on the feedback from both parties the strategic alignment between IT Services and their internal customers was weak. Operational alignment seemed to be better established but there were also some critical voices raised. Specifically one weakness was mentioned about how new business ideas, which resulted in

IT projects, were implemented. Here *"a business idea is launched and mostly an independent solution is being built. It might be integrated in a virtual environment but is still isolated"* CH_CU_02). This meant there was no overall IT strategy which ensured that business initiatives were managed in a portfolio and synergies found between the various projects.

Weaknesses within processes, management structure and tools were seen by the majority of the IT representatives as reasons why they had grown out of touch with business requirements. The risk of continuing down that road was clearly stated by one respondent since *"anyone on the open market who cannot connect with their customer will end up losing them and the customer will soon raise a demand for someone else"* (CH_CU_04). In other words, if IT Services did not become more successful in aligning with their internal customers, they would risk being outsourced to an external service provider. Finally, the disjoint alignment of IT strategy between IT Services and the internal customer was seen as putting Switzerland in a weak bargaining position towards their new partners within KPMG Europe. In terms of defining the future IT strategy one customer said: *"I don't want to rely only on the UK and Germany but rather drive this [strategy] ourselves"* (CH_CU_06).

5.2.3 Summary

Overall there was little evidence within the Swiss KPMG organization to suggest a strong alignment between IT Services and their internal customers. This finding was confirmed by representatives from both sides, but as stated above, nobody seemed to actively address this. This lack of focus can be understood if having an IT strategy that is aligned with the overall business strategy is of less importance. Since several comments from the interviewees seemed to suggest otherwise, that is there seemed to be a desire for such an alignment, the answer must lie elsewhere. It could be that someone or something was blocking the parties in establishing an alignment they both saw a need for. Though speculative, as the interview

questions did not cover this, one potential reason would be that a business aligned IT strategy did not have sufficient understanding and support among the majority of the executive management team. Some comments during the interview, for example on the lack of overall understanding of IT's importance and potential, could support such an interpretation. Another, and partly related to the first, would be that IT Services should do better in marketing and position their capabilities towards the internal customer. Some of the feedback during the interviews could also support this as a contributing reason. Possibly the most interesting observation regarding alignment was the fact that both parties expressed a strong desire for a better alignment but nobody seemed to do anything about it. This also leads to the third interpretation, which is that overall communication between the two parties was less than perfect.

5.3 Intracompany relations and use of formal governance mechanisms

5.3.1 Introduction

This sub-chapter will cover the features of formal governance which were identified in Chapter 2: *leadership*, *organizational structure*, *processes* and *other control mechanisms*. As stated in the previous chapter, *leadership* is included in the discussion on organizational structures.

5.3.2 Organizational structures

During the data gathering there was no organizational unit within Swiss IT Services which explicitly managed the customer relationship. This was different to some of the other internal service providers where, for example, both HR and M&S (Marketing and Sales) had dedicated *account managers* for their internal customers. Still, there were other formal structures that governed how IT interacted with their customers. Some were built around technical services, for example like the *Change Advisory Board* (CAB) for HR's core IT system. The purpose of the CAB was to ensure that changes to the HR IT system was discussed and agreed with representatives from both IT and the customer. Although having a limited scope, this CAB function exemplified the formal governance of the intracompany relationship.

Another formal structure was the *IT Steering Committee*, which had a much wider scope than a system specific CAB. The steering committee's purpose was to define and govern KPMG Switzerland's IT strategy. With each partner within KPMG responsible for their own profit and loss, the committee could *"put their foot down and say this is not accepted"* (CH_CH_06) when individual requests deviating from the overall strategy were raised. For some reason the IT Steering Committee within KPMG Switzerland had become inactive about a year's time prior to the data gathering, even though it *"had really good*

intentions" (CH_CU_04). Comments from both IT Services and the internal customers indicated that the current need for such a committee was not sufficiently strong. Both parties acknowledged the fact that the committee had become inactive but no initiatives were seen to restart its activities. Another example of a well- indented formal organizational function was the so-called *Multi Project Management* initiative, which dealt with all projects within KPMG Switzerland, not just IT-related ones. Here IT Services were included in the planning and implementation whenever there was an IT component involved.

An example of an active formal organizational function was the establishment of *IT Contacts* in Zurich and *IT Coordinators* in other locations. These contacts and coordinators acted as interfaces between IT and the respective customers and were ITS' "extended arm" throughout Switzerland. For example, they were responsible for ordering IT equipment and providing some IT user training within their departments and locations. Although not a specific organizational unit, another formal organizational structure was the *Corporate Center* meetings. Lead by the COO, heads of the various internal service providers met on a regular basis to discuss and agree operational issues.

5.3.3 Processes

IT Services within KPMG Switzerland used two types of process documents to help govern their relationship with organizational units as well as the firm's employees. Regular *processes* described how certain activities, for example project management, should be performed. *Policies* (German: *Weisungen*), on the other hand, governed employees' behavior. Policies were not IT specific, but rather were used within the whole Swiss firm. Most of the IT specific policies were related to security and how staff members should protect IT assets like laptops and data. At the time of the data gathering these policies were the *"only thing today that constitutes written arrangements that we have with our customers"* CH_IT_05). The policies were not approved and published through a standard

process, but rather gained approval from executive management, as well as the IT Steering Committee, CIO, or the P&L managers.

Some interesting feedback also indicated a presence of tacit processes, which were undocumented "ways of doing things". This was more like general feedback from both parties and did not point out any specific area. Some of the comments seemed to indicate that informal decision making often seemed to be the preferred way of operating. For example, one customer representative said *"… there is no need to run everything through a formal process as what can be decided bilateral or between 3-4 people, should be handled this way"* (CH_CU_03). Another thought was that in cases where *"… service level agreements are met, I'm of the opinion that more formal agreements are not the way to go as this is not going to take us any further"* (CH_CU_05). As will be discussed later, there were no formal service level agreements in place between IT Services and their internal customers, hence references to SLAs would more likely be about how the customer experienced the IT services. Even within ITS, where the need for more formalized processes was recognized, there was a notion that less formalism could also be a strength in terms of dealing with the customers. This since operating with less formal processes would allowe *"a degree of flexibility"* (CH_IT_05).

Among the processes explicitly governing elements of the intracompany relationship, *project management* was considered to be the most developed and mature. This particular process was mentioned by all representatives from ITS and the majority of the customers when asked what formal processes were available. As part of any project IT performed on the business' behalf, a *PID* (*Project Initiation Document*) was written. The PID included standard components like timeline, budget and expected outcome, and had to be approved by the requesting customer. In addition to the PID, other outcomes were bi-weekly status reports and a monthly report with updates on project financials, risks and issues. The other prominent process that helped govern the intracompany relationship was

ITS' *change management process*. In addition to being a defined process, a dedicated part-time resource and software tool were available to manage customer's requests for IT changes. Here the gap between IT Services and its customers in terms of alignment could be observed in some comments from ITS representatives. As an example, one stated that *"the customer does not have much of a change management process within the business, which makes it difficult to create an awareness that something like this is necessary"* (CH_IT_04).

In terms of other areas where both IT Services and other organizational units interacted there was little, if any, evidence of formalized processes. This included *Facilities*, with location moves, and *HR*, who interacted with ITS in, for example, the hiring and exit process of employees. When asked which processes would benefit from being formalized through a written and mutually approved document, the answer from one ITS representative was basically everything covering more than one individual team. Failing to do so would result in a *"number of uncertainties that leads to, from a customer's perspective, inefficiency"* (CH_IT_05).

5.3.4 Contracts

As pointed out above, there were no written *Service Level Agreements* in place between IT Services and its internal customers. Three out of five IT representatives considered this to be a weakness in governing the intracompany relationship. One of the arguments was that *"service level management as a whole, with the process and everything is very important to me as this will make a bridge [to the customer]"* (CH_IT_04). As part of a service level management process, ITS were looking for a single point of contact on the customer side, with whom they *"would meet and negotiate the services and conditions"* (CH_IT_01). On the other hand, ITS' trust in the customer's ability to negotiate and manage services was limited and hence *"we might have difficulties achieving the service level towards the business as the business doesn't know how to deal with internal services"* (CH_IT_01). One

motive for having formal service level agreements, expressed by the majority of the ITS representatives, indicated wanting to control the workload and resources rather than higher flexibility. The situation without SLAs was considered to be problematic as *"we receive orders of work that must be completed ASAP and it is not possible to address this without a contract"* (CH_IT_02). Having SLAs would allow ITS to confront the customer with a pricelist and thereby hope to moderate what was sometimes seen to be unreasonable requests or to avoid *"that the one who screams the loudest will be served"* (CH_IT_02). SLAs would also *"define the requirements together with the customer and ensure that the whole service, including organization, manpower, and skills, according to the requirements … can be made available"* (CH_CU_04). SLAs should also help ITS verifying customer's claims that certain services were more important and hence required higher priority. With the support of SLAs it was argued that ITS would be able to refer the customer to a written agreement, which would be used to make priorities.

From the customer's perspective, there was also recognition that SLAs were missing, but the benefits from SLAs were perceived differently. One customer's comments regarding ITS' services was that *"what I'm missing is an overview of where I can even obtain certain services"* (CH_CU_02). Another expected that *"a listing of service level and responsibilities from both parties would make sense to have but not to start with paragraphs and details"* (CH_CU_03). This gave the indication that SLAs could serve as an information purpose, rather than being used as a formal governance mechanism. Therefore a service catalogue, with a listing of available services, would be sufficient. Overall there was a rather negative attitude among the customers towards too much formalization since *"within the same company … it brings nothing to start creating contracts"* (CH_CU_03). This supports the observation made earlier regarding the lack of processes and a preference for informal decision making wherever possible. Further, SLAs were seen as potentially disruptive to the intracompany relationship. This is because conflicts would be solved through pre-defined

formal processes rather than handled on a personal basis. The researcher also noticed a rather unclear understanding of what format an SLA should have. One interviewee suggested, for example, to have a one-page agreement without specifying acceptable levels of availability or consequences for services not being available.

According to IT Services the reason why there were no SLAs in place *"is not because IT did not want this but because the business has refused it"* (CH_IT_03). The customer's motive, according to the same ITS representative, was that SLAs *"restrict the options of the service receiver"* (CH_CU_03). Having the possibility to restrict the frequency and type of service requests was exactly what ITS were looking for in SLAs. The SLAs should be there *"to protect ourselves"* (CH_CU_03). Three customer representatives presented a different argument as to why having SLAs was low on their list of priorities. Because of the business KPMG operated in, there were few, if any, service disruptions that would put the company out of business if they were unavailable for several days.

In summary, IT Services wanted to establish a more formalized relationship with their internal customers to better control the pipeline of requests and projects. The internal customer did not see the same need to formalize the relationship, mainly because it did just that – restrict their flexibility.

5.3.5 Summary of formal governance mechanisms

There was little evidence of formal governance mechanisms in place regarding the intracompany relationship between IT Services and their internal customers at KPMG Switzerland. Some operational processes were used to govern specific elements of the relationship, for example the delivery of projects. The data gathering and interpretation identified a gap between the two parties in terms of what level of formalization was required. The perceived importance of IT, as well as the customer's preference to keep as much decision making and overall interaction as informal as possible, caused the gap. The

following quote sums up the customer's position in that *"I cannot accept that ITS starts with a formal attitude. I understand that they want to cover themselves but I don't quite understand this level and form of formality"* (CH_CU_05).

The next sub-chapter will look at informal governance mechanisms within KPMG Switzerland with the objective, among others, to understand how such mechanisms were supplements for a more formal approach.

5.4 Intracompany relations and use of informal governance mechanisms

5.4.1 Introduction

As concluded above, KPMG Switzerland had few formal features to govern their intracompany relationships. The discussion in Chapter 2 showed how elements from TCE (Williamson 1979; Williamson 1985) and SET (Homans 1958; Emerson 1962) could be used alone or in combination to govern intracompany relationships. In the case of KPMG Switzerland, with its limited use of formal governance, it would be particularly interesting to see whether or not informal features were used as part of a governance strategy. The findings presented in the section above on formal governance have already provided some indication that informal interaction was a preferred method of operating by representatives on the customer side.

This sub-chapter starts with the findings regarding *power* and influence before covering the elements of *trust* in the intracompany relationship. As a third informal component, *interpersonal relationships* will be covered. These were the applicable informal governance mechanisms identified in Chapter 2.

5.4.2 Power

Responses from both IT Services and the internal customers at KPMG Switzerland gave indications of both a deliberate use of power as well as examples of *competence power*, i.e. units operating within their approved area of decision making. The feedback also showed how the concept of power can be understood in a number of different ways. The word for *power* in German is *Macht*. Since the interviews were conducted in German, the word *Macht* was also used as a translation of *power*. Without having performed any in-depth studies, the majority of the responses indicated that the respondents associated the word with a negative

outcome. For example, one of the respondents felt that *"we have overall a problem with the word "power" here in Switzerland"* (CH_CU_05). Two of the total number of respondents (one was a customer and the other was with ITS) answered that ITS had the power to improve how IT was used within KPMG, which indicated a more positive association with the concept of power.

When discussing the internal customer's actual or perceived power and how this was used towards IT Services, one set of responses focused on various types of *escalations*. For example, according to one of the ITS representatives the way some of the internal customers raised their request (in terms of a queue) was *"the one who screams the loudest becomes what he wants"* (CH_IT_01). This "screaming" was expressed by escalating demands directly to the CIO and thereby making sure they would get the services they required. One ITS representative even went as far as referring to "daily escalations" where the customer *"tries to push his will through. It doesn't interest him when we say that there is a policy or a regulation or whatever"* (CH_IT_05). Interestingly this position, expressed by two of the ITS representatives, was not supported by the other members of ITS. One felt that the relationship with the internal customer was *"collegial and in those cases where issues have been escalated the majority of them have been justified"* (CH_IT_02). There were also those who felt this selfish behavior was more a thing of the past, when heads of business units would say that *"this is my software, this is what I want, and this is what I purchase, and this is what should be installed"* (CH_CU_03). Increased cost awareness and tighter management control were seen as reasons why such individualistic behavior was now seldom the case. That said, when power was used by partners to ensure that ITS prioritized their particular requests it was impossible for ITS, or any other internal service provider impacted, to do anything but react. This often led to frustrations among the ISPs, as *"you have not even been given a fair chance to defend your position first"* (CH_CU_04).

From the customer's perspective there were several examples given where power had been exercised towards IT Services, either in the form of escalations or simply through decision making. One pointed out that *"there are situations where I can offer ten solutions but they are bound to want number eleven. ... I think IT Services must be able to cater for basic needs as well as possible and then we can discuss exceptions"* (CH_CU_02). Further, if ITS showed an inability or disinterest in catering for KPMG's external customer's demand, *"I have no reservations against going further up to demand a decision"* (CH_CU_03). The same customer justified the use of power towards IT Services, as well as other internal service providers, because of an *"embedded conflict between the requirements that our customers have to those of the internal services. This again leads to situations where you simply have to push certain things through"* (CH_CU_04). Catering for the customer's interest went as far as pushing KPMG's technology standards aside, which was something ITS would need to accept. This statement was supported by others as *"there is an unwritten rule that the one who is serving the external clients is always right"* CH_CU_04).

In the researcher's opinion this underlying conflict between securing KPMG's IT assets versus the interest of the external customer is not unique to KPMG. All the same, it underlines the need for both parties to ensure that communication channels are working both ways as well as a mutual level of trust and recognition that both parties are acting in the overall interest of the company.

In terms of ITS having any form of power towards the internal customers, one ITS representative pointed out the area of security. Based on security policies, ITS would decide what gets implemented and what does not based on the solution's potential impact on security. This would be an example of ITS exercising a negative type of *competence power* that is preventing a request from being implemented. Obviously if this prevention helped with safeguarding KPMG's data assets it could be hard to argue against the decision. There was also a notion among ITS representatives that they had the possibility to exercise a more

positive type of power. One of the interviewees referred to the specific know-how IT Services had of information technology and how this know-how could be used to influence the customer's use of technology. Some of the ITS representatives were also sensitive to the fact that the proprietary IT know-how could make some of the business users feel too dependent upon IT Services. This again could result in people on the customer side "feeling powerless" (CH_IT_02). One of the ITS respondents acknowledged that in order to avoid a sense of powerlessness among the customer a focus had to be put on building trust. In this particular case it would mean that the customer trusted ITS' ability to manage the technology in the best interests of the firm. On a related topic, one of the customer representatives also pointed out that he had no examples where ITS had deliberately used their position to exercise power towards the customer.

The opportunity of IT Services to exercise positive power was also acknowledged by the customers. For example, one customer representative stated his vision of IT within KPMG where ITS *"could deliver the technology around how people work"* (CH_CU_01).

In summary, the interviews confirmed that power would occasionally be used in governing the intracompany relationship. Where the opinions differed was regarding whether or not all types of power were justified or not. From ITS's perspective there were respondents who generally disapproved and others who expressed an understanding. The customer representatives had a clearer standpoint in particular if serving KPMG's external customers that were dependent on the delivery of IT services. In such cases even setting established and agreed IT standards and processes aside might be acceptable.

