BUSINESS PROCESS MANAGEMENT: A STRATEGIC OPTION FOR THE BANKING SECTOR

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Abstract

In this paper I attempted to present key elements that make up the concept of Business Process Management and to determine what, if any, is the role that this concept can play in organizational strategy. The second part of this paper tries to determine if Business Process Management can be a solution for the banking sector. After a short introduction presenting general background information pertinent to the subject, the second chapter focuses on the theoretical concept of Business Process Management, its origins, definitions and key characteristics. The third chapter presents the role and the impact that Business Process Management can have on organizational strategy. Finally, the last chapter presents an example of how Business Process Management can help improve business processes in the banking sector.

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JEL classification:

1. Introduction

In the last two decades business process theory has gone through a number of changes, at a much more accelerated rate than ever before. The increased focus and importance with which business processes have been regarded in this period have assured a lot of theoretical and practical innovations in this field of research. Business Process Management is just the latest concept created to improve this area of study. Being a new concept, there is still a lot of debate, among researchers and practitioners alike, as to

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what Business Process Management actually means, both as a theory and as a practical option for organizations. The definition, the characteristics, the key elements are still quite controversial. It is considered to be the third wave in business process theory and it will, by no means, be the last. However the contributions put forth in the development of this concept may form the basis for whatever comes next.

In the past, business process theory was applied mainly in organizations that dealt with production. However, in recent times, more and more emphasis has been placed on processes from organizations that comprise the service industry. Is has been proven that business process performance does play an important role even in organizations that do not deal in production and physical goods. The banking industry is no exception to this fact. Given that the effects of the economic crisis are still being felt in this sector of the economy, any improvement would be welcomed and I believe that Business Process Management can offer solutions for the organizations in the banking industry.

2. Business Process Management – theoretical aspects

Business process theory has been greatly accelerated in the last two decades. Before discussing Business Process Management I believe it is important to establish some basic facts concerning business processes in general. According to Hammer and Champy, “a business process is a collection of activities that takes one or more kinds of input and creates an output that is of value to the customer” (Hammer et Champy, 1993). A similar definition is offered by Rummler and Brache: “A business process is a series of steps designed to produce a product or service. Most processes are cross-functional, spanning the ‘white space’ between the boxes on the organization chart. Some processes result in a product or service that is received by an organization's external customer. We call these primary processes. Other processes produce products that are invisible to the external customer but essential to the effective management of the business. We call these support processes.” (Rummler et Brache,1995). Thomas Davenport defines processes “as a structured, measured set of activities designed to produce a specific output for a particular customer or market… A process is thus a specific ordering of work activities across time and space, with a beginning and an end, and clearly defined inputs and outputs: a structure for action. Taking a process approach implies adopting the customer’s point of view. Processes are the structure by which an organization does what is necessary to produce value for its customers". (Davenport,2003).

The first important step forward in business process theory in the late '90s was Business Process Reengineering (BPR). The creators of this concept defined it as "the fundament rethinking and radical redesign of business processes to achieve dramatic improvements in critical contemporary measures of performance, such as cost, quality, service and speed." (Hammer et Champy,1993). This definition, along with Thomas Davenport's view that organizations implementing BPR should seek multiplicative "5 times rather than 5%" give a clear picture of what classic reengineering wanted to do. BPR did not want to improve on a current situation, in wanted to change the processes of on organization in hopes of achieving spectacular results. This approach can be compared to shock therapy hoping to kick start a system.

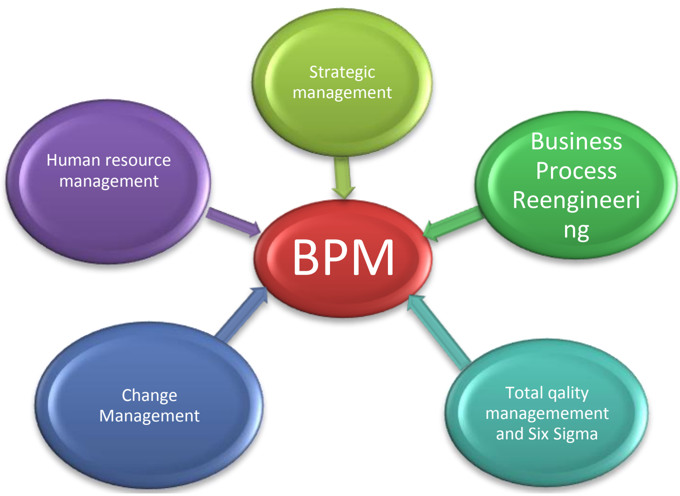
The approach put forth by reengineering has received o fair share of criticism. This criticism had more to do with the practical implementation of reengineering rather to the theoretical aspect of it. The most important aspect that is considered to be neglected by BPR is the human dimension of the organization. A study conducted by the concept creator Hammer and Champy revealed that the main causes for BPR implementation failures were: unclear concepts, lack of a well established methodology, misinterpretation of what BPR is supposed to do for a company. To these I would add the lack of correlation between BPR and other concepts in modern management and the exaggerated importance attributed to technology over human resources.

