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IT Governance and Organizational Transformation: Findings From an Action Research Study

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ABSTRACT

IT Governance is supposed to ensure the value contribution of an organization’s IT to its overall business strategy. Due to various contingency factors, such as organizational structure or company size, models for IT Governance cannot be off-the-shelf solutions, but have to be designed for each company individually. While there have been numerous scientific contributions dealing with the way and extent contingency factors affect organizations’ IT, only limited research is available investigating the impact of organizational transformation on the establishment of specific IT Governance models. Against this background, the paper at hand reports on the findings from an action research study conducted at “Cerveza & Refrescos”, a Latin American producer and distributor of beverages.

Keywords
IT Governance, Organizational Transformation, Contingencies, Action Research

INTRODUCTION

Motivation

Governance issues have become a critical factor for companies in recent years. The growing number of regulatory and legal provisions plus highly publicized cases of company mismanagement have moved Corporate Governance into the focus of public interest (OECD, 2004). Facing the need for organization wide establishment of standards, companies have identified the importance of governance also when it comes to deploying and using information technology (IT) (PricewaterhouseCoopers, 2006). In parallel, the impact of companies’ IT management on their capability of doing business has become stronger (Symons, 2005). IT Governance increasingly has become an instrument to align IT strategies with overall business strategies (Boynton, Jacobs and Zmud, 1992; Ross, 2003). As a consequence, companies are not looking for off-the-shelf solutions but for tailor-made IT Governance models (Symons, 2005; Weill and Ross, 2005).

IT Governance refers to a number of functional areas companies have to deal with, such as IT infrastructure, IT architecture, special requirements on IT applications, and IT related investments (Sambamurthy and Zmud, 1999; Weill et al., 2005). Standards and best practices were developed to design and manage these functional areas, e.g. IT Infrastructure Library (ITIL) for IT services management (OGC, 2006) and CobiT (Control Objectives for Information and Related Technology) (Curtis, Colville, Haight and Brittain, 2005). There is broad consensus among researchers and practitioners as to what are the factors that are relevant when it comes to developing models for IT Governance. It is a company’s organizational structure, size, experience with regard to governance issues, and business strategy that IT Governance is contingent on (Brown and Grant, 2005; Gordon and Gordon, 2002; Weill et al., 2005). However, what has been almost neglected so far is the question as to how organizational transformation affects the development and establishment of an IT Governance model. In other words: Is organizational transformation a contingency factor to IT Governance? The question becomes even more important considering the fact that businesses more often than not are characterized by being subject to change, e.g. as a response to business drivers such as global market presence or short innovation cycles.

Research Question and Approach

The paper at hand reports on an action research study dealing with the establishment of an IT Governance model in a company which is in a process of organizational transformation. By the time the underlying study was conducted, Latin American Cerveza & Refrescos was among the ten largest producers and distributors of beverages in the world. The paper addresses the question whether an ongoing organizational transformation affects the establishment of IT Governance, i.e. whether it is a contingency factor for the latter.
In 2006, Cerveza & Refrescos had a turnover of more 10 billion US $ and was a supplier of some 2 million retailers and 200 million end consumers. Cerveza & Refrescos consists of three business lines (soft drinks, beer, retail), which used to be managed independently from one another and which are head-quartered in two different locations. Following a strategy of continuous acquisition, the company management’s goal has been to achieve double-digit turnover growth rates per year. To achieve this goal, the company management decided in favor of a change in its operating model, mainly referring to the business lines which are now supposed to increasingly generate synergy effects through the integration of support functions. The organizational transformation also affected the company’s IT, which also used to be managed on a decentral basis by the individual business lines. In 2005, the company management decided to establish a company-wide IT Governance model to support IT integration.