5.4.3 Trust

According to all of the ITS representatives there was a high degree of trust between the two intracompany parties at KPMG Switzerland. The customer representatives supported this view, although *"if you had asked me this question two years ago – there were problems but I*

think they are now solved" (CH_CU_01). Another said that his impression was *"that the people from my side that have regular dealings with ITS used to have a more suspicious attitude towards IT"* (CH_CU_04). Only one customer representative had a slightly different view and related this to individual representatives from ITS. In dealing directly with some members of IT he trusted deadlines to be kept, whereas others had to be controlled. Still, overall the trust was welcomed as it helped shape a collegial culture. It also made activities such as budgeting easier as ITS had *"earned their [the executive committee's] trust"* (CH_IT_04). On the other hand, too much trust with little or no control could make the internal service providers complacent and questions would eventually be raised *"if the services could not be obtained better and cheaper externally"* (CH_IT_02). One reason why trust had been established between the two parties came from a closer alignment between ITS and the internal customer, according to one of the ITS representatives. Another reason was seen in the so-called *KPMG values*, which addressed the behavior of all staff and their interaction with each other and KPMG's customers. Further, the partner model was seen as a source of trust, as within companies with traditional management structures there is *"less identification with the firm"* (CH_CU_05).

In those cases where control measures were required, for example around IT security or when deadlines were not kept, it would be important that ITS did *"announce that you are controlling and then everybody knows and should not be surprised when he or she is impacted"* (CH_IT_05). Having too much control would potentially come at a high price as *"too strict control mechanisms ... create mistrust from both parties"* (CH_CU_02). A certain level of control was also seen as required when dealing with requests from the Audit part of the company in order not to violate any independence requirements. According to one of the customer representatives these requirements were less of an issue within the Tax and Advisory units which allowed a higher degree of trust.

5.4.4 Personal relationships and the time factor

The interviewees at KPMG Switzerland had been employed there for different lengths of time. Some had been with the company for more than 10 years and had well-established personal relationships within all areas of the company. Others were recently employed and obviously had not yet established the same types of network. Because trust in most cases requires time to develop (SOURCE), the length of service was relevant to what level of trust could be expected in the intracompany relationships. As stated by one of the customer representatives: *"In cases where you know the other part personally, there will be more an element of trust. On the other hand, where this relationship is not established it will be more focused on controls"* (CH_CU_03). Another customer representative, who had been with KPMG more than 10 years, also commented that the relationship *"has grown with the people over the years, and somehow it has developed into a working relationship"* (CH_CU_06). Personal relationships were also appreciated when *"you try to explain to someone why something cannot be done"* (CH_IT_01). Even among those who had quite recently joined KPMG there was a sense that the culture within the company was based on a *"very collegial relationship and [which made it] easy to communicate"* (CH_IT_02). For other representatives within IT, *relationship* was mainly linked to the establishment of formal processes for service level management around ITIL mentioned at the start of this chapter. Relationship activities were expected to *"create awareness within IT Services, but also within business"* (CH_IT_04). Within ITS there were those, in particular respondents, who had been with the company for a longer period of time, that had established good personal relationships with individual customers, including decision makers, simply by interacting on a personal level. Then, as mentioned above, there were members who looked to establish relationships as part of formal processes. In the researcher's opinion both approaches are valid and a combination would probably be the most appropriate option, as this introduces some structure but, assumedly, still ensures an effective dialogue.

At least one of the responses from the customer representatives gave indications that ITS were perceived to follow formal processes rather than first going down the personal route. An example was given where escalation of issues related to project deadlines but where ITS would *"start with a formal attitude"* rather than *"picking up the phone or send a meeting invitation to discuss"* (CH_CU_05) the issue. In such situations *"the personal contact is very important"* (CH_CU_05).

5.4.5 Summary of informal governance mechanisms

The interviews with the representatives from KPMG Switzerland confirmed that certain types of power were used in governing the intracompany relationship. Power, or rather the use of it, was also seen to have some positive effects. For example, it could be both effective and useful in moving issues along or for ITS to positively influence how employees were working. Feedback from the interviews also concluded that the relationship between ITS and its internal customers was more based on trust as opposed to control. To some extent control could be difficult, as the mechanisms, for example processes and skills, were not available. Finally, the interviews also indicated that trust was to a large extent established as a result of long-term personal cooperation and interaction.

5.5 Summary of case study KPMG Switzerland

The case study covering the intracompany relationship between internal IT and its customers at KPMG Switzerland presented different findings to those in the UK. Exactly *what* those differences were and possible reasons *why*, will be discussed in Chapter 7. As a summary of the Swiss case the findings showed that the intracompany relationship was mainly done ad-hoc. There were few formal governance features, like organizational units and processes, available on the relationship. Informal features, like trust, were available but to some extent it was not clear what was a result of KPMG's internal culture and where IT Services had worked to earn the customer's trust. In addition, there seemed to be a preference from several customers to avoid most forms of formal governance.

The next chapter will present the final case study, which was done of the intracompany relationship within KPMG Germany.

Chapter 6 – Findings from KPMG Germany

6.1 Introduction to case study on KPMG Germany

KPMG Germany is the third and final case study conducted for the research project. It also follows the same outline as the two previous cases with an introduction that focuses on IT Services' *alignment* with their internal customers. This is followed by a chapter on *explicit* and *informal* governance mechanisms. Finally, the findings from the intracompany relationship within KPMG Germany are summarized.

6.2 KPMG Germany and its internal IT

6.2.1 Introduction

During the time of the data gathering IT Services within KPMG Germany had a very different business model compared to those in the United Kingdom and Switzerland. German regulations prohibited internal IT within an *audit* company from supporting other units like, in the case of KPMG, *tax* and *advisory*. The solution was to establish *KPMG IT Services* as a separate legal entity, which was the situation when the merger with KPMG United Kingdom was announced. The German IT Services had KPMG Germany as its only customer but followed required regulatory business practices with formally issuing offers and charging for its services. Even though there were examples where IT Services in Germany worked with a specific business unit to provide solutions to KPMG's customers, their main objective was to provide a service to the internal customers.

This model was unique for IT and did not affect other internal service providers like finance, HR and facilities. The particular organizational structure for IT Services also had an impact on the governance model where the relationship to non-IT ISPs *"runs much more informally"* (DE_CU_01).

Another area where IT Services in Germany differed from its counterpart in both the UK and Switzerland was the integration of staff between business functions and ITS. There were a number of employees who had transferred from the business to IT on a permanent basis, and thereby improved ITS' understanding of business processes and requirements. In addition, both IT and the business IT functions aimed to build joint project teams in developing and implementing IT solutions for individual business customers within KPMG.

Extensive use of joint virtual teams on the one hand, and a formally structured relationship on the other hand, improved IT Services alignment with KPMG Germany overall. This will be discussed further in the next section.

6.2.2 Alignment of business and IT

Even though there might have been more interaction between IT Services and their internal customers in Germany compared to the UK, there were also a number of similarities between them. In terms of *service model*, ITS within KPMG Germany were mainly responsible for infrastructure and support, whereas the various business functions provided the business specific applications. This was similar to the UK model. One example was the application *DATEV*, which was used for filling out tax returns and was widely used in Germany. The application was provided by the external company DATEV, customized and supported by technology staff within KPMG's Tax department, and finally hosted by IT Services. ITS would be responsible for interfaces between applications, including data transfer. Regarding the applications used within all German units, the model was slightly different. Here ITS, as opposed to specific business units, provided much of the functional support. An example was the support model for SAP.[9]

The particular legal structure of IT Services in Germany was based on a support agreement of a 5-year duration, during which no party could choose to opt out. Any profit that IT Services would make, as well as any losses, would be transferred back to KPMG Germany and as such have a direct impact on the financial results of KPMG Germany overall. Hence *"our legal structure is fully irrelevant in terms of being an organizational unit"* (DE_IT_01) within KPMG Germany. What this meant was that the German IT Services were treated the same way as other ISPs in terms of financial targets, adherence to KPMG standards, and more. The financial integration of IT Services in the overall organization helped with ensuring an alignment in terms of goals and strategy.

It was mentioned in the introduction to this chapter that IT projects at KPMG Germany were more often – than what seemed to be the case with the UK – staffed with

[9] SAP is software used for so-called *enterprise resource planning* (ERP), for example running HR, finance, or procurement processes.

representatives from both IT Services and various business units. This increased the understanding of business specific processes within ITS. According to a representative from ITS the support of business users and applications were the areas where IT was considered to perform particularly well.

The statement that IT Services were particular good at supporting individual business requirements was only partly confirmed by the business representatives. Because the business *"wanted to have an IT service provider that did not only provide traditional IT service products but also a partner that could support business processes"* (DE_IT_04) the expectations were high. In order to provide value, IT Services were expected to not only understand a business' needs but also to react quickly to any request raised. This expectation in terms of speed and flexibility often conflicted with another part of ITS' strategy, which was providing a stable and cost effective IT infrastructure. Here ITS would prefer standardized processes and technologies, which often conflicted with the request for flexibility. As one IT representative put it: *"we have limitations when it comes to implementing functional IT requirements in a centralized solution"* (DE_IT_04). When prioritizing between catering for individual business needs and providing a less flexible but more cost effective environment, ITS seemed to prefer the latter. Just as this was a preference from an operational effectiveness perspective, the majority of the ITS respondents also recognized that individual business requests in most cases had higher priority. This seemed to be particularly the case towards *Tax* due to a lack of shared understanding between the internal customer and service provider. ITS would *"try to make sure they (Tax) are compliant in terms of security, network and so forth"* (DE_IT_04) but would otherwise leave this customer alone to implement its own IT solutions.

These conflicting priorities between frequently implementing new solutions on the one hand and running a stable infrastructure on the other was seen by one customer representative as clearly a limiting factor in terms of flexibility and providing "valued

added" IT. ITS seemed to be *"in a constant conflict with itself in terms of positioning"* (DE_CU_03) between these two options. As a result, development work was given to external service providers or, as in the case with Tax, done by developers within individual business units. Governance in terms of formalization, like for example SLAs, was also influenced by this inherent conflict, which will be discussed in more detail later in this chapter.

In terms of the support model, partly driven by ITS' setup in the UK, the topic *outsourcing* was also covered in the interviews. All four IT representatives were of the opinion that the service level would deteriorate if external service providers were relied upon. The reduced quality, according to the ITS respondents, would probably be accepted by the internal customers if there were considerable savings. From the business side, all five respondents supported a limited use of outsourcing – and not only for financial reasons. One argued that anything not directly supporting KPMG's core business should be outsourced as a matter of principle. Two others agreed to outsourcing in principle, but drew the line where there was a direct interaction between the internal customer and IT Services. In particular having to interact with a non-German speaking helpdesk was a "show stopper". Programming or support of the back-end IT infrastructure was considered to be candidates for outsourcing.

6.2.3 Summary

In terms of outsourcing, one could summarize and say that IT Services were acknowledged for their contribution to the business when and where there was a direct interaction between the two parties. Infrastructure services, and certain parts of software development, could potentially be outsourced as they were considered to be commodities. In both cases IT Services would be held accountable for the overall service delivery.

In terms of alignment between IT Services and KPMG Germany overall, there seemed to be a close link both in terms of strategy, financials and operations. Where there were different opinions in terms of ITS' role was regarding individual solutions versus maintaining standards. Exactly how the relationship was managed in terms of both formal and informal governance mechanisms will be discussed in the next two sub-chapters.

6.3 Intracompany relations and use of formal governance mechanisms

6.3.1 Introduction

Because of the particular legal set-up between "KPMG IT Services GmbH" and KPMG Germany overall, a more frequent use of formal governance features was to be expected compared to the UK and Switzerland. Assuming this would be the case, exactly what and how this would be perceived by both the ISP and the internal customers will be discussed below.

6.3.2 Organizational structures

At the time of the data gathering, IT Services at KPMG Germany had been operating a dedicated **Customer Services** team for nearly five years. The team consisted of four members, who between them managed the ongoing business relationship with ITS' internal customers. The background was that *"we did not sense that people were really communicating as well as they should, in particular when it came to other colleagues from technology"* (DE_IT_05). There were also complaints from the internal customers that IT Services were spending too much money on implementing business solutions since they (ITS) did not fully understand what the business really required.

The team's goal was to gather requirements from the internal customers and, together with a technical project manager, respond with an appropriate solution. Further, the team members met with their respective business counterparts twice a year to discuss the quality of ITS' services. These discussions would be supported with service reports, including those where service levels had not been met. Around the time of launching critical services, like for example the Internet for KPMG Germany, there would be more frequent meetings about service quality and performance. There was also a yearly strategy session which made sure that ITS understood which applications and services would be critical to

the business for the upcoming year. As a fourth activity, the customer services team issued monthly reports to P&L managers within the business of IT costs incurred during the last period. As a further element in terms of governance, the internal customer used the customer services team as an escalation partner. This will be discussed in more detail below under the section on *power*.

Based on the feedback from the internal customer representatives, the customer services team and their services seemed to be well appreciated. Having a single-point-of-contact, who also had a fair understanding of how the business operated, meant that *"we don't have to search for several contacts within ITS"* (DE_CU_03) but also that the relationship manager could *"channel and to some extent drive"* (DE_CU_03) forward the requirements from the customers. When asking another customer representative how the outsourcing of certain IT services would be an issue in terms of the provisioning of IT services, only the customer relationship function was explicitly mentioned as one that should not be a candidate for outsourcing.

KPMG Germany did not use an IT **Change Advisory Board** (CAB) to discuss IT changes that could have an impact on the customer's operations. Changes related to SAP were tracked in a module within the (SAP) application, but this did not always mean that the customer was involved in the change. The consequence was that a number of changes to the IT infrastructure and services were implemented without the customer being aware. Alternatively, awareness was based on verbal communication and not by using a formal process and tools.

Similar to KPMG in the UK, Germany had also established an **Infrastructure Board**, where the heads of IT, Finance, HR, Communication and Risk Management would meet once a month. The Board's task was similar to that in the UK, in that all internal service providers were given a joint budget and any increase by a single service unit had to be compensated with reductions for others. The Board would also make joint decisions, like

for example how projects involving more than one service unit should be budgeted and staffed.

In summary, the **Customer Services** team was the most evident example of a dedicated organizational unit to manage the intracompany relationship. Other units, like the Infrastructure Board, ensured a level of coordination between the different ISPs but did not explicitly manage the customer relationship as the Customer Services did.

6.3.3 Processes

The fact that IT Services in Germany at least formally functioned as a separate legal entity meant a number of formal processes were required. In terms of the intracompany relationship this particularly applied to how offers were provided, how time was booked and, finally, invoiced. Once the scope of a particular piece of work had been agreed between the two parties *"we expect an offer in which the details of the work and the price are listed. From there on it becomes rather formal"* (DE_CU_02). To keep control of the IT related costs, and in particular those resulting from work requested from IT Services, only designated people on the business side had the authority to request and approve offers. In addition, there would be a monthly invoice which detailed the work and would be matched against the corresponding offers. Representatives from the internal customer side confirmed that interactions within KPMG Germany overall tended to be much more informal than those between IT Services and KPMG. This was mainly due to what was driven by the legal structure.

In addition to the offering and charging processes, there were a number of operational processes which one would expect to find within a major sized IT organization. This included support processes for all core applications and change management processes.

Not just the legal structure but also the complexity from dealing with a number of individual internal customers required formal processes to govern the interaction. A lack of

sufficient formalization would only *"lead to the relationship getting out of control"* (DE_IT_03). In addition, it was argued by one ITS representative that the rather flat hierarchy, with corresponding high level of responsibility assigned to individual managers within ITS, also required certain formalization. Established processes, understood and practiced in a similar manner by all involved, helped govern the interaction between the two parties.

To summarize the short discussion on processes, it can be stated that operational processes were in place as per best industry practice. In addition, there were a number of processes available as a result of the legal structure, in particular about how project work by ITS was formalized.

6.3.4 Contracts

Just as the particular legal situation of IT Services resulted in a number of processes to govern their relationship with the internal customers, the same applied to contracts. In addition to the project specific contracts discussed above in subchapter 3.3, IT Services also managed a number of **Service Level Agreements** with their customers. These were not legally binding agreements but rather service descriptions which ITS worked toward. The SLAs focused in particular on the availability of systems and applications where the maximum outage allowed per year was stated. In cases of breaches, in other words services being unavailable longer than agreed, IT Services would be penalized through reduced payments. Approximately 250 SLAs were in place between ITS and their internal customers, where the main criteria was to cover all services of a particular complexity or criticality. According to one of the representatives from IT Services, and this corresponds with the researcher's own experience, the SLAs including external partners were much more detailed than those only including IT Services and their internal customers.

As was discussed in sub-chapter two of this case, a 5-year contract had been signed between IT Services and KPMG Germany. Both financials and operational goals were agreed between the two parties on a yearly basis and therefore IT Services operated very much as any other internal service unit within KPMG Germany. Having less detailed internal SLAs also had the advantage that ITS could in most cases react in a more flexible manner to a customer's request. On the other hand, it *"makes our life more difficult as there is nothing to refer to when, say, the requests come too fast and frequent"* (DE_IT_04).

