Using a business process management system as an IT tool for corporate governance

by Prof Awie Leonard and Henk Pretorius

In the USA, corporate governance has been heavily criticised because of the failure of companies like Enron, WorldCom, Tyco, Adelphia and Global Crossing. Research[1] has further revealed that industries in the USA lose about $400 billion a year because of unethical and criminal behaviour. Furthermore, the resignation and arrest of top managers in the USA indicate that there is an increasing level of managerial negligence and corporate irresponsibility that has eroded domestic and global trust in USA markets[2].

Examples of corporate misconduct are also found in Europe. Europe's biggest corporate failure is Parmalat. The company collapsed in 2003 with a 14 billion euro hole in its accounts. CEO Calisto Tanzi – once a symbol of unlimited success – was detained hours after the firm was declared insolvent, and charged with financial fraud and money laundering. Hundreds of thousands of investors lost their money and will never recover it.

In South Africa, the corporate governance situation is not much different from the situation in Europe and the USA. IT vendors, for example, are being accused of frequently offering bribes to government employees. According to research[3], suppliers are the root cause of corruption. This research furthermore found that governance and transparency are growing imperatives in the public sector and the researchers urge government IT professionals to get them in place, if only to protect themselves. According to this research, chief information officers (CIOs) fail to report bribery offers from vendors because there are many influences, such as political connections and fear of higher ranking employees. The fight against corruption must therefore start at the top. It must be a collective effort.

The corporate governance problems listed in various sources are in accordance with the findings of Prof Mervyn King, who has done extensive work and research in the field of corporate governance, especially in South Africa. According to King[4]:

> "Good governance is summed up as involving fairness, accountability, responsibility and transparency on a foundation of intellectual honesty."

In March 2002, the King Committee published the King Report on Corporate Governance for South Africa 2002 (also known as the "The King II Report"). This report identified three additional principles of good governance. These are discipline, independence and social responsibility. In more recent times, the King Committee published the King Code of Corporate Governance in South Africa 2009 and the King Report of Corporate Governance in South Africa 2009 (also known as the "The King III Report"). These publications included leadership and sustainability as additional principles of good governance.

> According to the King reports, bad governance is therefore a result of neglecting the good governance principles of fairness, accountability, responsibility, transparency, discipline, independence, social responsibility, leadership and sustainability. Most importantly, the foundation of these concepts are intellectual honesty and acting in good faith and in the best interests of the company.

In response to the USA corporate failures, legislative changes, for example, the Sarbanes-Oxley Act of 2002 (SOX), and regulatory changes, for example, governance guidelines for the New York Stock Exchange (NYSE) and the National Association of Securities Dealers Automated Quotation (NASDAQ), were introduced[5]. Similar acts have been introduced in other countries across the world: Germany introduced the German Corporate Governance Code (Der Deutsche Corporate Governance Kodex), Japan introduced the Japanese equivalent of the Sarbanes-Oxley Act, known as J-SOX, Australia introduced the Corporate Law Economic Reform Programme (Audit Reform and Corporate Disclosure) Act in 2004, known as CLERP9, France

1 Kreitner, R. & Kinicki, A. 2004. *Organisational Behaviour.* 6th edition. New York, NY: McGraw-Hill.
2 Elliott, A.L. & Schroth, R.J. 2002. *How companies lie: Why Enron is just the tip of the iceberg.* New York: Crown Business.

3 Jarvis, K. 2009. IT vendors take rap for corruption. *GovernmentIT*, 1(3):13.
4 King, M. 2006. *The corporate citizen. Governance for all entities.* Johannesburg: Penguin Books.

5 Kaplan, S.N. & Holmstrom, B. 2003. The state of U.S. Corporate governance: What's right and what's wrong? NBER Working Paper No. 9613, April 2003, JEL No. G3, L2. © National Bureau of Economic Research.

introduced the Financial Security Law of France (Loi sur la Sécurité Financière) and the United Kingdom developed the Combined Code on Corporate Governance (originally derived from the Cadbury Report). However, there are many sceptics. Typical remarks include the following:

> "The cost of compliance is burdensome, both in time and money. Furthermore, the board and the management become focused on compliance rather than the business of the enterprise. It is the duty of the board of a trading enterprise to undertake risk for reward and to try to improve the economic value of the company. If the board follows a narrow focus on compliance, the board's responsibility towards the enterprise and its ultimate responsibility, namely performance, may be diluted." (King III Report, 2009).

> "The cost of compliance by American companies with section 404 of the Sarbanes-Oxley Act, which deals with the verification of internal controls, is estimated at $264 billion since the inception of the act in 2002. The total cost to the American economy of complying with the act is more than the total write-off of Enron, World Com and Tyco combined." (King III Report, 2009).

> "As the second year of Sarbanes-Oxley compliance is completed, there are still many complaints about the costs of compliance and questions about the business value of Sarbanes-Oxley-related investments." (Velichety, S., Park J., Jung, S., Lee, S. & Tanriverdi, H. 2007. *Company perspectives on business value of IT investments in Sarbanes-Oxley compliance*).

It is evident that compliance with legislative and regulatory acts is costly and time-consuming, causes overregulation and does not always provide any value to business. There is also no guarantee that adherence to these measures can be enforced. In fact, the first three years of the Sarbanes-Oxley Act was, at best, an overreaction to Enron and, at worst, ineffective and unnecessary. Researchers in the University of Pretoria's Department of Informatics therefore propose the use of a business process management system (BPMS) for better corporate governance to address the abovementioned lapses of cost, time and business value.