The study approach follows the principles of action research, which basically is a form of field research (Heinrich, Heinzl and Roithmayr, 2007), with the researcher supporting the company to be examined in its problem solving efforts (Baskerville and Wood-Harper, 1996). In information systems (IS) research, action research is often taken advantage of when it comes to implementing information systems or evaluating artifacts (Frank, 1998). The overall aim is to solve practical problems and promote scientific progress at the same time (Hult and Lennung, 1980). In general, an action research study consists of five phases: diagnosis, planning, action, evaluation, and documentation (Susman and Evered, 1978). The project reported in this paper was conducted from April to September, 2006. The principles of canonical action research (Davison, Martinsons and Kock, 2004) were met:

- Agreement between researcher and client: In April, 2006, a written agreement on the development of a model for IT Governance was signed, specifying a timetable and a process plan as well as the roles of researchers and company representatives and the contributions to be made by them.
- Iterative process model: At the beginning of the project, an iterative process model was agreed upon, specifying a three-step development of the IT Governance model (see section “Action Planning”).
- Theoretical foundation: The first version of the IT Governance model was based on accepted standards set up by the IT Governance Institute (IT Governance Institute, 2003). In addition, it drew upon findings from contingency theory.
- Willingness to bring about change: The willingness to improve the situation with regard to IT Governance was clearly identifiable throughout the entire company due to an urgent need for business transformation. All actions planned were fully supported by the company management and the staff.
- Documentation of lessons learned: From the findings from the action research study, concrete measures were deducted which were evaluated by all decision-makers involved before final acceptance or rejection. One piece of documentation of the lessons learned is the present article

Section “Background” of this paper outlines basic concepts in the fields of IT Governance and contingency theory. In the third section the action research project at Cerveza & Refrescos is described. The paper concludes with a short summary and an outlook at future work on the topic.

BACKGROUND

IT Governance

IT Governance aims at aligning a company’s IT strategy with its overall business strategy. On a “macro” level, it assigns IT related rights and duties to a company’s interest groups (Peterson, 2004), basically to make sure information is made available safely, reliably, efficiently, and effectively by taking advantage of appropriate technology (Korac-Kakabadse and Kakabadse, 2001; Meyer, Zarnekow and Kolbe, 2003). On a “micro” level, this basic objective usually is concretized by means of a reference model establishing IT departments in terms of service providing organizations based on certain requirements. Among the most well-known models are ITIL and CobiT (Curtis et al., 2005).

Basically an IT Governance model provides an organizational manifestation of IT Governance throughout a company (Weill et al., 2005). Such a model consists of three components: first, IT related decision areas (alignment with business strategy, resources management, performance measuring etc.); second, the roles involved in the process (CEO, Chief Information Officer, department managers etc.); and third, the responsibilities to be taken over by the roles (IT Governance Institute, 2003). These responsibilities can be modeled by means of competence codes, which in the case of CobiT is a notation scheme called RACI (“R” for “responsible”, “A” for “accountable”, “C” for “consulted”, and “I” for “informed”) (IT Governance Institute, 2005).

However, each IT Governance model has to be company specific. There have been numerous scientific efforts to investigate the interrelatedness of specific IT Governance models and specific contingency factors (Brown, 1997; Korac-Kakabadse et
al., 2001; Sambamurthy et al., 1999; Weill et al., 2005). The basic assumption has been that there can be no off-the-shelf IT Governance model, since in each single case both the IT’s value contribution and the IT Governance model itself are directly affected by company specific contingency factors.

Contingency Theory and IT

The interrelatedness of a company’s specific organizational characteristics and its performing capabilities is determined by contingency factors. Originally, contingency theory referred to the fit of a company’s organizational structure with the external conditions it is surrounded by (Lawrence and Lorsch, 1975). Later, contingency theory was extended by inner-company factors, such as degree of formalization or degree of specialization (Donaldson, 2001; Keats and O’Neill, 2001; Miller, 1992; Olson and Chervany, 1980).

There have been numerous scientific contributions dealing with applying contingency theory to companies’ IT. At the beginning of scientific research in this field, it was mainly investigated as to what extent classical contingency factors (competitive strategy, company size, allocation of decision power) have an impact on single areas of companies’ IT (on the distribution of computing resources and on the effectiveness of management information systems, for example) (Ahituv, Neumann and Zviran, 1989; Ein-Dor and Segev, 1978; Weill and Olson, 1989). At a later stage, IT as a whole was focused, e.g. by analyzing the multiple impact of contingency factors on the interplay of business units and IT departments (Brown, 1997; Sambamurthy et al., 1999).