6.3.5 Summary of formal governance mechanisms

Even though the relationship between IT Services and KPMG in Germany strictly speaking was not intracompany based but rather between two legal entities, there were a number of characteristics similar to those in place in the UK and Switzerland. Goals and budgets were discussed and agreed on a yearly basis and management within ITS were held accountable when targets were missed. There was an extensive exchange of resources and information between the two parties. There was also no evidence to suggest that any of the parties regarded the relationship to be anything but an intracompany one. The model with two legal entities, and its corresponding level of governance, was driven by external regulatory requirements and did not reflect a particular wish from senior management.

Because of the legal structure there was a level of formalization that probably went beyond what the parties would consider necessary to maintain an effective relationship. As a consequence, formal governance features were kept to a level that reflected the size and complexity of ITS' operations. Because the topic of *outsourcing* was very much present during the data gathering, there was recognition by ITS' management that their level of formality towards the internal customers would need to be *"broken down at least two more levels"* (DE_IT_01) if the support model would include more external service providers.

In the next sub-chapter we will look at how informal governance was used both as a supplement and alternative to the formal mechanism just discussed.

6.4 Intracompany relations and use of informal governance mechanisms

6.4.1 Introduction

In Chapter 2, power, trust and personal relationship were identified as relevant informal governance mechanisms. The feedback from the German representatives referred to two types of power used in the intracompany relationship between IT Services and its internal customers. One was the use of hierarchical *escalations* and the other was how occasionally *pressure* was used by the customer to obtain preferential treatment, for example in terms of more resources. Questions were also asked about perceptions of ITS' possibility to use power in their dealings with their customers. This theme also linked to the level and types of functional power which IT Services would have embedded as part of their operational model.

6.4.2 Power

The first theme related to power, actual or perceived, and its explicit use in the intracompany relationship, looked at types and usage of *escalations*. In the eyes of the internal customer *"escalation is in itself nothing bad"* (DE_CU_03) but rather an established element of the ongoing interaction between the internal service provider and their customer. According to a customer representative, escalations were particularly justified *"when jobs are done with a higher than agreed cost or deadlines are not kept"* (DE_CU_04).

The established escalation path, which was confirmed by all respondents within both parties, started between the ITS Customer Services contact and the customer representative. These escalations were mostly used when ITS did not, for whatever reason, provide sufficient resources for the customer to complete a task or meet a deadline. Where this escalation level did not have the desired effect, i.e. the customer was still unsatisfied with

ITS' performance, an escalation to the CIO by the partner of the affected business department would be the second level. A third, and final, escalation level would be to present the case to KPMG Germany's Chief Operating Officer (COO), who would have the final say and make a decision. According to one of the ITS representatives *"this is the formal escalation path but it has never been used"* (DE_IT_01). There was also a comment made on how decisions were often made informally among senior representatives within the business units. These types of decisions often left ITS no other choice than to implement the customer's request. This was even the case when the requests were *"outside our standards, and which we really should not be doing"* (DE_IT_05).

In addition to the use of escalations as a mean of exercising power, *pressure* was mentioned as another mechanism by a number of the respondents. According to one ITS representative, pressure from the business was exercised so often that it was very much a standard form of interaction. Driving this was that *"everyone wants to have the world's best laptop but only pay a regular price … each one is the most important, everyone thinks he has first priority and everyone uses the external customer as a mean of pressure and thereby expects things to happen"* (DE_IT_01). This type of pressure was not only utilized by senior business representatives. Even *"an assistant who has been here two weeks can boss IT around and let us know what we have to do"* (DE_IT_05). According to the same ITS representative, this type of pressure was simply *"part of our KPMG culture"* (DE_IT_05). This was confirmed by most of the business representatives because *"when someone is pushing their will through, the (internal KPMG) values (regarding interaction) are lost"* (DE_CU_01). One ITS representative considered KPMG's type of business to be one reason why pressure was frequently exercised. Often pressure was exercised to make changes to core IT infrastructure, like for example SAP, faster than normal change procedures would allow. This meant accepting a potentially higher risk by, for example, reducing time to do the required testing. The ITS representative sometimes found it hard to withstand this

pressure as *"the firm does not run into problems if the system is unavailable for a day, or even a week"* (DE_IT_04). In other words it was difficult to use operating processes as an argument if the risks were not sufficiently justified or plausible.

There also seemed to be a common appreciation among both IT Services and the internal customers as to when using pressure was actually justified. This would be when it could be proven that faster reaction, even at a higher risk, would result in increased revenue for KPMG. On the other hand knowing when the *"revenue argument"* was justified or not was sometimes difficult for IT Services to judge.

Just like with the other IT Services units in the United Kingdom and Switzerland, the German unit had a degree of *functional power*. For example, IT Services at KPMG Germany were granted the authority to decide the standards and pricing of their products. In this area *"the business has no right to interfere"* (DE_IT_01). Granting this functional power to ITS was the only sensible thing to do in order to avoid situations where *"everyone would have a server under their desk"* (DE_IT_01). This autonomy, where each business unit would decide their IT standards, would have increased complexity and the overall cost of operating IT within the firm. That said, *"our argument is that we provide high quality services and there is no need for the customer to do it themselves"* (DE_IT_04).

Having the functional power, just like any other internal service provider, implicitly meant that the customer accepted a dependency on IT Services, and in particular ITS' expertise know-how within their functional area. This expertise could also be seen as a positive factor in ITS' interaction with the internal customer. For example, when a business representative would come up with a business idea that required an IT component, it was expected that ITS *"brings a level of experience"* (DE_IT_05).

Overall, ITS representatives saw functional power as something positive as long as it was not misused and would *"start using power for its own purpose or because the other party simply does not have the sufficient know-how to understand what you are saying"*

(DE_IT_05). The risk that IT Services would misuse its functional power was considered to be low, as this "*would soon result in heads rolling"* (DE_CU_02).

Summarizing the responses regarding the use of power, it can be said that both escalation and use of pressure were accepted mechanisms to be used in the intracompany relationship. The focus on revenue and on catering for the external (paying) customer justified power as a mean to achieve results. Summarized by a representative from ITS, *"our customers know better than us what the problems the people in the front are facing and also what can make their life easier and here we have to listen"* (DE_IT_04). With that there was also acceptance that individual representatives on the customer side would try to use pressure and escalations even if this would not always be justified in the eyes of IT Services.

6.4.3 Trust

The second informal governance mechanism studied concerned *trust*. Linked to trust is also the use of *control*. Even if KPMG's IT Services in Germany was established as a separate company, the perception provided was that the relationship with KPMG's internal customers was based more on trust than control. The legal set-up dictated much of the need for control functions. This included formal offers for work requested to be done by ITS, signed-off by the customer after completion, and ITS issuing an invoice at the end. Representatives from the customer side confirmed that invoices were controlled for ITS work of more than 3-4 days in duration. Work of a shorter duration was invoiced but not subject to the same level of control. Control was mainly held by comparing the details in the offer with those on an invoice. Apart from this, one customer said controlling of the actual work was difficult, *"as we do not have the specific IT know-how"* (DE_CU_04).

Apart from this the perception from the majority within both units was that the relationship was running smoothly because it was more based on trust as a governance mechanism. Different to the UK, where a large portion of ITS' services were outsourced, IT

in Germany was *"much more involved with the business"* (DE_IT_01), which again resulted in more trust. Another source for building trust was, according to another ITS interviewee, the position which ITS had built up within the business as being considered experts in their area of work as well as having a level of *"business know-how"* (DE_IT_03). Understanding business processes in general, and audit processes more specifically, were considered key to advising on how IT solutions would impact particular business processes. This trust allowed ITS to *"operate on a trust basis, including trust in our ability to do our job"* (DE_IT_04).

An interesting deviating opinion came from an ITS representative who expressed a desire for more control from the customer's side. Except from this particular opinion, all ITS respondents seemed to regard the level of formality as sufficient. Such increased control was believed to improve the customer's *"acceptance … thanks to more transparency as to what we are doing"* (DE_IT_05). Here control was seen as a useful mechanism to actually improve the intracompany relationship and not as a reaction to, for example, lack of trust.

Even if the intracompany relationship was mainly governed by trust, as we discussed earlier, there was mutual agreement that core processes had to be defined and implemented in order for the relationship to work efficiently. In the few cases with issues with the relationship, this seemed to be more often caused by individual actions where there was a lack of formal processes to guide decisions. In such cases one would need to *"intervene in order to correct, but basically the cooperation works very well"* (DE_CU_04).

Summarizing the findings made regarding trust versus control, there were consistent statements from both parties that trust was the dominant element. Both parties seemed to prefer as little formalization in terms of control as possible. From this perspective it would be fair to conclude that the particular legal structure within KPMG Germany did not seem to considerably increase the transaction cost related to governing the intracompany relationship. One could rather argue that both parties accepted the constraints imposed in terms of legal structure but at the same time tried to minimize the impact this had on the governance model.

6.4.4 Personal relationships and the time factor

In the case studies conducted for KPMG in the UK and Switzerland, personal relationships, built up over a longer period of time, were a factor in building and maintaining trust. Findings from KPMG in Germany also confirmed the importance of personal relationships as a mechanism within informal governance, but the focus was somewhat different to those in the UK and Switzerland. All customer representatives in the study particularly pointed out the importance of good relationships with "their" account manager on the ITS side. Statements like *"I work together with XX, and it is quite unproblematic"* (DE_CU_01) or *"there is a huge dependency on XX"* (DE_CU_02) were examples of how a good working relationship was built around interaction with individuals within IT Services. In both examples "XX" was a named representative from the Customer Services team.

The importance of personal relationships was confirmed by ITS' representatives. For example, not only relationships on the senior management level but *"rather that between the decision makers within the various functions"* (DE_IT_03) were important. Having IT functional managers, who also understood business- and audit processes, was considered to be key to establishing good working relations. Obviously building up and maintaining such know-how, and subsequently trust, was a process that required time. Within IT Services *"you have those who have a deep understanding (of the business) and those with less"* (DE_CU_04). In other words, the level of know-how differed and one can assume that those with the longest service time at KPMG IT Services were more likely to have acquired good understanding of the KPMG business.

6.4.5 Summary of informal governance mechanisms

The particular legal status of IT Services in Germany versus KPMG overall might have justified more use of formal governance mechanisms. The findings from the case gave little

or no indication that informal governance mechanisms like *power*, *trust*, or *personal relationships* played a lesser role than in the other two cases. This confirmed statements that the legal structure was implemented to fulfill a regulatory requirement only, but had otherwise very little impact on the intracompany relationship.

Another interesting observation from the German case in terms of informal governance was how power seemed to be frequently used in daily interaction but conflicts were rarely escalated to a higher level. Nor did the use of power seem to have any particularly negative impact on the level of trust between the two parties. Here further studies into personal interactions within German companies in general would probably provide further insight.

6.5 Summary of case study on KPMG Germany

The intracompany relationship within KPMG Germany differed to those found in Switzerland and the United Kingdom, first of all in terms of the support model. Not only the particular legal structure, but also how IT aimed to position itself closer to the revenue generating parts of the firm. IT Services in both the United Kingdom and Switzerland had more focus on support, with different sourcing models, and were not so closely aligned with business strategy and requirements, as is the case with Germany.

The findings regarding formal governance showed that much of the formality governing the intracompany relationship was driven by regulatory requirements. Anything that was not required from a regulatory or efficiency point of view was ignored.

In terms of informal governance, *power*, *trust*, and *personal relationships* were relevant factors just like the case with Switzerland and the UK. As already observed, power, with *pressure* rather than *escalations*, seemed to be a way of "doing business".

The researcher got a clear impression that the internal customer considered IT Services to be an aligned service partner, which reflected the value IT Services put on establishing good relationships with their internal customers.

Chapter 7 – Comparing and contrasting findings

7.1 Introduction to chapter 7

Following the three case studies, this chapter will elaborate on the findings within all three cases. It first revisits the *research units* (internal IT and their customers) and *research subject*, which is the relationship between them. This provides an overview of the characteristics of the individual relationships. It does so by matching the relationships to those generic types suggested in table 3 (chapter 2). The review of the research subjects also covers the different types of alignment between the two research units. This review further helps in understanding the context of the relationships. Sections three and four of this chapter focus on the findings related to *formal* and *informal* governance features identified in the case countries. For formal governance this covers *dedicated organizational units, processes*, and *contracts*. The section on informal governance discusses findings around *power*, *trust*, and *personal relationships*. Summaries regarding the research questions and impact of the findings on both theory and practice will be covered in Chapter 8.

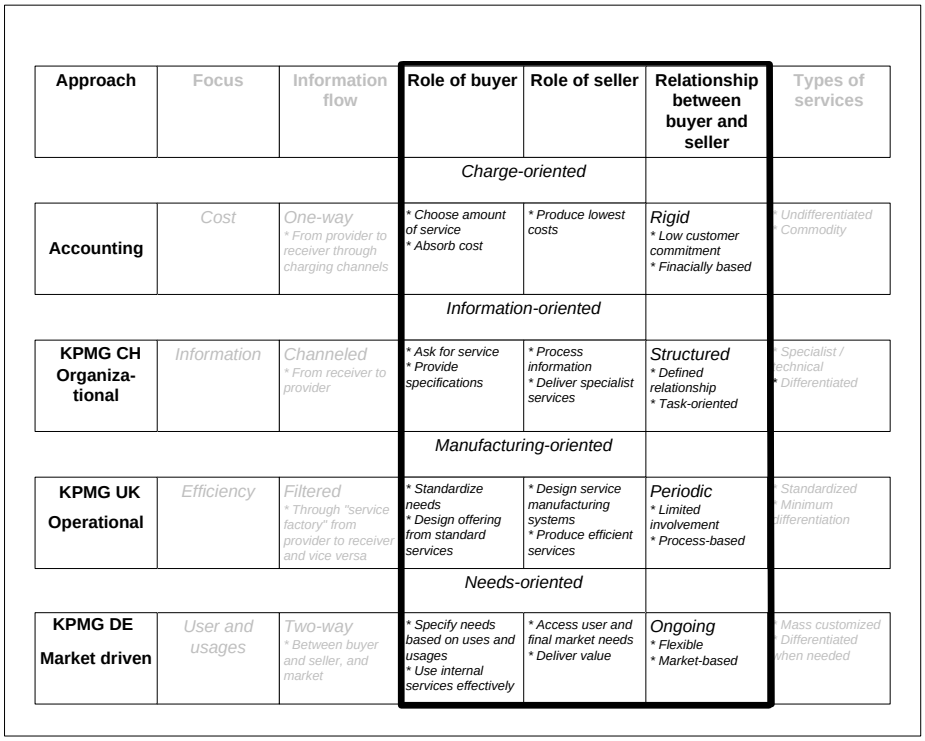
7.2 Comparing support models and level of alignment

7.2.1 Introduction

This section presents the three internal IT service providers, with a focus on how they classify according to Vandermerwe and Gilbert's (1989) model presented in Chapter 2. Thereafter the level and type of alignment is discussed. As pointed out in the case studies, alignment can be both strategic and operational.

7.2.2 Organizing the internal service relationships

The overview by Vandermerwe and Gilbert (1989) in Chapter 2 suggested four alternative approaches to organizing internal service providers. This covered the relationship between the service providers and their customers. Accepting that there are most certainly additional models available, Table 3 (page 25) does cover most of what the researcher considers to be alternatives for how to organize internal service providers (see chapter 2.2.2). Hence the table was used as a "baseline" to categorize the three IT units studied. This categorization is presented in Table 9, where the three columns *"Role of buyer"*, *"Role of seller"* and *"Relationship between buyer and seller"* are highlighted. These are the variables which the researcher considered to be particularly relevant as they addressed both the *research units* and *research subject*.



Approach	Focus	Information flow	Role of buyer	Role of seller	Relationship between buyer and seller	Types of services
			Charge-oriented			
Accounting	*Cost*	*One-way* ** From provider to receiver through charging channels*	** Choose amount of service* ** Absorb cost*	** Produce lowest costs*	*Rigid* ** Low customer commitment* ** Finacially based*	** Undifferentiated* ** Commodity*
			Information-oriented			
KPMG CH Organiza-tional	*Information*	*Channeled* ** From receiver to provider*	** Ask for service* ** Provide specifications*	** Process information* ** Deliver specialist services*	*Structured* ** Defined relationship* ** Task-oriented*	** Specialist / technical* ** Differentiated*
			Manufacturing-oriented			
KPMG UK Operational	*Efficiency*	*Filtered* ** Through "service factory" from provider to receiver and vice versa*	** Standardize needs* ** Design offering from standard services*	** Design service manufacturing systems* ** Produce efficient services*	*Periodic* ** Limited involvement* ** Process-based*	** Standardized* ** Minimum differentiation*
			Needs-oriented			
KPMG DE Market driven	*User and usages*	*Two-way* ** Between buyer and seller, and market*	** Specify needs based on uses and usages* ** Use internal services effectively*	** Access user and final market needs* ** Deliver value*	*Ongoing* ** Flexible* ** Market-based*	** Mass customized* ** Differentiated when needed*

Table 9: Case countries' degree of alignment (model derived from Vandermerwe and Gilbert, 1989)

Among the three case countries, *Switzerland* displayed several characteristics that corresponded mainly with an *organizational* approach. The internal customer would ask for a service, which would trigger an action from IT Services. Focus was on internal technical products and services. There was also little or no proactive work where ITS would analyze business processes and suggest IT-based optimizations. The process related to project management was considered by the interviewees from ITS to be the most mature in dealing with internal customers. Still, it did not replace the role of, for example, a dedicated customer relationship unit. Nor did IT Services in Switzerland maintain a service catalogue with description of functions, service levels and prices. Such a catalogue could have been a first step in structuring the relationship with the internal customers. IT Services in the *United Kingdom* had a clear focus on *operation*, more specifically in positioning IT Services between the internal business IT and a number of external 3rd party service providers. Much

of the service provisioning from 3rd party providers was based on standardized products captured in service level agreements. Most non-standard requests were treated on a case-by-case basis where an offer would be presented to the customer (requestor) from the external service provider via IT Services. To support this model, IT Services had established an organizational unit as an interface to the internal customers. Of the three case countries, KPMG *Germany* had moved the furthest towards being *market driven* in their service offerings and overall business model. IT Services tried to maintain a balance between standardized products and processes on the one hand and catering for individual requests on the other. Business requests supporting KPMG's external offering would in most cases be implemented even when deviating from standards. This ensured a level of flexibility which met both internal and external customers' demands. The potentially negative impact on operations was the introduction of non-standard solutions. Overall, the German model required a much tighter alignment between IT Services and the internal customers in order for ITS to understand and respond with flexibility.

