

APPLICATION OF PROCESS MANAGEMENT IN BANKING SECTOR

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Abstract

The process management in recent years has become an integral part of management practice. It brought a new perspective on the functioning of an organization and on satisfaction of its customers. In the paper we focus on application of process management especially in organizations operating in banking sector. Nowadays the process improvement has become the main goal of each organization. For organizations of the banking sector is very important to effectively manage processes, to satisfy customers, to achieve high performance and to create a large potential for its continuous improvement and improvement of competitiveness. In the paper we will also discuss application of process management in selected bank organization and analyze contributions and experiences from the implementation.

Introduction

Process management is an approach nowadays applied by more and more organizations in all sectors of the economy. Using this approach, organizations can eliminate the disadvantages of the traditional functional approach, which does not respond to changes sufficiently flexible. In the era of globalization and the large increase in competition, this traditional way of managing cannot longer ensure sustainable competitiveness.

Through the efficient management of processes we may change the organization, improve its efficiency, increase its performance and finally we can identify and resist market risks.²

The process management enables to view organization as the system of processes, sub-processes and activities. Process management system is an open dynamic system, whose essential elements are processes. Process management focuses

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² KISLINGEROVÁ, E. a kol. 2011. *Nová ekonomika: nové príležitosti?* Praha : C. H. Beck., 2011. 55 s. ISBN 978-80-7400-403-2.

on processes rather than individual activities. For identifying a process, organization need to define the components processes as inputs, outputs, power supplies, regulators, process owner, process, customer, process supplier. Identification and development of processes are the basis for analysis and process improvement.³ The process is defined as a set of interrelated or interacting activities that add value to the entry, the use of resources and convert it to output to your customer.⁴ Systematic identification and management of processes in the organization and particularly their interaction is called process management. Process management helps build partnerships between customers and suppliers, and engages all workers organizations into the planning, implementation and process improvement.⁵

1 Application of process management in organization

1.1 Application of process management from strategic perspective

Transformation of organization and its system of management into process management should follow strategic goals and strategy of an organization. From this view implementation of process management have to be prepared and provided systematically to support defined goals and formulated strategy. At the beginning of the whole process of application of process management is very important to be aware of advantages and implications associated with it. From this view the whole implementation should be enforced to bring and support expected advantages and implications associated with process management.

Implementation of process management in the organization should follow the requirement of strategic management. Processes should arise from the requirements of strategy implementation, leading to the attainment of strategic objectives. The performance of processers should be measured according to whether they comply with specific objectives that are focused on the customer and their fulfillment contributes to the achievement of comprehensive strategic objectives. Operational process performance objectives must be through performance measurement system linked with the overall strategic goals.⁶

Proper implementation and continuous improvement of process management provides the highest real and potential performance in current and future periods. Quality performance measurement system should link strategic objectives with

³ PAPULOVÁ, Z.: Process Approach and its Application in Strategic Performance Management. In: Comenius Management Review – Scientific Journal, Comenius University in Bratislava. Faculty of Management. Bratislava: KARTPRINT, 2008, s. 59 – 67.

⁴ GRASSEOVÁ, M. a kol. 2008. *Procesní řízení*. Brno : Computer Press, 2008. 7 s. ISBN 978-80-251-1987-7.

⁵ HROMKOVÁ, L. – TUČKOVÁ, Z. 2008. *Reengineering podnikových procesů*. Zlín : Academia Centrum, 2008. 25 s. ISBN 978-80-7318-759-0.

⁶ ŠMÍDA, F. 2011. *Zavádění a rozvoj procesního řízení ve firmě*. Praha : Grada Publishing, 2011. 45 s. ISBN 978-80-247-6380-4.

operational objectives and helps to integrate continuous improvement of the daily activities of the organization.

Linking processes and strategies is one of the essential conditions for achieving maximum efficiency.

1.2 Application of process approach in organizations operating in banking sector

Increasing competitive pressure in global financial markets, as well as the processes of globalization in the world put pressure on the organization of the banking sector. The result of this pressure directs the efforts to strengthen the efficiency of processes.⁷

The implementation of the process approach to management of banking organizations requires enough time, but also finance. An organization that decides to implement a process approach to their structures and become process-oriented organization must take into account the answers to two basic questions:

- What benefits and contribution will bring the implementation of process management into the organization?
- What methods and procedures shall organization use to implement the process management?

Advantages and benefits of process management can be viewed from perspective of organization and also from perspective of customers. Process management looks at the organization and its activity from horizontal point of view and the main purpose is to maximize value for customer.