From these theoretical efforts integrated models for describing and designing IT Governance were developed (Brown et al., 2005). Weill, for example, defined more roles (line managers, IT managers, business process owners etc.) and five basic decision areas (IT related principles, IT architecture, IT infrastructure, special requirements on IT applications, and IT related investments). By being able to assign responsibilities to roles and decision areas, a more detailed modeling of the interplay between business units and IT departments is made possible. Based on that matrix, Weill finally identified six archetypes of possible manifestations of IT Governance models (Weill, 2004). Other examples of recently published frameworks are the IT Effectiveness Model (Sugumaran, 2003) and the marketing maturity model for IT (Hirschheim, Schwarz and Todd, 2006).

Consequences in the Paper Context

In practice we can find proven reference models for the design of IT Governance models. Also, we can draw upon numerous research results for IT organization and the definition of contingency factors, such as business strategy or company size. However, all these reference models do not tackle the issue of how the impact of contingency factors needs to be taken into consideration when responsibilities are being assigned. CobiT, for example, acknowledges the need for IT Governance models to be company specific. However, CobiT then proposes ready-made RACI diagrams, thereby revealing its one-size-fits-all approach (IT Governance Institute, 2005). Besides, while business strategy has been identified as a contingency factor for IT Governance, it has not been investigated yet - except from particular cases (Gonzalez-Mesa Hoffmann and Weill, 2004) - how an organizational transformation is actually affecting the establishment of an IT Governance model. Apart from that, much research has been conducted analyzing the impact of IT on the performance of the organizational strategy (Melville, Kraemer and Gurbaxani, 2004; Tavakolian, 1989; Venkatraman, 1994; Weill, 1992), but not vice-versa.

THE CERVEZA & REFRESCOS ACTION RESEARCH STUDY

Initial situation and diagnosis

Until shortly after the turn of the millennium the business strategy of Cerveza & Refrescos had been characterized by autonomous, sparsely interacting business lines operating in local, partly different markets. However, the business strategy of growing continually, to be realized largely by acquisitions, was requiring more intensive usage of the company’s resources. The new business strategy set up in 2004 was aiming at becoming an integrated organization leveraging synergies and resources on a company-wide level. The company’s integration process began with its human resources management and financial accounting management, embracing also the IT department. The company’s IT used to be organized on a decentral level for each business line individually. Any decisions with regard to IT architecture, IT projects, or IT related investments were made by the business lines’ Chief Information Officers, who then had to report to the business line managers. Structures thereby became highly heterogeneous. For example, whereas the soft drinks business line received all IT infrastructure installations, while the retail business line was using Oracle applications.

In 2004 the company management decided to establish a shared service center for IT services (named SSC IT), initially focusing on IT infrastructure services (i.e. network operations, support services, hardware maintenance etc.). Basically, the company management executives had three objectives in mind:
• Leverage economies of scale for IT infrastructure services.
• Standardize IT services as a basis for company-wide IT strategy planning.
• Minimize risk through consolidation of computing centers and establish a new computing center characterized by higher safety standards.

The benefits this project was supposed to bring about - both with regard to monetary aspects and support of the business strategy - were confirmed by the results of a profitability analysis. Profitability mainly was supposed to result from the consolidation of IT infrastructure services within the SSC IT, what de facto meant to be a reintegration of the services the soft drink business line previously had received from an external service provider. An iterative project plan was set up, which in a first step aimed at consolidating infrastructure services of the beer and the retail business lines within the new computing center (in 2005), and in a second step migrating IT services of the soft drinks business line (in 2006).

Apart from that, a first draft of an IT Governance model was developed by the SSC IT. It envisaged more than 130 decision areas on IT infrastructural level, six roles (both on corporate and on business line level), and responsibilities. The decision areas mainly addressed infrastructural aspects (e.g. data center and network services, field services, security and help desk services), but also touched upon application management for group-wide standard software systems. However, the proposal was not given into the internal consolidation process involving the business lines.

Shortly after the start of the SSC IT implementation project, however, some deviations from the project plan occurred:
• The migration of the soft drinks business line’s IT infrastructure services was delayed due to an SAP R/3 upgrading project planned and started in parallel.
• Managers of the business lines and SSC IT executives had different opinions concerning both the skills and the competencies of SSC IT staff.
• Business line managers expressed their doubts about the profitability of the SSC IT, and executives of the soft drinks business line proposed price negotiations with the external service provider.
• More delays in the project timetable occurred due to the fact that the business lines set different priorities from the overall company management (e.g. introduction of mobile data capturing devices for the retail business line).