The categorization of countries in Table 9 has flaws from being based on limited feedback and observations. Further, not all characteristics for each type were actually reported or observed. For example, a structured intracompany relationship within the Swiss case was not found. Even so there was, in the researcher's opinion, sufficient evidence to justify the linking with the appropriate categories displayed in Table 9. The categorization was helpful in understanding both the operational mode of each IT unit as well as IT's role within each case country.

This section has summarized some of the findings related to how IT Services operated within the three countries, including their relationship with the internal customers. The next section will look closer at the concept of *alignment*, more particularly how close IT Services were linked to the overall business strategy and goals in relation to information technology.

7.2.3 Alignment of IT Services to KPMG case countries

In Chapter 2 it was established that aligning the internal service provider closer to the goals and strategy of the company (Luftman and Brier 1999; Kearns and Sabherwal 2006/2007; Huang and Hu 2007), is a core element in IT governance (Sambamurthy and Zmud 1999; Peterson 2004; Rau 2004; Smith and McKeen 2006; Xue, Liang et al. 2008; De Haes and Van Grembergen 2009; Willson and Pollard 2009). This is because alignment ensures "*that the organization's IT sustains and extends the organization's strategy and objectives*" (ITGI 2001).

IT Services in all three countries dealt primarily with business IT as representatives for the various internal customers. Business IT departments within the audit, tax, advisory and other central services units operated on behalf of the respective unit's management. As a consequence, alignment between IT Services and KPMG's overall business strategy focused primarily on that between ITS and the various business IT. An observation from the three cases showed that alignment could have a different scope as references were made to both *operational* and *strategic* alignment. This seemed to be driven by the type of services ITS offered its internal customers. In the UK focus was primarily on providing a cost effective infrastructure and support by including external service providers. Alignment, in terms of supporting business IT requirements, often limited itself to matching the right people from external providers with business IT. For example, end-user problems were routed to an external helpdesk in India and much of the development work requested by business IT was actually performed by various 3rd parties. According to one business representative *"ITS is still not well enough connected to our business strategy. So you have a lot of people in ITS who are trying to ride things from a technology perspective but have difficulties aligning that technology with the firm's business strategy"* (UK_CU_01). IT Services, as argued in Chapter 4, seemed to define alignment with having good working relationships with the

business IT. There was less evidence of IT Services performing a strategic business role. The UK's IT Services were involved in planning new IT solutions, but mostly limited to the required infrastructure components. Some business critical IT services, for example email and telephone, were fully under ITS' responsibility. When it came to applications and services closer to value adding business processes, the planning was done within separate business units. Examples were customer relationship management and knowledge management with their respective applications.

KPMG Switzerland had limited use of outsourcing and thus provided most services with their own resources. At the time of the data gathering only one business application was hosted by an external provider. Business IT solutions were mainly driven by global IT or the various units themselves. IT Services were tasked with implementing and supporting a number of business applications with internal staff. The use of external partners was mainly limited to support and development agreements for business applications. This model ensured, or rather required, a good understanding within ITS of the technical aspects regarding business IT. That said, ITS were not sufficiently aligned to suggest a more efficient design and use of business IT.

Finally, the findings from KPMG Germany indicated a different relationship between IT Services and the business than in the other two countries. This seemed not only to be caused by the legal structure, but also due to the good business process know-how within IT Services. This allowed business IT to rely more on IT Services for planning and building solutions. The responses from both business IT and IT Services discussed in Chapter 6 confirmed this interpretation. For example, one ITS representative described the relationship as trust based because the customer has *"trust in our ability to do our job"* (DE_IT_04). Although not everyone within IT Services were considered by the customer to have the same level of business know-how, there were *"those who have a deep understanding (of the business)"* (DE_CU_04).

7.2.4 Summary of alignment between IT Services and KPMG's business

This initial section has focused on types of intracompany relationships between the IT service providers and their internal customers. Using the classification from Vandermerwe and Gilbert (1989), the relationships within the three countries could be classified according to their perceived strategic value to KPMG's businesses. The purpose of the introduction was to create a better understanding of the context within which the intracompany relationships operated. Alignment, primarily referring to the integration of IT Services in the provisioning of business IT solutions, indicated a clear correlation between type of relationship (Table 9) and level of alignment. Where IT Services were operating more as a business partner, as with KPMG Germany, there was also an indication of closer alignment between the two parties.

The next section will discuss the findings of formal governance features within the three intracompany relationships.

7.3 Exploring the usage of formal governance in the intracompany relationship

7.3.1 Introduction

This section compares the usage of formal governance within the three case countries with a particular focus on *dedicated organizational units*, *processes* and *contracts*. It starts with a short summary of the relevant theoretical framework and how it applies to intracompany relationships in general and internal IT in particular. It then covers the three specific mechanisms before summarizing the findings.

7.3.2 Theory framework regarding formal governance

Chapter 2, when discussing TCE, pointed out how companies try to *balance production and transaction cost* (Williamson 1985; Clemons, Reddi et al. 1993). The goal is to minimize formal governance related costs (Coase 1998) as they contribute to higher transaction costs. Products and services with a low risk profile, including low level of asset specification and strategic importance, might require less control activities. Less control (governance) could make purchasing from external providers (market) more attractive than producing service internally. Products which are highly specialized, or exchanges in uncertain environments, often results in higher transaction costs due to more control activities. Internal production benefits from the managerial control (hierarchy) already embedded in organizational structures (Masten 1991; Williamson 1991). Relying on available governance structures often results in lower transaction costs. Finally, combining market and hierarchy governance, referred to as *hybrid* (Williamson (1991) or *bilateral* (Joshi and Stump 1999), recognizes that elements from both models can be combined (Pilling, Crosby et al. 1994). In Chapter 2 it was argued that the characteristics of intracompany relations to a large degree can utilize hierarchical, often supplemented with informal, governance. On the other hand, internal IT is

often seen as being complex, expensive or too strategically important to rely on informal governance alone. This is also one reason why industry best practice in managing internal IT services (e.g. ITIL and COBIT) recommends formal governance features, in particular the use of SLAs.

Chapter 2 identified three formal governance features considered to be particularly relevant to intracompany relationships. These were *specific organizational units*, *processes* and *contracts*. Each of these features and their function within each case will be discussed next.

7.3.3 Intracompany governance and specific organizational units

Based on data from the case countries, a number of organizational units were available to help govern the intracompany relationships between ITS and their customers. Some of the units, in particular the *customer relationship teams,* had permanent and dedicated staff. Others were functions made up of members who participated on a part-time basis. An *infrastructure coordinating committee* or an *IT steering committee* would be examples of the latter. Based on feedback and observations, the units operating on a permanent basis would contribute more to the ongoing intracompany relationship than those created for limited purposes. This is mainly as a result from their ongoing focus on the relationship. On the other hand, an *IT steering committee* would have a *higher strategic impact* on the overall relationship. Decisions by a steering committee would decide the priorities for IT Services, including strategy and budget. The purpose of a customer relationship team, on the other hand, was primarily to support daily operations. From this perspective it is understandable that dedicated customer relationship teams were established within ITS in the United Kingdom and Germany. The size and complexity of ITS' operations motivated the build-up of a customer interface dealing with day-to-day requests and issues. As mentioned in Chapter 4, KPMG Switzerland had not established a dedicated customer relationship unit. At

the time of the data gathering, an initiative had been launched to introduce more formalization of the intracompany relationship. This also included, for example, the introduction of Service Level Agreements with the internal customers. As discussed in the case chapter, the drive for more formalization came mainly from IT Services. The internal customer took a rather passive approach and was reluctant to being faced with – in their opinion – too much formalization. The reservations resulted from the fear that IT would focus more on adhering to processes than acting flexible. As already mentioned in the Swiss case write-up, there was little actual interaction between ITS and the internal customer in discussing and agreeing a formal customer relationship model. One reflection made after analyzing the three case countries was that the relationship in Switzerland had a number of well intended but not working structures. The example of the IT Steering Committee has already been mentioned. Another was the *Multi Project Management* initiative, which was supposed to coordinate all internal projects involving multiple business and support units. On the other hand, business management wanted IT Services to play a more active role in terms of implementing and marketing new technologies but did little to actually drive ITS in this direction. The difficulties in establishing organizational units and processes supported by both ITS and the customers might be due to several reasons. It could be because of different views on ITS' role and the complexity of internal IT, or simply other priorities. Although not specifically asked, the feedback from both the United Kingdom and Germany suggested that formal structures like a dedicated customer support team and a service catalogue were initiated by ITS and not the customer. In other words, it was possible for ITS to formalize the relationship to a certain degree, and certainly as long as it did not explicitly require the customer's approval. In the case of Switzerland, similar ITS-driven initiatives had started but not shown much result. Table 10 provides an overview of specific organizational units found within the three case countries.

	UK	CH	DE
Customer relationship unit	Yes	No	Yes
CIO as partner	Yes	No	Yes
IT Steering Committee	No	Yes (*)	No
Infrastructure coordination unit	Yes	Yes	Yes
Operational units	Yes	Yes	Yes

(*) Formally established but not active

Table 10: Findings regarding specific organizational units

Whether or not the CIO of the three countries was a *partner of KPMG* or not was considered relevant by the researcher in the listing of *organizational units*. The partners of each country organization constituted an organizational unit that had both ownership and overall responsibility of the company's strategy. Being a member of this unit could potentially impact ITS' position within each country organization. In the case of Switzerland, where the CIO was a director rather than a partner, it meant being excluded from this unit. The reference to *operational units* was mainly driven by processes like various support, engineering, and project teams carrying out changes and implementing projects. These included interaction points between ITS and the customers.

7.3.4 Intracompany governance and processes

As stated in Chapter 2, processes according to ITIL are a *"structured set of activities designed to accomplish a specific objective"* (OGC 2010, p.14). Applied to intracompany relationships between IT and business, processes structure how IT delivers their services. Processes identified during the data gathering helped govern the relationship between the internal IT and their customers directly as well as indirectly. Financial management, or rather

budget allocations and financial control, was directly governing the intracompany relationship. The *financial management process* decided the level of autonomy ITS had in terms of spending resources on the company's behalf. Regardless of legal structure, all three IT departments were given financial targets, reflected in the size of the IT budgets. These targets were measured and controlled by the customer on a regular basis. The processes and functions used by the customer services teams in Germany and the United Kingdom also addressed the intracompany relationship directly.

Table 11 lists the various processes which were explicitly mentioned during the interviews. The processes are classified as to how they governed the relationship directly or indirectly. As mentioned, a financial management process would directly govern the service provider's activities. Financial control was also applied directly to the customer in their dealing with IT Services. Due to the fact that all three IT organizations operated as cost centers with a fixed allocated budget, there were controls applied as to who could authorize capital spending. This could be through a hierarchical control, where the size of the request decided who in the organization had the authority to approve. Even smaller requests were restricted. This was the case in Germany, where only designated staff on the customer's side had the authority to request services from ITS. The process for handling technical IT problems, on the other hand, defined the customer as only that – a party which requested or obtained a certain service. Still, even in operational IT processes the customer had a prominent role. ITS' effectiveness in executing their operational processes could have a direct impact on the customer's ability to operate. Downtime or slow performance could impact both KPMG's revenue and reputation. A major outage, of for example network connectivity, could potentially stop the business from working. Having an efficient incident management process would impact how fast IT could get the network back online. Further, the change management process would decide how effective IT could be in changing the infrastructure to best fit the various business requirements.

	Financial	Service management	Project	Change	Problem	Incident
UK	Yes (1)	Yes (3)	Yes	Yes	Yes	Yes
CH	Yes	No	Yes	(Yes) (4)	No	Yes
DE	Yes (2)	Yes (3)	Yes	(Yes) (4)	?	Yes
directly	⟷					*indirectly*

Table 11: Overview of intracompany relevant processes

Comments on Table 11

(1) Interviewees from KPMG UK claimed they did not do regular financial reporting as budget was allocated on an annual basis and thus was left to IT Services' discretion.

(2) IT Services at KPMG Germany operated as a separated legal entity but were given financial targets from KPMG's senior management.

(3) There was no clear indication of a written process to cover service management practiced by the customer management units. Still, there was an agreed method of interaction between IT Services and their customers, including roles and responsibilities.

(4) All case countries had a process for handling requests for changes to the IT services, but the process was considered by IT Services to be weak in both Switzerland and Germany. This related to how far the customer was actually respecting the governance element of the process as opposed to pushing through changes regardless of process.

Both the process for *incident management*[10] as well as *change management*[11], being examples of operational processes, included a number of interaction points between ITS and their customer. These could be service levels measuring and reporting, specified roles and

[10] *Incidents* are events where a certain IT service is temporarily unavailable to one or several users. An *incident management process* instructs the IT unit how different types of incidents should be handled in order to restore the service as quickly as possible.

[11] Changes in this context are planned alternations of the IT infrastructure or service, for example a version upgrade of a system. The change management process helps IT plan and test the change in order to minimize the risk related to altering the IT infrastructure.

responsibilities and escalation procedures. As such they indirectly help govern the intracompany relationship.[12]

In general, the findings regarding the use of processes provided similar feedback from all three cases. When the company's financial resources were actually being spent, the business used both formal processes as well as hierarchical control to govern ITS' spending. Within the more IT-specific operational processes, the internal customers often had the opportunity to oversee how IT Services prioritized its work. For example to ensure that a request from a department would be prioritized if this had a higher importance. The number of operational processes and their maturity[13] level seemed to reflect the IT support model of each country. The UK operations had mature processes for most interactions where external service providers were involved in the service delivery. Germany had everything that was required from a regulatory point of view, in particular commercial processes to cover the exchanges between the two legal entities. Switzerland had the least mature framework of processes, which was also pointed out by the majority of the ITS interviewees. In the United Kingdom both the customer as well as ITS representatives seemed content with the level of process formalization. In Germany there were comments from three of the ITS interviewees that more formalized processes would be useful. Business representatives in Germany, on the other hand, seemed rather neutral to the existence and use of processes as long as they were not seen to slow down the delivery of their requests. In Switzerland there was a clear difference in view between the customers and IT representatives. The first were opposed to processes if it seemed to slow down responses and turn-around times, whereas ITS

[12] When the ITIL (www.itil-officialsite.com/) framework was first published in the late 1980's the primary focus was on internal IT operational processes. In the 2007 version, and even more in the current 2011 version, the business value of IT and IT's interaction with their customer has become the main focus. One consequence is that operational processes now also describe how they interact with and provide benefit to business processes.

[13] Process maturity is often measured on a scale, for example 1-5 with 5 being the most developed or mature level. This is used in the so-called Capability Maturity Model, CMM (http://en.wikipedia.org/wiki/Capability_Maturity_Model). According to CMM a process on level 1 (Initial) would be chaotic and unstructured. Level 5 (Optimizing), on the other hand, is a process which is not only established but also being continuously improved.

representatives to a large extent considered processes and formalization as the best method of structuring the intracompany relationship.

Finally, it is worth reflecting briefly on the actual state of each process. As already mentioned in this section, the data gathering method did not ensure that all available processes were identified. In addition, the effectiveness of the known processes could vary from case to case. From the researcher's experience as a practitioner, there might even be cases where a process, for example change management, would be practiced differently from team to team within the same department. There were also findings, as in Switzerland, where processes just meant "how we do things" without the process steps actually being written down. Similar feedback was given by interviewees in Germany, who also referred to their often informal ways of operating. Finding the right balance between flexibility and process-driven control was mentioned as a challenge within all three cases. One reflection by the researcher suggests that the type of service model, in particular the use of external service providers, had a major impact on where and how processes were applied. The size and complexity of the organization, as well as corporate culture, could be additional factors impacting on the level of formality. Hence, it was to be expected that the UK's operations, due to its size, would be the organization with the most developed processes, both in scope and maturity.

In terms of formality, the next section will discuss the findings on the use of contracts in governing the intracompany relationships.