All of these weak points identified with BPR have been implemented in Business Process Management (BPM). BPM represents a "holistic approach to management" (Brocke, Roseman, 2003) with the aim of aligning the business processes of the organization with the needs and the demands of the customers. Business Process Management has the objective to improve the performances of business processes and, to that end, should consider four performance indicators: efficiency, effectiveness, quality and the elimination of activities or processes that do not provide value.

In analyzing Business Process Management it is easy to observe that it is comprise of two separated but complementary parts. The first is the technological part which allows the creation and/or implementation of software solutions that identify, analyze and correct process errors. The second, and more complex and important part in our opinion, is the managerial part, or the human part, as some authors name it, which allows the organization to implement the changes needed in order to increase the performance of business processes. BPM is more than automation of processes because technology is not the one and only means to increase the efficiency of organizational processes.

One of the most important differences between Business Process Management and Reengineering is that BPM represents a holistic approach to management and processes. BPM appeared as a result of reengineering failures but it has been influenced not just by BPR but also by Total Quality Management, Six Sigma, strategic management and others (figure 1). This means that, when implementing Business Process Management, all these other factors have to be taken into account. In our opinion, at this stage of development, BPM represents a solution mainly for medium and large companies, the investment in time and financial resources being, in general, too much for small enterprises.

Figure 1. Main Influences for Business Process Management



Source: made by authors

The two main influences for BPM are reengineering and Total Quality Management. Based on these influences two approaches have been formulated: Inside – Out (with BPR as the main influence) is a technical approach to BPM focusing on internal process efficiency and is usually associated with industrial organizations and a competitive edge by means of cost; and the second Outside – In (with TQM as the main influence) in which quality and consumer needs and requirements are the most important factors and represent the building blocks for BPM implementation and objectives.

In our opinion the Outside – In approach is to be preferred, especially for organizations in the service industry, where a relationship and a good communication with the client in paramount.

3. The role of Business Process Management in organizational strategy

The connection between Business Process Management and strategic management has been researched in the past. For example Pritchard and Armistead listed a series or recomandations for implementing business process management. Among these were the following (Pritchard et Armistead. 1999):

- Introducing Business Process Management as a integral part of organizational strategy. Successful BPM implementation tied it to a strategy that aimed for business excellence or organizational efficiency. The lack of correlation between process development and strategy is one of the main reasons why reengineering had questionable results. This correlation is essential for business process management as well;
- The impact of a business process management oriented strategy on individuals and teams must be taken into account. It is easy to think of BPM as an abstract system the can benefit a company in the long term. It is also easy to forget that BPM has impact on an individual level and it is the individuals, the human resource of the organization that will be the decisive factor in determining the successful implementation.

In addition to this, another very common practice for organizations is process orientation. These companies view processes as a means of sustaining a competitive edge and therefore business processes are considered to be of strategic importance. It is becoming more and more common for companies to formulate a strategy that specifically targets business processes. This should not be mistaken for the organizational strategy as a whole. (Bălănescu, 2012).

First of all, we can clearly state that Business Process Management is influenced and influenced organizational strategy. But given the scope and the complexity that characterize BPM, can it be considered a stand-alone strategy?

In our opinion, the answer to this question is no. BPM can be a very important strategic component, the use of which can greatly influence other parts of organizational strategy.

