



## International Journal of Applied Business and Economic Research

ISSN: 0972-7302

available at <http://www.serialsjournal.com>

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Volume 15 • Number 13 • 2017

### Process Approach to Management – the Concept of Enhancing Efficiency of Company's Economic Activity

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#### ABSTRACT

In the world of constant changes there is an unceasing demand for management instruments and methods, which can assist companies to be more effective. The world of competition contains the need to find ways, which allow companies to be ahead of their competitors or catch up with them before it is too late. This requires methods, which can simplify too complicated things. It is an undeniable fact that constant improvement (of any sort) should be a life philosophy of every average organization today, if its goal is survival and successful functioning in a medium-term period, not to mention a long-term one. It is worth noting that this situation has been created by the changeable nature of our world and that everything does not change linearly with a steady speed, but accelerates exponentially. These conditions require new methods of business management, one of which is a process approach. The purpose of the paper is to prove expedience of using the process approach at the chosen company and develop recommendations and optimization method for the main business processes as means to enhance management system of the company working in the oil and gas industry.

**JEL Classifications:** M1, M11, M12.

**Keywords:** Management, process, efficiency of activity, enhancing management efficiency.

## **1. INTRODUCTION**

In recent years, requirements for entrepreneurs in the business process have significantly increased. The main factors characterizing instability of the outer economic environment for firms of all sizes and creating a new world of inter-firm relations are:

- high speed of technological progress and innovations;
- high costs of research and development;
- globalization of production;
- changes in limitations and restrictions of trade;
- escalation of manufacture interdependence.

For successful survival on the market and implementation of the development strategy, a company should be flexible and dynamic, for the key factor of today's competition is time. Furthermore, the outer environment of business is becoming more and more vague and complex, thus demanding the ability to adapt quickly and stability of business organization.

## **2. SOURCES AND RESEARCH METHODS**

This study is based on the theoretical work of the leading Russian and foreign management experts, uncovering patterns of management science evolution, principles of scientific management, process approach to management functioning basics.

Extensive analyses of management relations system in Russian companies determined the multidimensional nature of methodology of the study. The range of general scientific methods and techniques was used, including analysis and synthesis, comparison, classification, scientific abstraction.

### **Analysis of the Main Approaches to Managing Business Processes**

Today there are many concepts of management - Balanced Scorecard, controlling, quality management and Six Sigma, project management, strategic management, reengineering, etc., and among them there is a process approach to management. All concepts have common goal – to enhance business efficiency.

“Balanced Scorecard” is a relatively new technology based on the research conducted in 1990 by Dr. David P. Norton and Dr. Robert S. Kaplan from Harvard Business School. The research had just one purpose: to find new ways of enhancing efficiency of business activities and achieving business goals.

In their research, Norton and Kaplan were guided by the following hypothesis: management based only on financial measures do not provide enough information for making right and well-timed management decisions. They had very significant reasons to make such an assumption, e.g. in 1978 the difference between book value and market value, according to the data collected from 3500 USA companies, was 5%, but by 1998, companies had underrated their book value by 72%. Attempts to bring efficiency measures in line with economic situation were made before creation of BSC, but they were concentrated solely on financial aspects of company's activity.

Measures such as EVA, EBITDA, TSR, gave the stockholders a more realistic picture of current state of business, but for company's management they obviously weren't enough (Jeston & Nelis, 2008).

**Table 1**  
**Evolution of company's efficiency measures**

<i>1920s</i>	<i>1970s</i>	<i>1980s</i>	<i>1990s</i>
Du Pont Model; Return On Investment (ROI)	Earnings Per Share (EPS); Price/Earnings ratio (P/E ratio)	Market/Book value ratio (M/B ratio); Return On Equity (ROE); Return On Net Assets (RONA); Cash Flow	Economic Value Added (EVA); Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA); Market Value Added (MVA); Balanced Scorecard (BSC); Total Shareholder Return (TSR); Cash Flow Return on Investment (CFROI)

Based on the data obtained, Norton and Kaplan created a fundamentally different system to control efficiency and strategical goals achievement, a system, known today as Balanced Scorecard.

After major success of the first companies that chose to use Balanced Scorecard as their main management method, BCS usage became a general trend. Primarily it affected medium and big companies in various branches of industry.

Main ideas of BSC. A company becomes successful only if it develops systematically. In terms of management, “systematic development” means design and realization of strategic plans. The main concept of Balanced Scorecard, which in many ways determined high efficiency of this management technique is that you can manage only things you can measure. In other words, a goal can be achieved only if there are measurable indicators telling a manager that he should do and whether what he does is right in terms of achieving a goal.

Balanced Scorecard highlights non-financial measures of efficiency, providing an opportunity to estimate aspects of activity, which usually are hard to measure, such as customer's loyalty towards company and company's innovation potential (Andersen, 2003).