7.3.5 Intracompany governance and contracts

Chapter 2 highlighted the importance contracts play within TCE theory. Williamson (1986) went as far as to claim that contracts are what connects TCE theory with all forms of governance and business relationships. Because of their legal implications, it has even been suggested that contracts could substitute hierarchical governance models (Gundlach and

Achrol 1993; Heide 1994; Lusch and Brown 1996; Ferguson, Paulin et al. 2005). This would limit contracts such as governance mechanisms to those which are enforceable in court. Intracompany relationships tend to rely more on Service Level Agreements (SLAs) than legally binding contracts, though SLAs are also formal agreements between the service provider and customer. According to ITIL, SLAs define the *"key service targets and responsibilities of both parties"* (OGC 2007b, p.66). When obtaining services from external providers, SLAs can complement the legally binding contract by defining which services are to be delivered to what specifications. In other words, SLAs can help govern both intracompany as well as intercompany relationships. Within the case countries, SLAs were available in the United Kingdom and Germany, but with very different scope and purposes. KPMG in the United Kingdom used SLAs to govern their intercompany relationship – that with its external service providers. Here SLAs supplemented the legally binding contracts. Strictly speaking the SLAs used in Germany were also covering an intercompany relationship as IT Services was a separate legal entity. In effect, the feedback from the interviewees suggested that the SLAs were available partly as a legal requirement but only used to measure service levels. Cases where service levels were not met did not seem to have any legal or contractual implication. In Switzerland there were no SLAs, either internal or external, in place. The majority of IT Services' interviewees advocated the introduction of SLAs, but this did not particularly seem to be a priority with the internal customers.

	Internal SLA	**External SLA**
UK	No	Yes
CH	No	No
DE	Yes	Yes

Table 12: Use of SLAs within the case countries

The findings can be interpreted so that SLAs did not play a particular role in the governance of the three intracompany relationships as it was only used when required. In the cases of both the United Kingdom and Germany, the use of SLAs seemed to be driven mainly by the support models. One potential reason for the customer's reluctance could be related to the corresponding transaction costs. As one Swiss customer representative expressed, he would need *"a listing of service level and responsibilities from both parties … but not to start with paragraphs and details"* (CH_CU_03). Defining and monitoring service levels is not a trivial task and would require tools and processes, as well as dedicated management resources. It could also be that trust, coupled with hierarchical governance, was deemed sufficient. Where SLAs, or rather the service level management process, would have been useful was in actually writing the SLAs. Negotiating and agreeing service levels that support business processes is the main purpose of SLAs. This ensures that each process is documented, relevant stakeholders are identified, supporting contracts with external vendors are signed, and more. In other words, the actual process of establishing and maintaining SLAs could help both the service provider and customer to better understand the different roles and expectations. From this it can be argued that contracts, like formal SLAs, played a small role in the intracompany relationships. Governance features like organizational hierarchy, power and trust go a long way to compensate for formal contracts. Still, *service management* as a process, including describing, negotiating and agreeing service levels, can help with establishing effective intracompany relationships.

7.3.6 Summary of findings regarding formal governance

The findings identified different views on the need for formal governance between IT Services and the internal customers. IT Services were advocating more formalization, partly to improve control of their resources. The customer, not without merit, viewed IT Services as

part of the company's services that are there to support business activities. Although not explicitly stated, there also seemed to be a just interpretation that the internal customer considered hierarchical governance to be sufficient in managing intracompany relations. IT Services, particularly in Germany, also favored more formal governance as a chance to better visualize what was actually included in ITS' service portfolio and how effective these services were.

The use of processes as a formal governance mechanism seemed to reflect the size and complexity of the various countries' operations. Switzerland had few processes in place which covered the relationship between IT Services and the customers. On the other hand, compared to the operations in Germany and the United Kingdom, Switzerland had a relatively small operation. Without a dedicated customer support team there was also no formal process for managing the intracompany relationship. Operations in the UK were supported by a framework of processes, for example change management and project management, which both parties seemed to adhere to. Finally, the German operations had certain processes in place but the overall focus seemed to be on informal governance. Service offers and invoicing were exceptions where formal processes were both required and used.

The findings did not suggest that KPMG ignored compliance with applicable regulatory requirements. Operational governance, where the internal customers would rely on formal mechanisms to control service delivery was only used sporadically. As already suggested, this could be because the business management relied on hierarchical governance like reporting lines and the opportunity to use disciplinary actions.

Hierarchical governance is a central element in TCE, as discussed in Chapter 2. The scope of the research did not cover KPMG's motives for producing IT services in-house as opposed to outsourcing the IT function. Based on the three cases it could be argued that ITS' alignment with businesses as well as its role in the company's value chain influenced

management's decision on type of support model. The researcher's own experience as a practitioner suggested that it is difficult to build long-term relationships with external providers as contracts can be cancelled or key personnel often change. The relationship between strategic role and business value on the one hand and use of outsourcing on the other hand was illustrated by the cases in the UK and Germany. In particular, the latter integrated IT Services closely in the design and support of business processes. Since the researcher did not ask specifically about the motivating factors, it is only an assumption that IT's strategic role influenced the sourcing model.

With in-house production of IT services, KPMG in Germany and Switzerland could benefit from the hierarchical governance already available. On the other hand, which was also argued by KPMG's IT representatives in the UK, their operations were much more flexible in terms of obtaining the right skills as they benefited from a larger external resource pool.

Overall, it is fair to argue that formal governance features were helpful in governing intracompany relationships. When including external service providers in the service model, features like formal contracts and explicit processes might even be required. For organizations relying mainly on internal service providers, having documented their services can be equally helpful. The difference being that these documents would be less formalized, but still helpful in governing the intracompany relationship. Formal service reviews and reporting are not only to ensure that an external service provider meets SLAs, but can also help to identify weaknesses in the service delivery model. In summary, this means to extract relevant elements of formal governance features and use those to optimize, rather than control, an intracompany relationship.

In Chapter 2 informal governance features like trust and power were introduced and discussed. The next section moves on to discuss the findings regarding informal governance features and their implications within the three cases.

7.4 Exploring the usage of informal governance in the intracompany relationship

7.4.1 Introduction

Chapter 2 introduced the social exchange theory (SET) as a theoretical framework for studying and understanding the human interaction component when parties exchange goods and services (Homans 1958; Blau 1964). One key element of SET is that individuals involved in exchanges expect the interaction to be mutually rewarding (Homans 1961; Lambe, Wittmann et al. 2001). This expectation is referred to as reciprocity, which is a social norm (Joshi and Campbell 2003). Norms governing an exchange are based on expectations, but also experiences had during the length of the relationship (Brickman 1973). By default intracompany relationships have a long time horizon, which allows trust to be established between the parties involved. Further, trust is a prerequisite for other relationship norms to be established (Faems, Janssens et al. 2008). Embedded in the hierarchical governance model is also the existence and potential use of power which, together with trust, are present in most relations between individuals (Emerson 1962; Blau 1964). Norms (expected reciprocity), trust and power are, together with time, what SET defines as the nature of business relationships (Backhaus and Buschken 1997). The next sections discuss the findings on trust, power and personal relationships when applicable to intracompany governance.

7.4.2 Intracompany governance and trust

When discussing SET and trust in Chapter 2, the definition provided by Barber (1983) was considered to best fit the scope of this research. This was the definition which covered trust in both individuals and institutions. It was further argued that in relationships where institutional trust was available, it would be easier to establish individual trust (Rousseau, Sitkin et al. 1998). *Institutional trust* in this research refers to a mutual trust between KPMG's management and IT Services, and in particular ITS' competence (ability) and

goodwill (willingness) (Nooteboom 1996; Das and Teng 2001) to deliver their services. Even so, it is not the business unit which trusts the IT Services, but rather the individuals working within both units who build a trust-based relationship (Aulakh, Kotabe et al. 1996; Blois 1999).

The findings from the UK confirmed that institutional trust in ITS was available. This referred in particular to ITS' subject matter expertise in the area of information technology. In the words of a customer representative: *"where there is trust is where ITS clearly understands technology"* (UK_CU_01). ITS' representatives in the research saw a clear correlation between continuously meeting objectives and maintaining the customer's trust. Trust was therefore *"based on the quality of the work we have been doing historically"* (UK_IT_04). Since few formal governance features were identified, it is a fair assumption that businesses also trusted ITS' intention to operate in KPMG's overall interest. As stated earlier in this section, the institutional trust in IT Services stemmed from the trust which individuals on the customer side had in their ITS counterparts. Here long-serving staff members within both ITS and business IT presumably played an important part in establishing and maintaining trust.

The view within IT Services in Switzerland was also that their internal customers had trust in them as an institution. This view was to a large extent supported by the customers themselves, but with a couple of reservations. One customer expressed trust in ITS' ability to deliver against acceptable service levels at the time of the data gathering. According to the same customer, that institutional trust was not available two years earlier. Anther customer representative clearly illustrated the link between individual and institutional trust in that he had negative experiences of ITS representatives not meeting agreed deadlines. This failure to deliver then reflected negatively on IT Services as a whole. There was no indication from either side that ITS intentionally did something to make the

customer trust them less, but rather had the right capabilities, including a good understanding of business needs and processes, to perform their expected role.

Trust, rather than control, was also the predominant feature of the intracompany relationship within KPMG Germany. A number of control features were dictated by the legal setup of the two companies – KPMG Germany and IT Services. Institutional trust was available but to an extent as a result of business' lack of technical know-how. This left the business representatives with no other choice than to trust IT as the subject matter experts. The impact of personal trust developing into institutional trust was very clear in the German case. Because of the frequent cooperation between ITS and business in virtual project teams, there was an ongoing exchange between the two parties. Over time there was recognition from both units that this cooperation on an individual level helped to maintain and further develop institutional trust. This trust was further nourished by business' recognition of ITS members as the subject matter experts in their area of responsibility. Since the understanding of business processes overall seemed to be more developed in Germany than in the other two countries, there was also an appreciation from the business representatives that their ITS counterparts actually understood business requirements. That appreciation further helped the development of trust between the two parties.

In summary it can be said that all three intracompany relationships studied were governed by a high degree of trust between the two parties, in particular the internal customer's trust in ITS ability and willingness to deliver the best possible services. It can also be said that this institutional trust in all three cases mainly developed from individual trust. Some of the customer feedback from Switzerland and Germany illustrated this correlation and what might happen to institutional trust if one party loses trust in the individual representing IT Services. For example, one ITS representative in Switzerland said he used more control when dealing with those in ITS who had not performed as expected or required.

7.4.3 Intracompany governance and power

In the theory discussion (Chapter 2), the concept of *power* was seen as an alternative, or sometimes supplementing, governance features where trust is not available or applicable (Emerson 1962; Blau 1964). Power, in its most simple form, is defined as one actor's ability to influence another (Pfeffer 1997; Vrazalic and Gould 1999). According to SET, resource dependency is the most common source of power (Emerson 1962; Blau 1964; Pfeffer and Salancik 1974). Ignoring the implications of an organizational hierarchy, the two parties studied both possessed resources which could be used to exercise power (towards each other). KPMG's business units obviously controlled the financial resources which ITS needed to operate. On the other hand, IT Services had the highly specialized know-how of information technology. This know-how, coupled with a good understanding of business processes, could not easily be obtained externally. At least in theory, this resulted in a resource dependency from the customer's perspective. In effect the parties were dependent on each other in terms of resources (financial and know-how).

Just like the case with trust, power can be exercised both on an individual and institutional level. In the researcher's opinion this might even be more the case in a partnership structure like KPMG where each partner in effect is an individual as well as the manager of a business unit. Because most partners have profit and loss responsibilities there is also a resource dependency among them. The overall partnership needed each individual partner to contribute their share of total revenue and profit. Any partner not meeting their individual budget meant that the other partners had to compensate for the lack of contribution. Each individual partner was dependent on support from other partners, in particular when offering solutions which required resources from more than one unit. The results from the data gathering therefore include both examples of individual as well as institutional power.

According to the data gathered from both ITS and customer representatives within KPMG UK, there had been a cultural change in the company over the last ten years regarding power. Whereas earlier seniors within the business used power to request services which were outside KPMG's defined IT standards, such requests now came much less frequently. It was not clear what had led to this cultural change, but senior managers were now seen to act more "professional". It should also be said that individual users in the UK were allowed more rights to, for example, install non-standard software on their KPMG-owned PCs. Within KPMG Switzerland and Germany these user rights were more restricted. This looser control in the UK might also have reduced the request for individual solutions. This helped IT Services, as well as other internal service providers, to focus on serving whole business units rather than reacting to individuals. The COO's hierarchical power seemed to be accepted by both ITS and the customers as being the final escalation point and decisions made by the COO were therefore followed. IT Services had little in terms of hierarchical power, but being the subject matter experts within IT had what has earlier in this research been referred to as competence power. This meant that within the natural area of ITS' expertise, for example in choosing service partners or defining technical standards, the customers accepted ITS' "sector authority". This competence power was also exercised in a consultative way when decisions, due to the size of an investment, were above the CIO's spending level. In these cases ITS made a recommendation to the decision making body, who would mostly agree. The case report on the intracompany relationship within KPMG UK did point out one area where ITS were seen to exercise its competence power beyond just enforcing standards or making recommendations. When requested to reduce its operational budget, ITS' response was often to ask businesses which services they wanted to have switched off. Business representatives mostly did not have sufficient technical know-how of ITS' service portfolio to understand the components of each service. Hence it became a back and forth between ITS and the business as to where to reduce costs and it would be

fair to suggest that ITS in those cases deliberately took advantage of their competence power and subject matter expertise. This made it more difficult for senior management to enforce IT cost reductions, with a potential consequence that other central services would be under increased budget pressure.

Whereas the responses from the interviewees within KPMG in the UK indicated a development from individual usage of power to a more restrained approach, the same did not seem to be the case in Switzerland. If it was because of lack of formal governance or something else, the perception among the ITS respondents was that individual power was still used (and misused) within KPMG. In particular customers were quick to escalate requests to the CIO if they did not get the response they wanted. As mentioned earlier, the Swiss CIO was not a partner and as such was not in the same power position as his counterparts in the UK and Germany. If this encouraged individual customers to put additional pressure on ITS was not clear but it might have impacted the CIO's ability to withstand pressure. That said, other representatives within ITS experienced the relationship with the internal customer differently and even considered most of the escalations as justified. This would support the interpretation that power was used individually and not as a general rule. If the escalations and other types of pressure were only directed to the CIO it might also very well be that other members of ITS had a different experience when dealing with the internal customers. As there was no dedicated customer support team, there was also no filtering of business requests and escalations and potentially more went directly to the CIO.

The response from the customer representatives considered use of power to be fully accepted and justified when ITS were considered to perform insufficiently. Particularly in cases where KPMG's external customers were dependent, directly or indirectly, on services provided by ITS, it would not take long before a request would be escalated to the CIO.

Within the third case, KPMG Germany, escalations were also the main form of exercising power. The internal customer considered escalations to be fully legitimate and very much a normal element of the cooperation with ITS. Requests involving external customers were, just like in the UK and Switzerland, often a trigger for escalations. Another was when the internal customer felt ITS were performing jobs at a higher than agreed cost or when deadlines were not met. One feature that was pointed out in the Germany case was the number of decisions made on a senior level between the CIO and business managers and which was often in conflict with available standards and processes. This was based on statements from ITS representatives and could be perceptions as well as actual facts. In fact, it meant that the more informal relationships among partner peers were sometimes stronger than established decision making structures. One might also say that the informal governance was stronger than the formal and explicit one. This could be seen more as a case of where not competence power, but rather hierarchical power was used in a decision making process. A final observation from the German case was the use of pressure on ITS to have individual requests handled sooner. The feedback was that pressure was not limited to senior management but rather something that was seen as part of the intracompany culture.

Summing up the three cases regarding the use of power as an informal governance feature, competence power was granted to all three IT Service providers. ITS were seen as the subject matter experts in terms of corporate IT and were left to make decisions within their area of expertise. Escalations were used within all three cases, in some cases as an accepted method by both parties. This would particularly be the case when external customers were dependent on particular services from ITS. There were also examples where individuals tried to pressure ITS to prioritize requests even when no clear business rationale was linked to the request. The general feedback was also that individual use of power to obtain certain favors or commitments from ITS was much less frequent at the time of the data gathering than some years earlier. As such it might be fair to say that the corporate

culture within all three KPMG organizations had matured in terms of power usage. Whereas it used to be more individual requests, often not linked to a business rationale, power was still used but mainly on an institutional level. Escalations or one-off decisions seemed to be made predominantly when there was a reasonable business case, for example in serving external customers.

7.4.4 Intracompany governance and personal relations

The time factor, in other words how long have the buyer and seller been engaged in a business relationship, is central to both TCE and SET writing. The longer a relationship lasts, the more likely it is that social factors like trust will become the main governance features (Blau 1964; Firth, Fung et al. 2006). The intentions and motives of the partners have become better known thanks to repetitive exchanges (Poppo, Zhou et al. 2008).