Process view puts the accent on the ways the work is provided and at the same time on understanding complexity the whole process with aim to support the performance and quality of outputs. For providing the process effectively is necessary to make analysis of the whole process to discover and eliminate activities that doesn't create value for customer. These activities are in the process unnecessary and usually mean higher costs, or longer time needed for creation of output. From this aspect good processes bring for organization some advantages at the operative level. At first it is reduction of involvement in the organization. Process management leads to simplification of decision making; it means people providing some activities and operations have needed information and knowledge to make decisions and so support quality of processes and shortening of the time. This approach can bring job enrichment, what can bring motivation for employees. At the same time standardization of operations and their automatization can lead to shortening the processes and reduction of mistakes.

⁷ KLIMÍKOVÁ, M. a kol. 2012. Bankový manažment a marketing I. Bratislava : Iris, 2012. 19 s. ISBN 978-80-89238-63-7.

Effectiveness of processes and evidently higher quality of outputs imply not only contributions for organization, but also to the client. He can get outputs faster, at lower costs and it can lead to lower prices. Good processes can lead to satisfaction of client and loyalty of customers. Process management imposes customer into the centre of remark. Customer is the starting point of preparing and designing process with reason to maximize satisfaction of his needs. In addition understanding and mapping processes facilitate to managers identify problematical fields and jobs in the organization and implement strategy as well.

The banking sector can be connected with several financial risks. Whether it is a credit risk, market or operational risk, the bank is in risks to possible loss that affects its daily functioning and economic results. The current market situation has brought the banking sector into the need to reduce their overall costs. Address this situation in the first place requires the total optimization of internal processes.⁸

1.3 Phases of Implementation of Process Management in Organizations operating in Banking Sector

Understanding customer and its needs and processes focused on providing and satisfying customer's needs is the core of implementation of process approach in an organization. Awareness of functioning organization from aspects of processes is usually very problematic in the practice. Organizations very often don't feel the need to change until now implicated practices, or don't have knowledge about process system of management and so primary impulse usually don't come out from internal environment. The impulse for the change very often can bring external advisory agency, or auditing firm. Organization is by this way indirectly indrawn into the implementation of process management. Obviously not all organizations approach to implementation of process management passively. Initialization of this philosophy and approach can develop top management of an organization, or internal audit.

According study we suggest following phases:

1. Analysis of current state of processes

This phase is focused on analysis of current state of processes. The core of analysis is examination and understanding current operations and activities, their functioning and examination about how activities can be improved in order to support effectiveness of processes and satisfaction of customers' needs. Analysis is focused on areas and activities initiated by top management, or external audit, internal audit. In

⁸ KATONOVÁ, Miroslava: The process approach to support organizational performance – University of Economics in Bratislava. Faculty of Business Management: Department of Management. – Thesis Supervisor: Doc. Ing. Emília Papulová, PhD. – Bratislava: FPM, 2013, 195p.

order to describe processes and activities can be used internal rules and norms verbally describing the way of functioning activities within an organization.

2. Mapping of processes

Analysis of processes is the basis for mapping of processes. The reasons for understanding and identification of processes are associated with dissatisfaction with outputs of organization. Dissatisfaction can come from customers in the form of lower quality of products, also from late loan processing. Impulses can come from competitive environment in which outputs of competitors can provide satisfaction of needs better than our organization and this situation can lead to decline of customers and finally of sales. Organization can proceed to mapping of processes and so to improving processes and increasing quality of outputs with the aim to support competitiveness.

In the case of negative reasons organizations strive to identify the causes leading to negative state. In the case of positive reasons organizations develop possibilities for improving. As a way for identification of negatives is analysis of activities in an organization. Mapping of activities starts from key activities for achieving outputs. Starting point for mapping can be used verbal descriptions of activities and communication with managers of function departments participated in outputs.

Results of mapping should be presented as formation of process map with very clear identified inputs and outputs of process, its participants with provided activities. Examination in this phase is in comparison with the first phase much more detailed.

Process map⁹ is analyzed and the result of analysis should be a basis for identification of problems in the process. The primary goal of this phase is to identify weaknesses or areas as possibilities for improving the performance, or effectiveness of the process and so the remark is focused on a single process and its sub-processes and key activities to support improving the process. Interconnections of processes is in this phase not examined

3. Systematic measuring of processes

Systematic measuring of processes as the phase of implementation is focused on integration of individual processes into the whole organization. Besides examination of individual processes and their aspects the whole analysis is focused on examination of interaction of processes.

Mapping of processes from view of the whole organization is based on specialized software that can create graphical design of processes and proceed with process map. The purpose is to integrate individual processes into the whole organization and create process structure of an organization. Mapping of processes is

⁹ MAJTÁN, M. 2008. *Manažment*. Bratislava : Sprint, 2008. 255 s. ISBN 978-80-89085-72-9.

very challenging from view of people and finance resources. Mapping of processes requires having people with adequate knowledge, people to be prepared to work with process map and specialized software and provide mapping.