IT for better corporate governance

In *The Corporate Citizen: Governance for all entities*, King states that the use of IT should be increased to achieve better and more effective corporate governance. King believes this to be the ultimate way of achieving good corporate governance for 24 hours a day across the borderless world of today. In his own words:

> "Willingly or unwillingly, we are members of the information age. The ultimate light in regard to transparency and governance has become information technology. The use of IT in the business world is not only an enabler, but has also become of strategic importance. Through this strategic role it has become pervasive."

IT is furthermore a business enabler that has become of strategic importance to a business and, when aligned with the business goals, IT will deliver optimum value to the business. The use of IT in governance is furthermore becoming a popular way to ensure regulatory compliance.

Although compliance with legislative and regulatory acts is costly and time-consuming, causes overregulation and does not always provide any value to business, research[6] has indicated that business processes can easily be adapted (agility) in a BPMS (as an IT tool) to take advantage of new market opportunities. The Australian Community of Practice states that business process management is "…a structured, coherent and consistent way of understanding, documenting, modelling, analysing, simulating, executing and continuously changing end-to-end business processes and all involved resources in the light of their contribution to business improvement."

A BPMS therefore presents the opportunity to meet business and corporate governance objectives in time, as opposed to current mechanisms and measures. It has further been indicated[7] that companies who align their business processes with their organisational strategy and have operationally effective processes will perform better than other companies in taking advantage of new market opportunities. In support of this argument, it has been stated[8] that strategy implicitly or explicitly sets the direction of an enterprise. Strategy lives through processes, people and technology. With these three entities, an organisation can build its core competencies to sustain a competitive market advantage. Therefore, when the core competencies are identified within an organisation, the competencies

6 Silver, B. 2004. *Three Promises of BPM: Agility, Flexibility, Visibility.* © 2004 Bruce Silver Associates.
7 Tallon, P.P., Kraemer, K.L. & Gurbaxani, V. 2001. Executives' Perceptions of the Business Value of Information Technology: A Process-Oriented Approach. *Journal of Management Information Systems.* Spring 2000, 16(4):145-173.
8 Peppard, J. 1995. Broadening Visions of Business Process Re-engineering. *Omega, International. Journal of Management Science, 1996, 24(3): 255-270.*

can be incorporated into a process configuration that can be automated and enforced in a BPMS. In this way, strategy can be delivered through the use of a BPMS as an IT tool to support the business, resulting in increased business value. The Financial Express (2006) reaches the following conclusion:

> "The need of the hour, therefore, is a comprehensive business process management approach. This requires every business process to be documented in detail and with maximum clarity. All possible risks, whether financial, strategic, reputational, or operational, have to be identified, and controls for mitigating these risks have to be established. Processes have to be continually audited to ensure proper implementation and to identify the weakness. Finally, the processes have to be redefined to rectify the identified weaknesses and, thus, continuously improve and refine processes."

When business process management is applied to the domain of corporate governance through the use of a BPMS, business process management will have a dual role, purpose and nature. The first is to improve business performance. The second will be to improve corporate governance. Business process management therefore makes a significant and vital contribution to the field of corporate governance when it is used and applied in the corporate world.

Across the globe, corporate governance has been heavily criticised because of failures of companies such as Enron, WorldCom and Parmalat. Many authors agree that mechanisms that were introduced in response to these failures are costly and time-consuming, cause overregulation and do not always provide any value to business.

King states that the use of IT should be increased to achieve better and more effective corporate governance. A BPMS is an IT tool with the business process management philosophy of continuous improvement behind it. Business process management has a dual role, purpose and nature: to improve business performance and to improve corporate governance.

To improve corporate governance, a BPMS must also support the principles of good governance, although this has not been articulated in current research. The principles of good governance that were introduced by King have specific relevance to the South African context. King's principles of good governance (fairness, accountability, responsibility, transparency, discipline, independence, social responsibility, leadership and sustainability) are based on a foundation of intellectual honesty and integrity, which means that one should act in good faith and in the best interests of the company.

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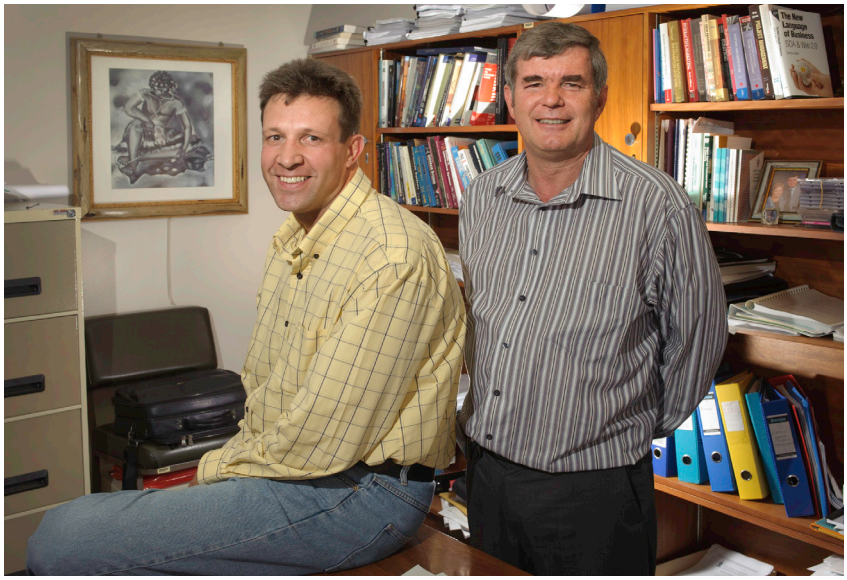
Prof Awie Leonard *obtained his PhD in Informatics from the University of Pretoria in 1998. His research interests fall in the broad category of information technology (information systems) management. He has contributed several chapters and articles related to IT end-user relationships in prominent books and journals.*



Henk Pretorius (left) and Prof Awie Leonard.

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