As already discussed in Chapter 2, intracompany relationships are per default long-term based. This provides optimal conditions to develop a trust-based relationship between the involved parties. The length of employment by KPMG was not gathered from all interviewees, but feedback was provided by around 80 percent of the respondents. Of those, employees with KPMG UK had the longest length of service, with some being with the company for more than 20 years. This applied primarily to business representatives, but also among ITS staff there were several with more than 10 years of service. KPMG Germany had the second longest service time among both business representatives and IT Services. Here the majority of service years were between 5 and 10 years. Finally, the majority of interviewees from Switzerland had less than 5 years of service with KPMG. Even though the intracompany relationship in the United Kingdom used a number of formal governance features, trust between individuals was very much available. Ignoring the external outsourcing partners, who tended to shift their staff around quite frequently, many of the representatives from both units had known each other for years. In fact, some of the

interviewees had even switched between IT Services and business IT. Without measuring on a scale, one can claim that the length of the individual relationship within KPMG UK had a positive affect on the relationship between the units. There was mainly trust developed between the parties, a good know-how of each other's processes, in addition to understanding individual preferences and ways of working.

Responses from the Swiss interviewees further confirmed the link between the length of personal interactions and the effectiveness of the relationship. It could be suggested that escalations to the CIO were also a result of long-term relationships. Business managers and the CIO might have worked together for a lengthy period, during which the customer had gained trust in the CIO's ability to handle business requests. Representatives from both the internal businesses as well as IT Services with a service length of over 10 years confirmed the causal link. The focus on formalized processes to govern the intracompany relationship was only raised by ITS staff who had been with the company for less than 5 years. Overall, the importance of personal relationships in establishing efficient working relationships was stressed by several of the business representatives.

The Germany case write-up also confirmed the importance of good personal relationships and it was particularly focused on members of the customer account management team. Because of the tight integration of IT Services in the provisioning of business IT solutions, having partners who understood both technology as well as relevant business processes was particularly important. Building up sufficient business process know-how was further dependent on the length of service of those interacting between business IT and IT Services.

7.4.5 Summary of findings regarding informal governance of intracompany relationships

Even though the three case countries represented different support models, including how IT Services interacted with KPMG's internal businesses, evidence of informal governance was found within all cases. Trust was a key factor in all three cases and was more likely to be present between staff with an extensive length of service. Institutional trust in IT Services' ability to deliver appropriate services in an acceptable timeframe and cost range was mainly developed from successful individual transactions. Power was available in many forms, including hierarchical and functional in addition to personal. IT Services were mostly respected as the subject matter experts in terms of providing appropriate IT infrastructure and support. This acceptance was also reflected in ITS' functional power to decide standards and strategy within their area of expertise. Overall, and even though not all features were reflected in the same way within all cases, there was sufficient evidence that informal governance was an important part of KPMG's intracompany governance model.

7.5 Findings and research questions

7.5.1 Overview of findings

The discussion regarding the findings of formal and informal governance mechanisms identified within each of the three case countries are shown in a consolidated form below (Table 13).

		United Kingdom	Switzerland	Germany
Formal / explicit	*Organizational units*	Yes	No	Yes
	Processes	Formal: Yes Operational: Yes	Formal: No Operational: Yes	Formal: Yes Operational: Yes
	Contracts	External: Yes Internal: No	External: No Internal: No	External: Yes Internal: Yes
Informal / implicit	*Trust*	Individual: Yes Institutional: Yes	Individual: Yes (mainly) Institutional: Yes	Individual: Yes Institutional: Yes
	Power	Individual: No Institutional: Yes	Individual: No Institutional: Yes	Individual: No Institutional: Yes
	Personal relationships	Trust relevant: Yes	Trust relevant: Yes	Trust relevant: Yes

Table 13: Overview of findings regarding formal and informal governance features

The researcher found major differences in the intracompany governance models between the three case countries. One major driver for each particular model seemed to be the overall IT support model, in particular the use of external outsourcing partners. There were also differences in how the internal service provider (IT) and their customers valued a formal relationship versus relying mainly on informal governance, like for example trust. There was a clear correlation between the length of employment and the level of trust which key players within both units had established. It was also clear that trust was first established on an

individual level before it could develop to become (institutional) trust in a whole unit. Power, in particular that used by individuals, used to be a more prominent feature earlier (timeframe not specified), but over time partners and other key staff members were seen to have adjusted their behavior. Except references to KPMG's corporate culture, there were no other explanations given as to this particular development. Finally, even though a clear correlation between PSC-specific preferences in terms of governance was not found, there were also no findings that challenged such a view.

The next, and final, chapter will reflect on how the research process resulted in all objectives being met and also to what extent the research question was answered. In addition, the final chapter argues how the findings impacts theory and practice, in addition to reflecting on the overall research process and suggests areas for further research.

Chapter 8 – Conclusions

8.1 Introduction

This final chapter starts by linking the findings back to the various research objectives formulated in Chapters 1 and 2. This also includes responding to the research question raised at the end of Chapter 2. Further, this chapter will discuss implications to both relevant theory and practice from the findings made during the research. Following this, the researcher reflects on the research process and its strength and weaknesses. Finally, at the end of the chapter suggestions to further research will be made.

8.2 Meeting the research objectives

The motive for embarking on this research project was to better understand how intracompany relationships are governed and suggest areas for improvement. The research focused on relationships within Professional Service Companies (PSC), but also reflected on general implications from the findings. By applying a proven theoretical framework for intercompany relationships on a company internal setting, *the researcher aimed to formulate a substantial contribution to the study of how organizations manage their internal relationships*.

Due to the fact that extant research concerning intracompany governance is both sparse and mainly normative, *the researcher also sought to provide a contribution to practice by suggesting an instrumental design of a governance model to be used between internal service providers and their customers*.

The research question concerned how PSCs can govern their internal relationships. In order to answer, a number of supporting questions were formulated. This was motivated by the need to first of all understand the *research subject* – the intracompany relationships. As a natural progression from the descriptive overview, the researcher aimed to explain each governance model (within the case countries). Because of the different balances of formal and informal governance mechanisms between the cases, the contextual impact on each case was necessary to include and evaluate (in terms of its impact).

8.2.1 Improved understanding of the research subject

The researcher was first of all motivated by the opportunity to become a better practitioner by researching a relevant management issue. The research process provided tools, in the form of theory and methodology, to understand and explain the phenomenon *intracompany relationships*. At the start of the process the researcher had predominantly an understanding based on experience and the usage of so called ‘best practices’ of managing internal IT

organizations (e.g. ITIL). The theory review provided a conceptual framework which guided the choice of methodology and provided "lenses" though which the data would be interpreted. The choice of theoretical framework also gave an opportunity to address a weakness in the study of intracompany relations, which is how to balance formal and informal governance mechanisms.

Since the cases displayed three different governance models, understanding internal and external contextual elements became important. The term "external" refers to the context outside the actual relationship. Drivers included, but were not limited to, the use of external service partners, regulatory requirements, and the strategic positioning of IT within each company. Factors like the length of personal relationships of those involved in the relationships and the acceptance of power as a governance mechanism were some of the additional elements.

The first objective, which was to explore and understand how intracompany relationships operated within PSCs, was fully met as a result of the research project. In order to measure how the second objective, suggesting an improved intracompany governance model, was met assumes that the research questions were being sufficiently answered. This will be covered next.

8.2.2 Answering the research question

At the end of Chapter 2 a research question was asked which guided the rest of the research, in particular the research methodology and data analysis. The analysis provided findings, which the researcher reflected upon in terms of their contribution to both theory and practice. In addition to the main research question, a number of supporting questions were asked as the answer to those provided the necessary know-how of the research subject.

The research question (RQ) formulated was: *How can Professional Service Companies use formal and informal mechanisms to govern internal business relationships?*

The supporting questions (SQ) were:

(SQ1) What are the main characteristics of intracompany governance within Professional Service Companies?

(SQ2) How do the case countries practice the governance of intracompany business relationships?

(SQ3) What are the main drivers for each intracompany governance model studied?

(SQ4) If applicable, what explains the differences between the three organizations studied?

Answering the research question depended to a large degree on the answers to the supporting questions, which is why it makes sense to address those first.

SQ1) What are the main characteristics of intracompany governance within Professional Service Companies?

Support question 1 concerned the particular characteristics of Professional Service Companies (PSCs) and how these impacts intracompany governance. The overview of PSCs in Chapter 2, highlighted a number of characteristics, for example that they possess a high degree of proprietary knowledge in specific areas (von Nordenflycht 2010), operate with autonomy, are self-regulated, and involve customers in their work (Hill and Neeley 1988; Løwendahl 2000; Hausman 2003). Within PSCs, too much internal control is thought to have a negative impact on knowledge sharing (Starbuck 1992; Winch and Schneider 1993; Greenwood and Empson 2003; Vera-Muñoz, Ho et al. 2006). Trust plays a large role in how PSCs operate. Internally, trust is seen as a prerequisite for sharing proprietary know-how. Because external customers rely on PSCs in areas where they do not themselves have the necessary know-how, trust also plays a vital role in intercompany relationships between PSCs and their customers.

Trust, in general and as an informal governance mechanism, was found within all three case countries. It could not be concluded that the specific characteristics of PSCs were the main driver for intracompany trust. What can be said, though, is that the research confirmed that trust plays an important role in governing intracompany relationships within Professional Service Companies. Further, the research highlighted a potential conflict between the trust-based culture within PSCs and the implications of managing the companies according to the same principles as public companies. This included applying hierarchical governance mechanisms like formal reporting and goal settings to a degree which could be seen contradictory to a trust-based culture. A third observations related to the use of power as a mechanisms in the dealings between internal IT and the business. Whenever it could be argued that KPMG's customers were impacted by IT's ability to deliver their services, power was used to pressure IT Services to deviate from their own standard processes and service levels.

SQ2) How do the case countries practice the governance of intracompany business relationships?

The supporting question 2 was answered with the descriptive write-up of the three case studies. The cases all identified a combined governance model where both formal and informal mechanisms were used. Under the influence of mainly external contextual factors, the degree of formality was different between the cases. KPMG in the United Kingdom required formal governance mechanisms due to its use of external service providers. KPMG in Germany also relied on formal governance to meet regulatory requirements around their legal setup. Since KPMG's operation in Switzerland had little use of external service providers, nor did they operate as different legal entities, the need for formal governance was less. Nor was the fact that the Swiss IT Services had initiated a project (ITIL) to introduce

more intracompany formalization sufficient to convince the internal customers of the benefits of formal governance.

Even though each country had different combinations of formal and informal governance mechanisms, no clear strategy regarding intracompany governance was detected. This applied to all three countries, although the strategy for the United Kingdom and Germany was partly driven by external factors. The researcher suggest under the implications on practice that companies would benefit from defining and following a clear strategy regarding their governance model. This will make sure that all activities which must or should be governed with formal mechanisms are covered. Equally, it helps identify other areas where informal governance can either supplement or replace formal mechanisms.

SQ3) What are the main drivers for each intracompany governance model studied?

Support question 3, regarding the main drivers for each model, has to some extent been answered above when reflecting on SQ2. The theory discussion in Chapter 2 identified three main drivers for intracompany governance: *regulatory*, *strategic* and *operational*. Even though the research did not dwell too deeply into each country, certain elements were detected which provided indications for all three drivers. The particular situation in Germany, with IT Services being a separate legal entity from the rest of KPMG, caused a regulatory need for certain formal governance (for example within financial management). The use of external service providers in the United Kingdom was driven by a strategic decision around economy of scale, and also required a level of formal governance. In addition, all three countries operated in country-specific regulatory environments, which also required a certain level of formalization. For example, all audit firms in Switzerland are controlled by a governmental agency to ensure sufficient independence in the firm's dealings with customers. This requirement is audited yearly, including a review of relevant IT systems and processes.

What was not detected during the data gathering, or in the researcher's role as a practitioner within KPMG, was a clear strategy for how internal IT should be aligned with the company overall. It can be assumed that elements of such a strategy was available within each country, for example how IT Services was positioned versus the management or ITS' level of freedom to make investments on KPMG's behalf. In terms of the research scope, any such strategy, or elements thereof, was not seen to drive each particular intracompany governance model. Rather the alignment between ITS and the respective management seemed to reflect internal management preferences as well as external factors. For example, the support models that dictated ITS' role was seen to differ between all three countries. The integration of ITS in Germany was stronger than in the United Kingdom and Switzerland, which can be assumed to reflect a strategic view by the Germany management. Even so, the Germany governance model seemed to be more driven by the fact that ITS operated as a separate legal entity and not by the need for alignment.

Finally, operational requirements as a driver were only observed sporadically. For example, formal process, like incident management and change management, were available in the UK if external providers were involved. This was to a large extent driven by the fact that the external service providers changed their personnel more frequently than internal IT. Relying only on individual know-how and personal relationships thus became a potential operational risk. KPMG in Germany, on the other hand, had far fewer formal processes and it can be assumed that dealing with less external partners impacted this need. ITIL, or other types of frameworks, was only used for individual processes within all three countries and not as an overall framework.

From the above it can be claimed that the main driver for all three intracompany governance models were regulatory necessity more than anything else. Governance to support both strategic objectives as well as operational excellence seemed to be sporadic and not as a result of an overall strategy.

SQ4) If applicable, what explains the differences between the three organizations studied?

Based on the reflections around the other research questions, SQ 4 is already considered to have been answered.

RQ) How can Professional Service Companies use formal and informal mechanisms to govern internal business relationships?

The most important research question, at least in terms of impact to both theory and practice, is how Professional Service Companies can govern their intracompany relations in terms of balancing formal and informal mechanisms.

As a result of the research, it is clear that current theory, even when "operationalized" in so-called best practices (e.g. ITIL and ISO standards), is insufficient in explaining and advising all types of intracompany relationships. PSCs have particular characteristics, as do other types of industries and companies, which should also be considered when designing an effective governance model. For example, the research did not detect any conscious awareness of the role that trust and personal relationships have within Professional Service Companies. It can be assumed that an auditor, a lawyer, or most other types of professionals, use informal mechanisms, like trust, on a daily basis. This because it reflectes the very nature of how PSCs operates, both internally as well as towards their external customers. Still, the awareness that such mechanisms can also be applied internally, as part of a strategy, did not seem to be available. Rather, the cases studied, in particular the United Kingdom and Germany, sought to operate more as *Managed Professional Businesses* (see Chapter 2), which suggested a more standardized (non-industry specific) governance model.

Because informal (relational) governance mechanisms were identified within all three cases, and the extant theory suggests this to be a general feature within PSCs, KPMG and similar companies should utilize such mechanisms which are already available. As was argued in Chapter 2, neither TCE nor SET argue against a *balanced governance model* with elements from both formal (contractual) and informal (relational) theory. Once informal governance is accepted as a component of the PSCs internal governance model, the challenge rather lies in finding the right balance between formal and informal mechanisms. This particular topic will be further discussed under practical implications from the research.

8.3 Implications on theory

The researcher states that two main implications on the theory of intracompany relations can be extracted from this research. First, the research suggests that TCE and SET combined provides a conceptual framework to better understand intracompany governance. As a consequence of this finding, there is also recognition that informal governance mechanisms should be treated in a manner similar to formal ones. This impacts particularly the writings around IT governance, as this has been dominated by normative research with a focus on formal governance so far. Secondly, the research also contributes to a better general understanding of how Professional Service Companies operates. Both theoretical contributions also provide value to the practice of managing intracompany relationships, both as a business manager and as a representative for an Internal Service Provider. The implications of the findings are discussed in more detail after this sub-section.

8.3.1 Contribution to the study of intracompany relations

Having effective Internal Service Providers, like for example IT, is critical to a company's ability to operate (e.g. Porter 1985; Gummesson 1994; Heskett, Jones et al. 1994; Lings and Brooks 1998; Ballantyne 2003; Lings 2004).[14] Governance, which here relates to how the internal customer ensures that the ISPs operate to support the company's overall goals and objectives, is just one aspect of managing internal services. *Transaction Cost Economics* (e.g. Williamson 1979; Williamson 1985) and *Social Exchange Theory* (e.g. Homans 1958; Emerson 1962; Blau 1964) have been used extensively to explain the governance of intercompany relationships between companies. Even though intracompany relationships share many of the same characteristics as those between external parties, the same theoretical

[14] In cases where all or parts of support services like IT and human resources are delivered by external partners, the company is assumed to have made a conscious choice as to the pros and cons regarding market governance versus hierarchy.

framework has not been applied. That is, it was not identified during the extensive literature study within this research project.

In particular, the relationship between contract-based (formal) and relationship-based (informal) governance is similar within both inter- and intracompany relationships. The researcher therefore claims that both TCE- and SET-based writing can be applied to explain intracompany governance. As argued in Chapter 2, applying TCE to intracompany relationships does not include the discussion whether or not to produce services internally or purchase them from external vendors. By default, intracompany exchanges assume that internal production has been found to be the best option. What can be extracted from TCE, when applied to intracompany relations, is partly the framework concerning hierarchy as a governance strategy as well as the recognition of how continual interactions leads to trust among the individuals involved. By recognizing the role and value of ongoing interactions, SET provides an additional contribution to the framework as it covers various relational governance features in more detail than TCE.

Because of the characteristics of intracompany relationships, in particular implicit hierarchical governance and long-term personal relationships, an intracompany governance model should aim to balance governance mechanisms from TCE and SET rather than favor one over the other. In addition, trust is also been seen to provide an important governance feature within both inter- and intracompany relations (e.g.Poppo and Zenger 2002; Mellewigt, Madhok et al. 2007). Within extant literature such a model is often referred to as *hybrid* (Williamson 1991) or *bilateral* (Joshi and Campbell 2003). Others refer to the models as a *substitution view* or a *complimentary view* (Lazzarini, Miller et al. 2004; Wuyts and Geykens 2005). The practical implications further down suggest how companies can define such a balanced governance model.