A situation analysis revealed that the establishment of a company-wide IT Governance model was a precondition for the establishment of the SSC IT - and for the organizational transformation. The IT Governance model was needed to control the collaboration of interest groups both in the business lines and in the overall company management in order to safeguard the new company strategy.

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It became obvious that the existing draft of the IT Governance model was inadequate against the background of the aforementioned plan deviations. The reason for this was the absence of strategic and business-related decision areas. It did not say anything how contracts with vendors were to be negotiated, how project portfolios were to be managed, how standards were to be set regarding the strategic use of IT. Instead, it focused on day-to-day aspects of data center and infrastructure services only.
Action Planning

A core team was set up to redevelop the IT Governance model and plan its realization. Members of the core team were the author of this paper, the head of the SSC IT, and the heads of the SSC IT strategy and SSC IT operations groups. A premise for the IT Governance model was to make use of accepted industry standards and of “best practices” from other companies.

In a first step it was agreed upon the organizational scope of the IT Governance model, comprising collaboration between the lines of business and the corporate center, between the SSC IT and the corporate center, and between the SSC IT and the lines of business. Collaboration with external partners was not taken into consideration during this phase of the project. The organizational scope of the IT Governance model is illustrated in Figure 1. In a second step, the roles to be involved in the process were identified. The list of roles included:

• From the lines of business: CIOs, the line managers of the CIOs, application managers, technology managers, and development managers.
• Corporate center: head of all shared services (incl. SSC IT) who also held the role of the Group CIO; procurement department; human resources management; account managers of shared services for business lines.
• SSC IT: head of SSC IT; head of SSC IT strategy; head of SSC IT operations.

Apart from that, three boards were established following recommendations of the IT Governance Institute (IT Governance Institute, 2003) as illustrated in Figure 2.

- Members of the IT Strategy Committee were the line managers of the three divisional CIOs and the Group CIO. It was mainly in charge of aligning the IT with the company’s business strategy.
- The IT Steering Committee consisted of the Group CIO, the CIOs from the lines of business as well as of representatives from the SSC IT, namely the head of the SSC IT and the heads of SSC IT strategy and operations.
• Working groups were not planned to exist permanently, but should rather be formed on a temporary basis. They covered aspects of application management, technology and infrastructure management as well as software development.

<table>
<thead>
<tr>
<th>Date</th>
<th>Corporate Center</th>
<th>SSC IT</th>
<th>Retail LoB</th>
<th>Beer LoB</th>
<th>Soft Drinks LoB</th>
<th>Results</th>
</tr>
</thead>
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<td>22/05/06</td>
<td>Group CIO</td>
<td>Head of SSC IT</td>
<td>LoB CIO</td>
<td>LoB CIO</td>
<td>LoB CIO</td>
<td>Scope and objective agreed Milestone planned agreed</td>
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<td></td>
<td></td>
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<tr>
<td>07/09/06</td>
<td>Group CIO</td>
<td>Head of SSC IT</td>
<td>LoB CIO</td>
<td>LoB CIO</td>
<td>LoB CIO</td>
<td>3rd model version presented Conflict resolution plan approved</td>
</tr>
</tbody>
</table>

Key: LoB - Line of Business; CIO - Chief Information Officer; SSC - Shared Services Center.

**Figure 3: Workshop Schedule**

For the development of the IT Governance model and its mutual agreement between the different stakeholders, the following basic procedure was agreed upon:

- Based on the state of the art and the recommendations of the IT Governance Institute (IT Governance Institute, 2003; IT Governance Institute, 2005) the core team develops a first version of the IT Governance model. The IT Governance model is supposed to identify decision areas and roles, and to assign responsibilities.

- In this process, contingency factors are identified, and their impact on the model will be assessed.

- The core team puts up a plan to develop a version of the IT Governance model approved by all roles.