This phase is also focused on measuring of processes. For selected processes are defined key performance indicators¹⁰ (KPIs), describing the process as the whole and its sub-processes. The performance or effectiveness of processes is evaluated on periodical basis. Time aspects for measurement of processes and sub-processes and for evaluation of criteria can be different. Some performance criteria are observed daily, some criteria are evaluated in the longer term period.

After mapping and understanding processes and integration of all participants into the processes this situation permits provide also radical changes in its processes. For providing radical changes in the process is necessary to take into account all participants of the process.

4. Operative running of processes

The former phases of implementation are focused on introduction of process view into the organization. Processes are described, mapped and can be measured. But for running processes and process management is necessary to provide further steps. One of them is automated approach to some activities within the process

For introduction of automated approach is necessary to provide process mapping in details than is presented in the former phases. In this phase process approach requires providing mapping of particular tasks (lower level in the structure of processes), roles of people (who provides some task), resources (what is needed for providing of some tasks). Besides particular job positions is providing examination of utilization of current information technologies, number of people for providing some tasks, and so on. It is necessary to recognize all details of process maps to make decision about technology for implementation of process approach.

In this phase selected processes are transformed into workflow¹¹. Workflow is defined as continuous set of interactions among people and information technologies¹². Workflow management is automated flow of information that provides effectiveness of the process¹³, Workflow management can be exploited particularly in the repeated processes in which reduction of process time can bring for organization significant time saving. Very good example in the bank can be request for loan in the bank and

¹⁰ FIBÍROVÁ, J. – ŠOLJAKOVÁ, L. *Reporting*. 3. rozšířené a aktualizované vydání. 2010. Praha : Grada Publishing, a. s., 2010. 10 s. ISBN 978-80-247-2759-2.

¹¹ DOGAČ, A. 1998. *Workflow Management Systems and Interoperability*. Berlin : Springer, 1998. 2 s. ISBN 3-540-64411-3.

¹² ROUSE, W. B. – SAGE, A. P. 2007. *Work, Workflow and Information Systems*. Amsterdam : IOS Press, 2007. 2 s. ISBN 978-1-58603-769-7.

¹³ CURRID, CH. 1996. *Reengineering Tool kit: 15 Tools and Technologies for Reengineering Your Organization*. Rocklin : Prima Publishing, 1996. 114 s. ISBN 0-7615-0438-9.

standard procedure starts with bringing application form for the loan in the branch of the bank¹⁴ proceeds with processing of information and data in the bank and so on. After transformation of these activities into workflow the whole process can be prepared as follows: electronic form presented in the internet is by clients completed and send by e-mail into the bank when is directed by workflow into the system by which request for loan is evaluated. On the basis of decision about giving the loan are considered the other conditions and finally s prepared e-mail message for client. Client can consider the loan, sign the document and finally can send into the bank. This approach brings advantages for client that needs less time for transaction of loan, has possibility to communicate with the bank from home, it is convenient). Process approach brings advantages also for the bank that support cost savings, reduction of mistakes, the bank can precede more requirements for loans and so on.

Automated workflow can bring two key advantages. One of them is reduction of some activities that are transformed from people to information technologies. By this way is significantly reduced process time and together the costs. The other advantage is elimination of mistakes. Workflow requires to bring all information and provide all steps and so to go to the next step.

5. *Simulation of processes*

Simulation of processes or modeling is focused on examination of adaptability of the process¹⁵. Simulation mostly comes out of detailed process maps and automated workflow discussed in the former phases. Simulation is a tool for recognizing and testing crisis situations that can occur in the future. In organizations in which simulation is not used, the simulation test is provided at the end of each phase. If organization has transformed processes into workflow, simulation can be provided from view of people and make the test of abilities of people to handle the work in real situation of high staff stress.

In organizations operating in banking sector is stress testing used particularly in massive campaigns focused on new products. The aim is to make examination whether branch within the bank are prepared for this new situation. Modeling is focused on various scenarios and analysis of ability of processes to respond to these scenarios.

6. *Process optimization*

In this phase of implementation the processes become fully automated. Optimization of the process is focused on finding the best solution leading to the best

¹⁴ Branch of a commercial bank is lower organizational unit that performs basic banking operations - focusing on taking deposits and providing common types of loans

¹⁵ KRAJČIOVÁ, M. 2009. *Simulácia procesov*. [cit. 2012.08.29.] Dostupné na internete: <<http://martakrajciova.blogspot.sk/2009/12/riadenie-procesov-spp-as-bratislava.html>>.

result. System on the basis of defined rules ahead can evaluate expected change and activate it. In this phase the processes are prepared „AS SHOULD BE“ processes and established conditions for optimal workflow.