8.3.2 Contribution to the study of internal IT

As mentioned in Chapters 1 and 2, there is a rich body of literature around *internal IT organizations* (e.g. Broadbent and Weill 1997; Weill and Broadbent 1998; Broadbent, Weill et al. 1999; Bharadwaj 2000; Davis 2000; Broadbent and Kitzis 2005). This also covers the particular area of *IT governance* (e.g. Sambamurthy and Zmud 1999; Peterson 2004; Rau 2004; Smith and McKeen 2006; Xue, Liang et al. 2008; De Haes and Van Grembergen 2009; Willson and Pollard 2009). In addition, more practice oriented frameworks can be found within, for example, *ISO standards*, the *IT Infrastructure Library*, *ISACA/COBIT*, and the *IT Governance Institute*. Chapter 2 also listed three types of drivers for IT governance; *regulatory*, *strategic*, and *operational*. Where, for example, a Service Level Agreement might be required if the driver is regulatory governance, it can be optional within strategic and operational governance models.

Similar to the findings from the research and its implications on theory and practice, IT governance specific literature also focuses predominantly on formal governance. For example, the advantages of using SLAs is argued by Weill and Broadbent (1998) and the ITIL book on Service Strategy (OGC 2007a) describes the role of Transaction Cost Economics, but nothing about Social Exchange Theory (or the potential value of relational governance).

Research around internal IT in general, and IT governance specifically, will therefore benefit from this research even when it comes to better understanding how internal IT actually operates. Normative theories only have a limited value if they cannot explain how relationships actually work. Here a better understanding of informal governance, partly stemming as a result of this research, will help future research.

8.3.4 Contribution to the study of Professional Service Companies

The three cases studied represented major corporations, where KPMG in the United Kingdom and Germany combined employed around 20'000 staff. KPMG in Switzerland added another 1'600 and even the total number of partners was around 1'000 for the three countries. Managing operations within such a complex organization is difficult, if not impossible, without certain formal processes and roles. Mechanisms like formal reporting lines, setting and measuring of goals as well as spending limits based on roles and responsibilities are included in a hierarchical governance model. They are also featured in the so called *Managed Professional Businesses* (MPB), which described how larger and more complex PSCs were managed. That said, the research confirmed a strong management preference for informal governance, which can also be assumed to reflect the particular trust-based nature of Professional Service Companies. This indicates a potential conflict, for example, between management of PSCs and their staff as the governance objectives might conflict.

Similar to the contribution regarding intracompany relations in general, but with the added component introduced by PSC's preference for informal governance, the research has detected a gap between PSC-specific culture and available management practice (as MPBs). It is therefore suggested that informal governance, here driven by the specific culture, should be studied as a component of an effective governance model. More specifically, the role of informal governance, particularly trust, remains a central component in the study of PSCs.

Further, due to the nature of PSCs with private ownership, little research around intracompany governance has so far been conducted (Jenkins, Deis et al. 2008). This research therefore helps both academics and practitioners to better understand this particular aspect of an industry.

8.4 Implications on practice

The main implication of practice follows logically from the theoretical contribution – that of integrating informal governance in operational governance model for intracompany relations. The research also identified additional aspects concerning the relationship between internal IT and their customers. These will be discussed below.

8.4.1 Designing a balanced governance model

The research confirmed the existence and use of informal governance mechanisms within the Professional Service Companies studied. Due to the particular nature of PSCs, the role of elements like trust and personal relationships is probably even higher than that within public companies.

As has already been stated in this chapter, the main implication to practice is not combining formal and informal governance, but rather deciding how much weight should be given to each. The challenge is to design a balanced model which gives sufficient focus to both formal and informal governance but which avoids tipping too much in either direction. Here the researcher suggests using the three governance drivers (regulatory, strategic and operational) listed in Chapter 2. As a first step, the ISP and business management would need to agree on the need for a balanced governance model. A joint discussion should confirm the relevance of the three identified governance drivers, their priorities and specific governance mechanisms to ensure that these are successfully implemented and operated. If, for example, regulatory governance is relevant and must be proven towards an external auditor, there is mostly a list of known check points that the auditors will request. Regulatory-driven governance hence needs to ensure that these deliverables are produced and kept up-to-date. For strategic governance, for example to ensure sufficient alignment, it is first of all the internal customer (business management) which must define what performance and contribution is expected from the Internal Service Provider. The ISP then needs to translate these goals and objectives into operational activities, processes and

services. Governance, for example reporting or SLAs but also ongoing informal interactions, should be applied to ensure that the business goals and the ISP's activities are regularly reviewed to ensure alignment. Figure 6 provides a high-level workflow to guide such a process. By scheduling and conducting regular reviews of the governance model, organizations are able to adjust to changing (internal and external) requirements as well as feedback from members of both the ISPs and the internal customers.

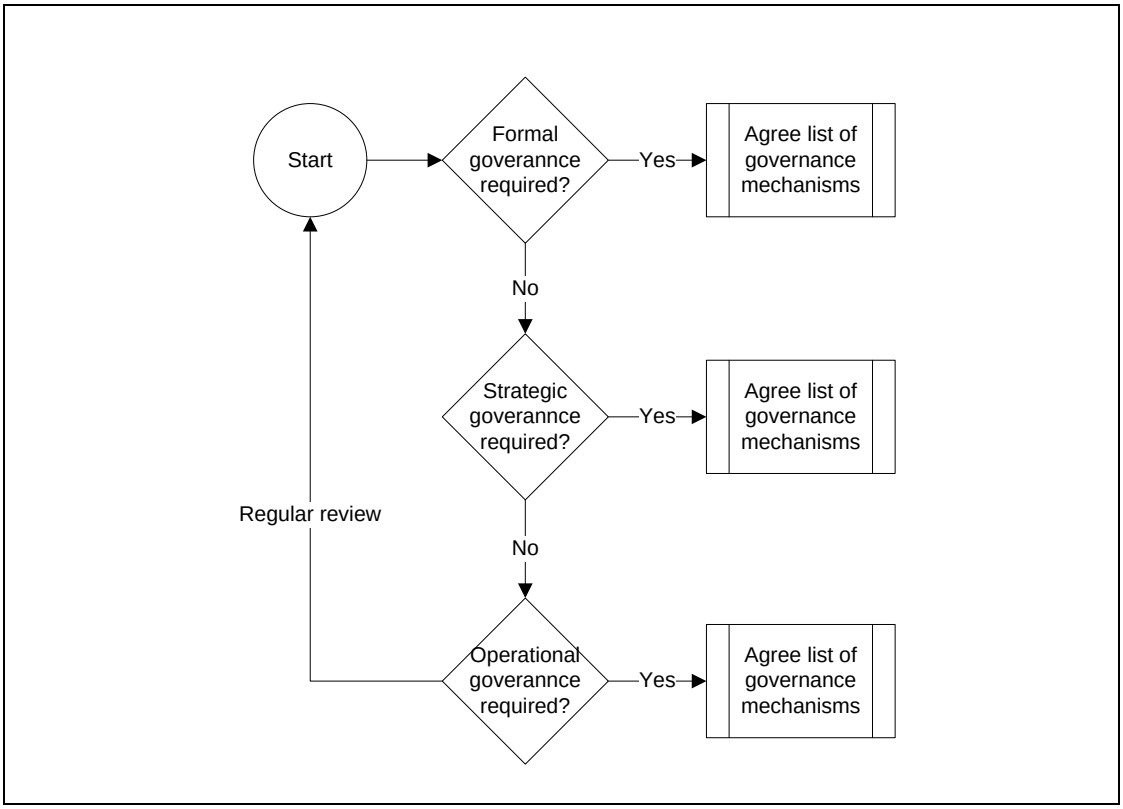


Figure 6: Process for defining governance model

Balancing formal and informal governance to address the specific requirements for each company will result in improved transparency and a better appreciation of each party's role. Using informal governance as a substitute for formal mechanisms whenever possible will also contain, and possibly reduce, transaction costs related to governing intracompany relationships.

8.4.2 Internal IT should drive the governance discussion

Based on the research findings, IT seemed to be the driving part in discussing intracompany governance. One potential reason for management's rather passive approach could be that hierarchical governance was deemed to be sufficient. Hence, further discussion in order to change the governance model was not a priority. As a consequence, changes to existing governance models will need to be initiated by IT. IT should first of all consider what their preferred governance model should look like, obviously with the focus on improving business support and not as a means to itself. The following step could be to initiate governance measures which do not required a dedicated involvement from the management's side. This would give an opportunity to show management how they are capable of improving efficiency and business value by making changes within their own boundaries. Finally, IT must present their case and argue how changed governance mechanisms would result in business benefits.

8.4.3 Informal governance should be used consciously

Not just relevant industry practice but also the findings from the cases showed that informal governance is not used consciously as governance mechanisms. Power is embedded within hierarchical governance, but the respondent's attitude towards trust seemed to be unconscious. Further, the value of long-term relationships between individuals involved in business exchanges also did not seem to reflect any conscious strategy. Both TCE and SET suggest elements like trust and personal relationships as supplements or alternatives to formal mechanisms. Both IT and business management should therefore have a clear understanding of its potential role. Based on this, and also what the main governance drivers (regulatory, strategic, or operational) are, informal governance can be used consciously to both improve efficiency and limit transaction costs.

8.4.4 Formal governance should be used consciously

Even though the research advocates a more prominent role for informal governance, in particular when used in a structured and balanced governance model, there are is also a need to apply the right level of formal governance when required. Meeting regulatory requirements have already been discussed, which is an area where formal governance serves to produce evidence that a company operates according to regulatory requirements. Achieving better alignment between internal IT and the business overall is another area where mechanisms like SLAs and reporting on KPIs (Key performance Indicators) might be more useful as a supplement to informal governance. The findings from the United Kingdom and Germany also showed the value of dedicated teams and processes to handle the ongoing interaction between IT Sevices and the internal customers. In terms of operational drivers, formal governance should be used particularly to define the right amount and form of operational processes. Formal operational governance in the form of processes becomes more important within larger and more complex organizations. Having formal processes ensures that the "right things gets done" but also that all involved parties follow a common set of processes rather than individual ones for each team of even person. Finally, a level of formal governance reduces the risk when relying too much on informal mechanisms. As argued within both TCE and SET, personal relations, which can develop into trust-based relationships, requires successful interactions between the same individual over time. After being established, informal governance is both efficient and less expensive than contract-based formal governance. The risk occurs when individuals changes and the relationship has to start from zero with new partners. Formal governance can mitigate some of the risk caused by changes among the individual partners.

8.4.5 Industry specific characteristics must be considered

The theory around Professional Service Companies suggested that informal governance, and in particular trust, was the preferred internal governance mechanism. Other industries, in particular those under stricter regulatory control, like pharmaceuticals and banks, might not have any option than to rely mainly on formal governance mechanisms. Even though the particular role of trust within PSCs could not be explicitly confirmed in this research, there was sufficient evidence that trust played an important role within all three cases. A practitioner therefore needs to understand the industry specific preferences, as well as requirements, when managing intracompany relationships.

8.5 Research validity and generalization

This section will discuss to what extent the research process and outcome addressed the challenges raised in Chapter 3 concerns validity and generalization. The use of a multi case approach with a reliance predominantly on interviews as data source is also discussed.

Qualitative studies, according to Wolcott (2001), is about understanding a phenomenon as opposed to proving something right or wrong. This means starting with the most basic questions: does the researcher think he now has a better understanding of how companies govern their internal relationships between service providers and business units? This improved understanding was already discussed at the start of this chapter.

The research's purpose was both to explore and explain the research phenomenon (Yin 2003) for which a multi case approach was chosen (Eisenhardt 1989; Ragin and Becker 1992; Yin 2002; Yin 2003; Eisenhardt and Graebner 2007). Selecting three cases (country organizations) within the same company provided a deeper understanding of intracompany governance practice in this particular company and type of industry, but introduced limitations in terms of generalization. The purpose of *exploring* the particular type of intracompany relationships was supported by studying multiple cases. As a practitioner within the same company being studied, the researcher had a relatively easy access to the informants within each research unit (internal IT and business units). The objective of *explaining* the same research phenomenon from three cases also had its weaknesses. First of all there were two types of internal validity to consider – those within each case and that within KPMG overall. Since the research subject was the intracompany relationship between IT and their customers, selecting interviewees from those two groups was assumed to provide the most relevant information about the subject. The number of interviewees per group was driven both by time and resource limitations as well as a notion of diminishing return. Due to the lack of know-how of each organization the researcher could not guarantee that informants were excluded who could have contributed with additional substantial

information. This challenge is no different to what a researcher without any connections to an organization might encounter. From the case analysis there was certainly a notion of information saturation by each additional interview. Other data sources, for example observations or internal documents, also confirmed this as it only served to confirm the data from the interviews. This made the researcher quite confident that internal validity within each case was achieved.

The second type of internal validity relates to KPMG as a company. With operations in more than 150 countries, picking three cases might seem like a small selection. Since the researcher was relatively new to the organization at the time of the data gathering, the selection of cases followed a principle of convenience. Switzerland was a given case when using convenience as a criterion, whereas both UK and Germany had other advantages. They were the two largest practices in Europe and had less than a year prior to the data gathering decided to embark on a journey towards full integration. Adding a small practice (below 1'000 employees) might have improved the internal validity within KPMG. On the other hand, the findings presented three very different operational models in terms of internal governance practice. Adding more countries based on size or other criteria were unlikely to have provided further governance models as there are a limit to how many ways internal IT can be organized. It is therefore questionable that internal validity within KPMG would have improved significantly with the inclusion of more cases.

One of the research questions related to the specific characterizations of PSCs and how those would potentially impact the governance model. The discussion around PSCs in Chapter 2 suggested that the particular nature of internal relationship between professionals meant that trust was the preferred governance mechanism. Based on the findings made within the three cases there was little to suggest that KPMG had other preferences. A level of formal contractual governance was found, in particular where external service providers were included in the operational model. The particular legal situation in Germany, with IT

Services as a separate legal entity, also required a level of formal contractual governance. Many of the other interactions looked to be based around informal trust as opposed to formal contracts and processes. This approach was certainly what the business units seemed to prefer. Based on this, the general notion about the role of *trust* within PSCs was confirmed.

Applying the findings to intracompany relationships overall might carry more caveats due to the narrow selection of cases. Case study was the chosen method to better understand the research phenomenon – that is the intracompany relationship between IT and customers in three specific KPMG countries. The further one would try to generalize the findings to a larger selection; from KPMG overall, via PSCs, to all types of organizations, the smaller the common denominator would become. The findings did suggest that industry practice like ITIL and COBIT, which focus on a formalization of the intracompany relationship between IT and customers, should be more open to alternative (informal) governance mechanisms. Further, the findings suggest that both internal IT organizations and business management should jointly agree what additional governance mechanisms are useful in addition to those already provided by the organizational hierarchy. Hence, the researcher feels confident that the findings can be generalized to a larger population in terms of both studying and implementing balanced governance within organizations.

8.6 Suggested future research

Studying a phenomenon like the one in this research project is very much like taking a snapshot and then seeing the picture fade away over the years. Different individuals are performing roles covered in the research as functions and processes have been modified, added or ceased to operate. The researcher does not consider this to be a weakness of the method as long as the scope was never more than studying the intracompany relationship during, or at, a fixed point in time. Before suggesting a future longitude study, in other words conducting the same research at different points in time, one must be conscious of both cost and expected benefits. Because the researcher is still employed as a practitioner within the same organization, he is aware of all the changes to both organization and personnel since conducting the original data gathering. This would also become evident to an external researcher when trying to locate the same people, roles, organizational units, and processes. A longitude study could be interesting in order to compare and contrast the results later, but identifying those variables and explaining the difference might be close to impossible. Some variables, like organizational setup or the people now occupying the key roles, would be easy to identify. Assigning values, like for example the length of ongoing relationship between new actors and how this impacts the relationship, would be more difficult to do. Another example is that KPMG in Switzerland has established a dedicated customer support unit within IT Services since the research was conducted. Checking this box would be easy but estimating the impact of such a unit when knowing that a number of other factors, like processes, key personnel, and more have also changed, is difficult. Conducting a second study using the same methodology would therefore not be a recommendation. That said, the role of the informants used in this research, who all acted as *boundry spanners*, i.e. those influencing the relationship between the units, is of a general interest. Regardless of the fact that the actors will change over a period of time, a closer study of how a group of individuals influence the overall relationship between organizational entities could be valuable. This

could be even more so within PSCs where personal relationship and trust play a major role in the governance model. Trust, or rather the importance it has as a governance mechanism within intracompany relationships, would also benefit from further research. The importance of trust within intercompany relationship has been established through empirical research (e.g. Bradach and Eccles 1989; Mayer, Davis et al. 1995; Nooteboom, Berger et al. 1997; Poppo and Zenger 2002; Woolthuis, Hillebrand et al. 2005; Mellewigt, Madhok et al. 2007). Further research of trust within organizations can help mature the intracompany governance model because of how trust complements both contractual (e.g. SLAs) and hierarchical governance.