- A meeting is held comprising all decision-makers (CIOs from the business lines, head of shared services, core team), in which the IT Governance model and the project plan are evaluated and modified, if need be.
The first version of the IT Governance model is evaluated in individual meetings with each CIO. Conflicting interests, views and opinions as well as propositions for modification will be documented.

Based on the first evaluation cycle, the core team develops a second version of the IT Governance model and document all conflicting interests, views and opinions.

In a second evaluation cycle, both the IT Governance model and the conflicts that could be identified are presented to each CIO. The results will be discussed and possible solutions of the conflicts are elaborated.

The core team develops a third version of the IT Governance model plus possible solutions of the conflicts, which are presented to all decision-makers in an overall meeting and put on the table for final approval.

The procedure outlined here was based on the assumption that all decision-makers involved would actively participate in the process, which is, in general, considered as critical for the establishment of an IT Governance model (Rau, 2004).

**Action Taking and Evaluation**

The action research study was conducted from May to September, 2006. Figure 3 shows the workshop timetable including participants from various organizational units and major results. The foundation for the action taking phase was a workshop series consisting of both plenary workshops with all involved stakeholders and so-called “one on one” workshops with the different lines of business.

<table>
<thead>
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<th>Strategic decision areas</th>
<th>Business model</th>
<th>Organizational development</th>
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</thead>
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<td>Alignment with business strategy</td>
<td>Service catalog and SLA</td>
<td>Standards and rules</td>
</tr>
<tr>
<td>Requirements analysis</td>
<td>Best practices</td>
<td>IT governance processes</td>
</tr>
<tr>
<td>SSC IT strategic plan</td>
<td>Strategic supplier management</td>
<td>HR development</td>
</tr>
<tr>
<td>Portfolio planning</td>
<td>Price and cost model</td>
<td>Board structure</td>
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<td></td>
<td>Risk management</td>
<td>Organizational change management</td>
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</tbody>
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<table>
<thead>
<tr>
<th>Operational decision areas</th>
<th></th>
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</thead>
<tbody>
<tr>
<td>Infrastructure planning</td>
<td>Data center operations</td>
<td>Network operations</td>
</tr>
<tr>
<td>Help desk operations</td>
<td>Field services</td>
<td>Security management</td>
</tr>
<tr>
<td>Project management</td>
<td>Application management</td>
<td></td>
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</tbody>
</table>

*Figure 4: Decision Areas Covered by the IT Governance Model*

The first version of the IT Governance model was the starting point for the first evaluation cycle conducted in July 2006. In various full-day sessions, the status of the IT Governance model was presented to the divisional CIOs. The author of this paper walked them through the different decision areas and the proposed allocation of responsibilities. The model was discussed and comments from the CIOs recorded. On the completion of the first evaluation cycle, the author of this paper had a list of feedback comments on the first version of the IT Governance model. The core team took up on the list when developing the second model version incorporating the comments into the model. The core team encountered that the majority of comments could easily be reflected in the model. However, a number of comments led to conflicts. Those were recorded by the core team for later resolution by the IT Steering Committee.

The same methodology was applied during the second evaluation cycle which took place in September 2006 and led to the third version of the IT Governance model.

The latter comprised both strategic decision areas and operative decision areas, with the latter having a clear focus on IT infrastructure services. In fact, the operative decision areas demonstrated many similarities to the draft version of the IT Governance model. With regard to strategic decision areas, three main blocks were defined: Strategic Direction, SSC IT Business Model, and Organizational Development. The fact that both overall decision areas and subordinate tasks differ from...
the recommendations of the IT Governance Institute is due to continuous extension and refinement of the model. In total, the IT Governance model comprises 219 tasks, of which 20 belong to Strategic Direction, 72 belong to Business Model, 16 belong to Organizational Development, and 111 belong to the operative decision areas (see Figure 4).

Apart from that, the IT Governance model assigned the involved roles to the decision areas through the allocation of different participatory responsibility types based on the RACI notation. The overall structure of the IT Governance model is illustrated in Figure 5.

The model reflected the aforementioned premise since it is a combination of existing standards. It used recommendations of the IT Governance Institute with regard to “management-related arenas” (IT Governance Institute, 2003) such as strategic alignment, risk and resource management. Apart from that, it adopted the RACI notation included in CobiT (IT Governance Institute, 2005) and used recommendations on service management proposed by ITIL (OGC, 2006).