Second of all, in order to determine BPM's place in organizational strategy we need to identify the components of this strategy. For this, we chose to see the methodology proposed by professors Nicolescu and Verboncu. According to their assessment strategy can be divided into: the mission of the organization, strategic objectives, strategic options, resources, deadlines and competitive edge. Given this classification it is clear that Business Process Management is a complex strategic option, a means to an end. However, BPM can influence some of the other components and, in certain cases, all of them. The correlations that can be deduced between BPM and these components have been shown in table nr.1.

Table 1: Correlation between strategic components and BPM

Nr.crt.	**Strategic component**	**Correlation to business process management**
1	The mission	BPM cannot significantly influence the mission of the organization. However, the mission can and does influence the approach to BPM. An organization with a mission focused on customer needs will adopt an Outside-In approach to BPM influenced by quality standards. If on the other hand the mission focuses on internal efficiency, a more technological approach to BPM should be preferred.
2	Strategic objectives	The connection between BPM and strategic objectives is twofold. On the one hand, strategic objectives can determine the organization to implement BPM either when specific objectives target processes directly or when process performance has to high in order to achieve other objectives. On the other hand, a strategy created around BPM can alter medium and long term objectives (this is not recommended). BPM can have a long term impact on most areas of performance: profitability, innovation, productivity, human and financial resources.

3	Strategic options	BPM is a strategic option but, as we have mentioned before, a very complex one. Implementing it requires the implementation of other, complementary, strategic options like: refurbishing, the increase of computerization in work processes, modernization of staff and training. Given all the changes that BPM requires all other strategic options are required in order to assure a successful implementation
4	Resources	In this regard the correlation must be studied with relation to time. In the short term, BPM will require an investment, the size of which is directly proportional to the size of changes that are required. This investment will require financial, technological, logistical and human resources. However, once implemented BPM should assure a more efficient use of resources, less waste, less dead times in production. BPM should be seen as a medium to long term investment, not as a short term cost.
5	Deadlines	In most methodologies BPM has a continuous dimension to its implementation, given by the TQM influences. In that case it is difficult to say whether the deadlines for implementing BPM can be set. On the other hand, BPM can influence deadlines for other implemented measures; for example automation should reduce the time necessary for the completion of a process which can reduce the deadlines that involve that specific process.
6	Competitive edge	The competitive edge that is sought by the organization can impact the approach to BPM that is implemented in a similar way to the mission statement. A competitive edge based on costs will require a technical approach to processes focusing on internal efficiency. A competitive edge based on differentiation will require a more human approach to BPM. In either case BPM can be a contributing factor to the competitive edge of the organization

Source: made by authors

4. Case study: BPM a strategic option for Bank X in the Romanian market

Bank X (inspired by real case) elaborated and began to implement a new strategy in 2013. The main strategic objective was to enter top 10 banks operating in the Romanian market in regards to profitability and number of clients. It should be mentioned that in the strategy formulated by the company no mention of Business Process Management actually appears. However, one of the means used to achieve the organizational objectives is increasing process performance, so we can extrapolate that BPM can be tool.

The mission statement on Bank X reads: "we want to be a benchmark of excellence for financial services in Romania, offering maximum benefits to our clients, employees and shareholders." The mission clearly states the competitive advantage being sought, one by differentiation, one based on quality and customer satisfaction. Taking this into account, it is safe to say that the Outside – In approach to BPM is optimal to use. In this regard, the processes that the company should focus on are the processes that involve the consumer to one degree or another. The service industry demands a good relationship with the customer and in a mature market like the banking sector, with strong competitors, client fidelity is a great advantage to have. It is for this reason that we have chosen as an example of possible BPM application the process of formation of bank deposits. (figure 3).

The strategic objectives that refer to processes are:

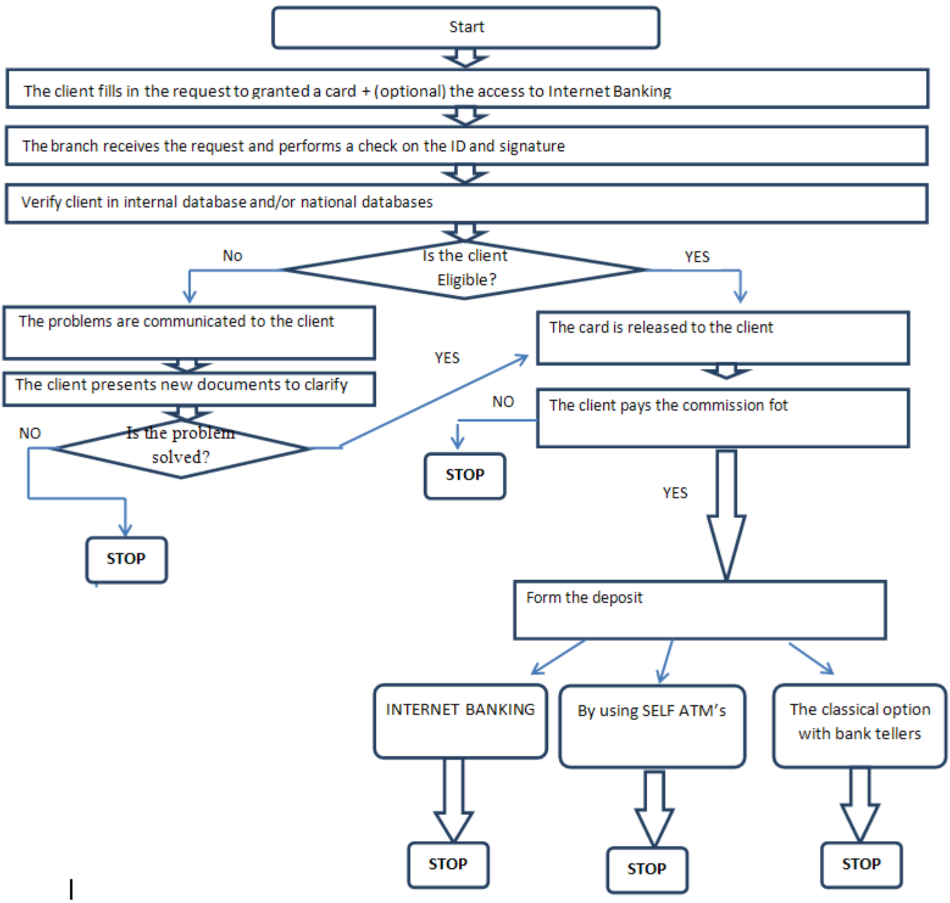
- The reduction by 20% of average process time after BPM implementation;
- A 15% average reduction in process costs;
- The dissemination of the process map to 100% of all internal stakeholders.

To these primary objectives there are secondary ones that can de associated such as: increase client fidelity, increase technological base for the organization etc. Achieving these objectives will require process automation (of course, only where it is possible), the increase of process know how among the staff, new IT solutions, new ways to market and promote the solutions implemented.

The strategic options that need to be used in order to facilitate the implementation of BPM are: refurbishing, the increase of computerization in work processes, human resource training.

It is impossible in a single article to show what impact BPM can have on an organization. To this end we have chosen only one process and formulated a series of recommendations as to how it should be organized, in accordance to the principles of business process management. In order to show this we have chosen the process of a deposit formation by an individual. The recommended map for this process is shown in Figure 3.

Figure 3: The process of constituting a deposit



As can easily be observed, the recommendation put forth in the map aim at automating the process as much as possible, but without imposing this on the client right away. Bank X keeps the classic way of constituting deposits by individuals for the time being, but adds two more options for their clients: the first is Internet Banking which will be promoted separately by offering one extra point in interest to anyone who makes a deposit using this option; the second is the use of SELF ATM's like the kind presently used by ING for example, that permit the users to constitute deposits without bank personnel involvement. The use of BPM is complimented and completed through marketing that also positions the firm better on the market (that +1 point of interest rate for online deposits would make it the most competitive in Romanian market) and the marketing also helps with the implementation of BPM by making the new process popular and accepted by the clients. Also process automation, even in part, is part of the organizational strategy, aiding in achieving organizational objectives. In order for this process to be implemented, the personnel will require further training (the communication channels to the client must be open in case problems appear), new technology must be implemented (SELF ATM's for one). Just by observing one process affected by BPM we can understand the need for a truly integrated and holistic approach to this concept.

It is true that, even in this form the process is not fully automated. It could be if the request for a card could be done via internet but legal security procedures prevent that. Not all processes can be automized even to this degree. Lending, for example, or closing accounts present a to high a risk for banks to ever be fully automated, bt that does not mean they cannot be improved.

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