When discussing validity, a number of areas outside the research scope were mentioned, for example additional KPMG countries, other Professional Service Companies, and non-PSCs. KPMG as an organization is rather federal in how it operates, and thereby displaying a number of differences in, among others, how intracompany relationships are governed. Still, the researcher assumes that information saturation would soon be reached when adding more KPMG practices to the research scope. The three case countries represented three different models in terms of ITS' role and setup. Studying, say, ten KPMG countries rather than only three would most likely not have resulted in ten different governance models. Based on the researcher's experience from both managing and studying internal IT organizations there are only a limited number of ways how such organizations can be structured and positioned.

The researcher would find it more interesting to conduct further research within other Professional Service Companies as well as non-PSCs. The first would provide more insight into the specifics of PSCs in terms of informal governance based on trust. The second scope would allow a broader generalization of findings regarding balancing formal and informal governance within intracompany relationships in general. From a convenience point of view, addressing the first scope could be by approaching the Swiss country organizations

of PWC, Ernst & Young, and Deloitte, and request access to people in similar functions as those interviewed for the original project. Adding more PSCs like, for example, law firms or consulting practices, would allow even further generalization of the findings to PSCs overall. For the second scope, focusing on non-PSCs, the population of potential research targets would be in the thousands only within Switzerland. Therefore limiting the scope to non-PSCs of similar size or organizational setup (of internal services) like KPMG Switzerland might be a sensible approach. This would both increase validity and allow a broader generalization of the findings.

Appendix

1 List of abbreviations

CAB – Change Advisory Board

CIO – Chief Information Officer

COBIT – Control Objectives for Information and Related Technology

COO – Chief Operating Officer

HR – Human Resources (department)

ISACA – Information Systems Audit and Control Association

ISP – Internal Service Provider

IS – Information Systems

IT – Information Technology

ITS – IT Services (KPMG's internal IT)

ITIL – IT Infrastructure Library

KPMG – (derived from Klynveld, Peat, Marwick and Goerdeler)

LMX – Leader-Member Exchanges

MPB – Managed Professional Businesses

OGC – Office of Government Commerce

P2 – Professional Partnership

PCS – Professional Service Company

P&L – profit and loss

PWC – PricewaterhouseCoopers

SET – Social Exchange Theory

SLA – Service Level Agreement

TCE – Transaction Cost Economics

TQM – Total Quality Management

2 List of Figures and Tables

3 Example of questionnaire used for the interviews

Project: DBA research

Name of interviewee: _____ Date: _____

Place: _____ Time start: Time finish:

Format: Pen & paper: ☐ Taped: ☐

Introduction: My research looks at the relationship between the internal business units and internal service units within professional service organizations. I'm using a so called case study method, where data will be collected from Switzerland, UK, Germany and the Netherlands. The questions I will ask over the next hour are focusing on how the internal parties see interest and power in their relationship.

Any questions?

Question 1: From an ITS perspective, which of your services do you consider to be particular critical to the KPMG business?

- Q1B: Why are these services considered critical?

Question 2: Do you think the customer has the same opinion of what are critical ITS services?

Question 3: How is the criticality of certain IT services reflected, i.e. what are the tangible results compared to less critical services (e.g. dedicated infrastructure, SLA, resources, interaction)

Question 4: Would you say that all of ITS are aware of what the critical services are and who are the main customers?

- Q4B: How would you ensure that awareness is improved?

Question 5: Can you give some examples of how the overall relationship between ITS and the internal KPMG businesses are formalized? (e.g. SLA, contracts, reports, etc)

Question 6: Are there other areas which are currently managed informally that should be included in a formal process?

Question 7: Would you describe ITS' relationship to the KPMG businesses based on trust or control, or more of one than the other? Please give examples.

- Q6B: Is the balance between trust and control something that is positive or negative?

Question 8: Would you say that all of ITS are aware of what the critical services are and who are the main customers?

- Q7B: How would you ensure that awareness is improved?

Question 9: If you were to rate ITS performance within KPMG, where do you see them having particular strength and weaknesses (in providing the best price/performance IT services to the KPMG business). Please provide examples.

Question 10: Do you think outsourcing of all or some of ITS operations will have an impact on their ability to deliver services to the business?

- positive / negative

- why

Question 11: Do you think the internal KPMG businesses would have a different expectation towards ITS if some or all of the IT services were outsourced?

- positive / negative

Question 12: Do you have any examples of where the internal business has exercised power to make ITS behave in a certain way (e.g. escalations, off the record calls, etc)?

Question 13: Do you think the internal customer has the right to use power to ensure they get what they want?

- Q17B: What are situations where the use of power is legitimate?

Question 14: Do you think that ITS has any form of power towards the internal businesses in KPMG?

- What could this be?

- Q18B: Are these rather positive (supporting) or negative (sanctioning) types

Question 15: Do you think the internal business thinks that ITS has power

- why and how

- is it accepted

Question 16: Do you think the internal business thinks that ITS has power

- why and how

- is it accepted

Question 17: Where do you see dependencies between ITS and other support organizations, including yours, in terms of delivering services to the internal customers?

Question 18: Would you describe the relationship between KPMG's support units as formal or rather informal?

Question 19: Do you have examples where you have worked together with other KPMG support units to exercise towards the internal customers?

- both in pushing through or preventing something from happening

Question 20: KPMG's service units have to share a limited amount of resources.

- Q18A: Do you think all units are treated equally in terms of obtaining funding?

- Q18B: Does the competition for limited resources impact your working relationship with other service units?

4 List of codes

Main code		Sub codes	Value	Code	Value	Code	Value	Code
CR - Criticality								
To see if there is a clear understanding of what are critical IT services	CR-CLEAR	Clear understanding	Yes	CR-CLEAR-Y	No	CR-CLEAR-N	Other	CR-CLEAR-O
Measure if the understanding of critical IT services is shared between IT and customer	CR-SHARE	Shared understanding	Yes	CR-SHARE-Y	No	CR-SHARE-N	Other	CR-SHARE-O
To see if the critical services are refelcted in dedicated SLA, infrastr, staff, etc	CR-REFLE	Reflected	Yes	CR-REFLE-Y	No	CR-REFLE-N	Other	CR-REFLE-O
To see if internal IT staff are aware of which services are critical to customer	CR-AWARE	Awareness	Yes	CR-AWARE-Y	No	CR-AWARE-N	Other	CR-AWARE-O
FO - Formalization								
To see if how relationship between IT and cust is formalized	FO-AVAIL	Available	Yes	FO-AVAIL-Y	No	FO-AVAIL-N	Other	FO-AVAIL-O
To see of there are area the interviewee would like to see being formalized	FO-GAPS	Gaps	Yes	FO-GAPS-Y	No	FO-GAPS-N	Other	FO-GAPS-O
To understand which part of the relationship is mainly informal	FO-INFOR	Informality	Yes	FO-INFOR-Y	No	FO-INFOR-N	Other	FO-INFOR-O
TC - Trust / control								
Measure if trust is a factor in the relationship	TC-AVATR	Available trust	Yes	TC-AVATR-Y	No	TC-AVATR-N	Other	TC-AVATR-O
Measure if control is a factor in the relationship	TC-AVACO	Available control	Yes	TC-AVACO-Y	No	TC-AVACO-N	Other	TC-AVACO-O
Measure if the relationhip is mainly based on trust	TC-MAITR	Mainly trust	Yes	TC-MAITR-Y	No	TC-MAITR-N	Other	TC-MAITR-O
Measure if the relationship is mainly based on control	TC-MAICO	Mainly control	Yes	TC-MAICO-Y	No	TC-MAICO-N	Other	TC-MAICO-O
SW - IT strengths weaknesses								
To see if there is a clear understanding/appreciateion of IT's strenghts	SW-UNDST	Clear understanding strenghts	Yes	SW-UNDST-Y	No	SW-UNDST-N	Other	SW-UNDST-O
To see if there is a clear understanding/appreciateion of IT's weaknesses	SW-UNDWE	Clear understanding weaknesses	Yes	SW-UNDWE-Y	No	SW-UNDWE-N	Other	SW-UNDWE-O
OU - Impact outsourcing								
Estimating the impact of outsourcing from IT's perspective	OU-PERIT	IT perspective	Pos	OU-PERIT-P	Neg	OU-PERIT-N	Other	OU-PERIT-O
Estimating the impact of outsourcing from customer's perspective	OU-PERCU	Customer perspective	Pos	OU-PERCU-P	Neg	OU-PERCU-N	Other	OU-PERCU-O
PI - Power / influence								
To understand if and how power is exercised in the relationship between IT and cust	PI-USAGE	Usage	Yes	PI-USAGE-Y	No	PI-USAGE-N	Other	PI-USAGE-O
Opinions as to whether or not the use of power can be seen as legitimate	PI-LEGIT	Legitimate	Yes	PI-LEGIT-Y	No	PI-LEGIT-N	Other	PI-LEGIT-O
Understand if and how IT exercise the use of power in the relationship with internal customers	PI-ITPOW	IT power	Yes	PI-ITPOW-Y	No	PI-ITPOW-N	Other	PI-ITPOW-O
Whether or not IT and the customer thinks that IT has power	PI-ITPER	Perception IT power	Yes	PI-ITPER-Y	No	PI-ITPER-N	Other	PI-ITPER-O

5 Example of transcribed interview

I would say that this is the most important. There are other systems that are rated A, B and C. Maconomy, for example, is not that important as long as it doesn't go down when we have to send out invoices. The same thing with Dialogue for goal setting, except to say that there is a deadline for submitting the goals and two weeks prior there are functions with Dialogue that does not work. That is something that is not allowed to happen. I know that this is not under Swiss control but that simply means that it should not happen on a global level. This means that I do not only view Swiss IT Services, but just as much Europe and global. It doesn't matter how good the IT strategy is if the systems that are used by the regular employee do not work. If the printer is not working you can throw away the whole strategy. In other words the requirement I, as a user, have on IT is that it must be available and IT therefore has to think ahead to be proactive.

JH: What you have mentioned are the tools that support your business processes. Do you also see areas where IT could operate on a level above in order to generate added value?

CH_19: Exactly, that is what I indicated earlier but thanks for bringing me back to this topic. We have to provide our employees with a competitive advantage, that does not have to be extremely visionary but something that is state of art and which makes us operate on the same level as the customer. Some years ago, when I became an Exec Management team member, I strongly advocated the introduction of Blackberry despite some opposition within the firm. BL offered me a lot of good support. I had seen the advantages of the Blackberry at Swisscom as they were using it. Also the partner that came from abroad to help us with the external audit had a Blackberry and he was able to sit in the train from Zurich to Bern and get information because he was online.

Here we have to be in the forefront and the expectation is also that IT Services comes up with ideas of what is available but also that we as customers can communicate what we want. Where could the competitive advantage be and with which tools? It has to be a cooperation (between IT and the internal customer). You are the specialists who know what is available and we have to communicate what we would like to have. You have to tell us if it is available or not.

JH: Where do you currently see Switzerland, also in light of the fact that the other three countries I am looking at are a bit further? Like they all operate as profit and loss centers. Where do you see gaps in Switzerland in terms of what ITS could be doing? Is it a question of know-how, support form senior management, or something else?

CH_19: I think what is good is to have people from IT Services operating close to our people and vice versa s that we really know each other and we feel you are serious in treating us as customers. When I joined the Exec management team five years ago we lifted IT Services to a higher strategic position. We then also defined a strategy with balanced score card. We also decided priorities and established a steering committee with members from the Exec management team and others with IT know-how. This (committee) is somehow lost since two years. The only meeting I have been to was with Siemens when the issue was telephony, which I by the way found very interesting. These are things we have to do more often. We should also take advantage of the merger with Europe to lift IT to the next level. We used to be informed about what is going on but recently I receive no updates. I get reports from BL, which is good, but sometimes there is also a need to a presentation or a discussion. That way we get back to being visionary and strategic.

JH: This means that ITS could also take on a more active role?

Comment [4]: BM: ITS should bring added value to the business -> JH: this would require a certain level of innovation by ITS but also better understanding of business requirements in order to see where we could introduce new tools or processes

Comment [5]: ALI-CLOSE-Y -> stronmger alignment to both co omunicate and understand requirements

Comment [6]: OU-PERCU-O -> IT must be close to the customer in order to better understand

Comment [7]: ALI-CLOSE-O -> some of the "alignment" and strategy initiatives have gone lost -> JH: what could the reason be for this? No longer interest, time, etc?

Comment [8]: EU-RELAI-O -> expected positive impact from the ELLP integration

Comment [9]: ALI-CLOSE-Y -> wants to see more updates from ITS

6 List of consolidated codes and quotes

	A	B	C	D	E
1	Interview	Code No	Code ref	Quote	Comment
2	CH_06	CH_06_01	CR-CLEAR-Y	IT Services – I could not live without them.	IT Services as a critical service (provider)
3	CH_06	CH_06_02	CR-CLEAR-Y	Q: would you say that KPort is the most critical or are there others? A: Definitely. It's our Intranet, I mean that has developed into a tool that is critical.	Kport as the example
4	CH_06	CH_06_03	CR-SHARE-Y	Yes. we had our hard learning curve to do between PPKS and ITS I think this is solved and I think the relationship is really well established	JH: Discusses the specific application and not the relationship as a whole
5	CH_06	CH_06_04	FO-AVAIL-Y	CAB organization	
6	CH_06	CH_06_05	CR-REFLE-Y	Q:is it dedicated infrastructure for KPort or dedicated resources A: Since we have the new version we have this development environment.	JH: No SLA but infrastructure and support
7	CH_06	CH_06_06	FO-AVAIL-O	With PPKS we have also this, or plan to be established, a multi project management. Multi Project management that IT is also part of,	JH: Looks to be an organizational solution rather than formalized cooperation
8	CH_06	CH_06_07	EU-RELAI-O	With PPKS we have also this, or plan to be established, a multi project management. Multi Project management that IT is also part of,	Resource planning tool for projects
9	CH_06	CH_06_08	FO-AVAIL-O	Q: And is this multi project management supposed to formalize more the, if you like, the governance model or an overall sort of, if I understand, a formalization of how you provide projects within KPMG A: Yes	JH: Ongoing attempt to formalize the project governance
10	CH_06	CH_06_09	ALI-SUFFI-O	Q: What is ITS; one of several parties in this that needs to be involved or do they have any particular function in the multi project management model? A: I think it is a very, very important stakeholder within this area because very many projects are actually IT projects or have an IT component in it.	JH: ITS' role in projects (with IT components)
11	CH_06	CH_06_10	FO-GAPS-Y	I think that the top coordination and knowledge sharing about projects should be more formalized.	
12	CH_06	CH_06_11	TC-AVATR-Y	My feeling is that it is based on trust.	
13	CH_06	CH_06_12	TC-AVATR-O	If you had asked me this question two years ago – there were problems but I think they are now solved.	JH: Trust has developed over the last two years -> thanks to what?
14	CH_06	CH_06_13	TC-AVATR-O	Q: And two years ago there wasn't much trust? Is that correct? A: No, rather than trust there was kind of … competition.	JH: Relationship used to be based more on competition
15	CH_06	CH_06_14	ALI-SUFFI-O	"we have to make sure that IT does not do projects only for IT purposes. Our focus is always to represent the business part" ITS realized that they can not cover the business part, which we can.	
16	CH_06	CH_06_15	TC-AVACO-O	With the multi project management you get the control you need	JH: Limited to project management
17	CH_06	CH_06_16	NONE	or that IT only performs projects that are, form an IT point of view interesting and needed, but the business has more important projects, which probably is not that attractive for IT Services.	JH: PPKS can decide the prioritizaiton of project resources over ITS if they consider certain projects to be more business relevant
18	CH_06	CH_06_17	FO-AVAIL-Y	not without involving IT Services. It has to be discussed and for me that is very important.	discuss use of project resources with ITS
19	CH_06	CH_06_18	FO-GAPS-O	if there comes a point where somebody comes into your office and say that "in this case we do it differently", then what can you do?	relates to PPKS' relationship with the business
20	CH_06	CH_06_19	TC-AVATR-N	Q: So if I may interpret that, there is also a lack of trust from the executive management towards PPKS? A: I would say so and I would totally stress that it is not intentional. I think that the most important point about this is that they don't understand what we do.	relates to PPKS' relationship with the business
21	CH_06	CH_06_20	EU-RELAI-P	Q: Do you think that this whole Europe integration might change PPKS' standing A: then the project went on but in a highly decentralized manner and it was also a bit chaotic.	thinks PPKS is needed to provide control of integration activities
22	CH_06	CH_06_21	EU-RELAI-O	On the other end is the team from Europe; the most powerful part of Europe is the UK and UK is just working without big concepts; they are really not … what I have seen up until now is that they are not process oriented people,	cultural differences between CH and UK
23	CH_06	CH_06_22	SW-UNDST-Y	I see as strengths that people are really willing to work.	willingness to work
24	CH_06	CH_06_23	SW-UNDWE-Y	prioritization is probably not the best thing that they do so refocus on the most important.	prioritizations JH: this is seen from PPKS' point of view
25	CH_06	CH_06_24	SW-UNDWE-Y	probably also communication so if I do not ask I don't get the information.	communication
	CH_06	CH_06_25	SW-UNDWE-Y	Where I really see improvements is in the whole support area. This is really the	support area

CH_CU | CH06_CU01 | CH07_CU02 | CH08_CU03 | CH09_CU04 | CH18_CU05 | CH19_CU06

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