Process optimization requires mapping of processes in more detailed form than in the former phases. High level of standardization is as necessary condition for providing dynamic changes in the processes. Standardization with low level of exceptions plays very important role for automated approach and decision making about changes. In situation with lower standardization are conditions for automated process worse, this process is more difficult and requires interventions of human factor into the process. Situation with higher standardization is leading to better conditions for automated approach and to savings of human factor and costs. On the other hand fully automated approach is associated with using sophisticated information technologies.

2 Results of research in the area about implementation of process management in organization operating in banking sector

Theoretical research was oriented on determination of process approach and process management, defining key terms, views and approaches to understanding process management and its influence on the performance of organization and particularly of organization operating in banking sector. The Slovak banking sector is among the sectors which are currently the fastest developing. Before 2002 the banking sector was undergoing a process of privatization and restructuring , thus there was a large influx of foreign investors in the Slovak banking market. During the restructuring, the bank spent a large amount of money on new information technologies and software. Reform of the banking sector was completed in 2002. It is considered one of the best reforms in the national economy. Importance of the reform also introduced rules to reflect the economy and improving the legislative changes. The banking sector has a unique place in every developed economy. Particularly commercial banks has entering the cycle of other individual subjects and influencing them. Banks provide various forms of credit, attractive products and efficient counseling course.

Very important part of theoretical research present results about questions focused on application of process management in banking sector as the basis for empirical examination. Empirical research was focused on analysis and examination of implementation of process approach into the bank with reason to support the performance and competitiveness of the bank. In empirical research we applied methods of questionnaires, interview and observation to receive needed information. Processing of information was based on statistical methods. The target group was composed from clients of the VÚB bank and managers.

Theoretical knowledge was analyzed and examined from view of current state of process management in seven organizations of banking sector and from the view of established process approach in the process of real-estate credit in VÚB bank from

view of the performance. Examination of current state of process management in seven banks was provided by methods of questionnaires and interview. Results of research present relatively high level of process management in all examined banks. Process approach is implemented in all seven banks, but the differences are in the process of implementation and its results.

On the basis of research can be presented following results:¹⁶

- Based on the conducted empirical research we evaluated that there is a high level of process management application in selected organizations of the banking sector in Slovak Republic. Banking organizations are constantly trying to improve efficiency of their activities. The process of improvement can take different forms and course, but its essence lies in improving the management system itself. There is a need to keep abreast with leading organizations in the banking sector in the areas such as implementation of modern, sophisticated, computer-assisted methods, and data management.
- Introduction and implementation of process approach in the area of real-estate credit of organization operating in banking sector was observed higher satisfaction of clients of the bank;
- By implementation of process approach into the process of real-estate credit was supported the performance of the whole process and the performance of the whole organization;
- Based on results of research can be confirmed, that by implementation of process approach was increased competitiveness of the bank in comparison with other organizations operating in banking sector.

Results of research confirm the importance of process management in organization of banking sectors. They emphasize implications of process approach in the area of real-estate credit in the bank. At the same time they point out the importance of process management for supporting the performance and competitiveness of organizations operating in banking sector.

Conclusion

Process management brings new view on the organization focusing on customer and on processes following the needs of customers. Process management is implemented with reason of improving processes and through processes to maximize

¹⁶ KATONOVÁ, Miroslava: *The process approach to support organizational performance* – University of Economics in Bratislava. Faculty of Business Management: Department of Management. – Thesis Supervisor: Doc. Ing. Emília Papulová, PhD. – Bratislava: FPM, 2013, 195p.

the value for customers. The effort to improve processes has become one of the main goals of any organization. The paper is prepared on the basis of results of research. Theoretical and empirical research was focused on implementation of process management into the organization to support the performance of real-estate credit processes and the performance the whole organization.

Based on research can be acknowledged that by implementation of process approach into the real-estate credit processes in the bank and by accepting changing conditions evocated by global financial crisis are presented the ways to support implementation of process management in a bank.¹⁷ The reason of examination was to support the performance of the real-estate credit processes and the performance of the whole bank.

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¹⁷ KATONOVÁ, M. 2011. Zhodnotenie dosahov krízy na malé a stredné podniky v SR od jej vzniku po súčasnosť. In *Aktuálne otázky ekonomických a humanitných vied '10 : zborník príspevkov z interdisciplinárneho vedeckého kolokvia : Bratislava, 17.12.2010*. Bratislava : Slovenská technická univerzita, 2011. ISBN 978-80-227-3447-9, s. 155-162.

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