As outlined above, the two evaluation cycles disclosed a number of conflicts which hindered the final elaboration of the IT Governance model. Among the most prominent conflicts that could be identified during the model’s development and evaluation were the following:

- **No common understanding of the role to be filled by the SSC IT**: The perception of the SSC IT as a means of the company’s organizational transformation and integration process differed widely between the various lines of business. Whilst the soft drink division considered the SSC IT merely as provider of IT infrastructure services the beer division was expecting the identification and evaluation of strategic innovation potentials through the use of IT by the SSC IT. The resolution of the different understanding was even complicated, since there was missing an executive directive detailed enough to be referred to in this process.

- **Diverging expectations regarding the scope of services to be provided by the SSC IT**: It was not clear what services were to be offered by the SSC IT and to be consumed by the lines of business. Whilst the soft drinks division was expecting pure infrastructure services (such as database and e-mail operations), the beer division was evaluating the transfer of the application management for the ERP systems to the SSC IT. Apart from that, no common understanding was reached regarding the maintenance of basic technologies such as SAP NetWeaver.

- **No trust in SLAs by the CIOs, but fear of losing power**: All divisional CIOs were aware of the fact that the ongoing business transformation would have an impact on the way IT was organized within Cerveza & Refrescos. However, the vision for the new situation was not communicated sufficiently, the divisional CIOs reacted with a concern of losing power.

- **Unsolved field services strategy from one source covering all markets served**: It turned out that the SSC IT was able to deliver field services (such as hardware repair) covering the local markets of the beer and retail division only. The international markets of the soft drink division could not be served which impeded a single source strategy for field services.
Diverging views regarding decisions to be made in the boards (unanimous vote vs. majority vote; right to veto).

**Learnings**

The development, evaluation and refinement of the IT Governance model at Cerveza & Refrescos led to the following findings:

- Due to the ongoing organizational transformation at Cerveza & Refrescos, not all business lines were fully aware of the service oriented role of the SSC IT. This led to conflicting views regarding the scope of services to be rendered by the SSC IT what called for incorporating “management-related” decision areas in the IT Governance model. This was needed despite of the fact that the scope of the initial version drafted by the SSC IT was formally in line with its mission.

- The organizational transformation was also reflected the way how responsibilities were designed and assigned. Being skeptical about the new situation, many CIOs quite too frequently chose to assign “A”s and “C”s (of the RACI notation) even to operative tasks (which would have led to excessive bureaucratic effort), although it was agreed that the IT Governance model be continuously refined and that decision power and veto power be increasingly shifted to the boards or the SSC IT itself. This behavior is typical in times of changes (Elrod II and Tippett, 2002) and underpins the suggestion of IT Governance being contingent on organizational transformation.

- The IT Governance model served as a “common language” with regard to IT services in general. As all actors involved had different notions of services, technical terms, and outcomes, the number of subordinate tasks to be defined finally got quite high, which obviously was the result of the attempt to avoid the danger of misinterpretations by going very much into detail. In this sense, the IT Governance model became an instrument for the advancement of the organizational transformation.

- The promotion of organizational integration resulted in decision processes characterized by a high degree of cooperation. For example, the common practice of assigning only one “A” for each task was dismissed. The IT Governance model allowed assigning “A” values both to boards and to individual roles. By this it is possible to model unanimity, as both the board and all roles involved have to give their assent to a proposition.

**SUMMARY AND OUTLOOK**

The paper at hand reports on the findings from an action research study investigating the affect of organizational transformation on the establishment of an IT Governance model at Cerveza & Refrescos, a Latin American producer and distributor of beverages. The paper aims at closing a gap identified in IT Governance research, stating that reference models and contingency theories hardly reflect on how the establishment of IT Governance models is affected by ongoing organizational transformation processes.

The findings from our research suggest that the establishment of an IT Governance model is contingent on organizational transformation. Further research on this topic will be necessary to confirm our findings, particularly in terms of verifying or falsifying the impact of organizational transformation as a contingency factor. Substantial contribution to the scientific body of knowledge might come from multiple case studies on the topic.

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