Authors of the Balanced Scorecard suggested 4-perspective approach to efficiency evaluation, which answered questions most important for successful company's work:

- Financial (“How do shareholders and depositors see the company?”);
- Customer (“How do customers see our company?”);
- Internal business processes (“What processes require optimization, which of them should be focused on and which should be rejected?”);
- Learning and growth (“What opportunities does the company have to continue its growth and development?”).

Technologically speaking, designing a Balanced Scorecard for one particular company requires several necessary elements:

- map of strategic tasks, logically linked with strategic goals,
- Balanced Scorecard itself (with measures for business process efficiency, point of achieving a goal and terms in which desired results need to be obtained),
- targeted projects (investment, learning, etc.) allowing to implement the necessary changes,
- executive dashboards allowing managers at different levels to control and evaluate activities.

Thus, it is possible to make implementation of a strategy a regular activity of all subdivisions, controlled by planning, accounting, monitoring and analyses of balanced measures as well as personnel motivation to attain them (Gludkin et. al., 2001; Deming, 2009).

### **Methodological Basics of the Process Approach to Management**

Traditional reasons for process management creation are related with the following tendencies of epy evolution of our civilization:

- technologies development (especially informational technology);
- market globalization;
- greater customers' demands on products/services;
- higher speed of civilization change.

These tendencies led to frequent ineffectiveness of traditional methods of management and search of new, superior technologies. As a result, within the last decade of the twentieth century such fundamental technologies as process management and Balanced Scorecard were developed.

The most popular model in traditional business culture is a functional management model. It originates from Adam Smith and the first manufactures and solves the problem of efficiency enhancing using labor division. Functional model has served business well throughout several centuries and has not exhausted all its possibilities yet. One of the most serious flaws of the functional model are information delays and losses within the company. Management instructions are transferred mostly orally. Languages (Russian and Ukrainian in particular) have high redundancy, which results in a possibility of a message being 100% distorted after a few transfers.

Scientific management created by Frederick W. Taylor is possibly the best expression of these ideas. He claimed that work could be done most efficiently if it is divided into simple elements and distributed by managers to workers, who specialize in a certain work element. He also emphasized the importance of management. "It is only through enforced standardization of methods, enforced adoption of the best implements and working conditions, and enforced cooperation that this faster work can be assured. And the duty of enforcing the adoption of standards and enforcing this cooperation rests with management alone". The natural consequence of these views was spreading of the functional organizational structures.

Functional specialization was the central topic of Max Weber's work, the author of the term and theory of bureaucracy. He believed that bureaucracy is the most efficient way of managing complex organization and claimed bureaucracy to be more precise, stable, orderly and reliable than any other managing method. Weber thought that there are six building blocks of bureaucracy and functional specialization is the first of them.

Albeit the ideas of these pioneers of management theory are, to a large extent, contested by today's theorists, they still have a great influence on organizations worldwide. Without doubt, most of them are arranged according to functional model and based on specialists performing specialized tasks.

If we switch attention from global economy to a specific company, we can identify symptoms/problems, which illustrate relevance and necessity of the process approach usage. However, we will do it using proof by contradiction and describe a "perfect" company according to the process management:

- company is “running like clockwork”, actions of staff and subdivisions are well-synchronized;
- there are no losses, delays, distortions of information;
- staff members in their day-to-day operations focus on client needs and company goals, but not on interests of their subdivision or their own;
- everyone understands how his work affects the results of company's activities;
- timelines for each operation as well as task in general are established and known;
- execution of all operations, functions and tasks is aimed at achieving company's goals and satisfaction of customers' needs (Eliferov & Repin, 2009; Kamennova, Gromov, Ferapontov & Shmataljuk, 2001).

If these criteria are fulfilled, the company is working efficiently and there is no need to change the management system. If the situation is exactly the opposite, the process management is one of the means to sufficiently enhance business efficiency.

### **Process Management in Practice**

Most of the organizational problems are cross-functional in their nature. How can the concept of business processes be practically implemented to help management to be more effective and improve the work of a company? There are three methods of doing so: cross-functional problem solving, describing and managing processes and establishing the processing organizing structure.

The easiest way is using business processes to identify certain problems for the cross-functional groups to work on, and this can be implemented with varying degrees of formality. Based on the wide and not very deep understanding of business processes, senior managers of a company can discuss the workflow and cross-functional aspects leading to problem emerging. Then it is possible to set priorities and create cross-functional groups, which will work on them.

In terms of methodology, there are two alternative ways of giving assignments to groups. The first is to use the formal structure (group itself) to make a problem statement, analyze and gather data about the problem, develop and test possible alternative solutions before coming to the most preferable decision. The second way is to use systematic approach of business processes reengineering.

The first method – usage of the formal group for troubleshooting – is relatively safe from the organization's point of view, but if the second option is chosen, the organization should know about the hazards of such a radical approach, especially if it is used as an instrument for all organization development or the whole process of improvement (Deming, 2009,7].

### **Describing and Managing Processes**

The second method of usage of our knowledge of business processes is more ordered. Above all, it is about defining the important business processes according to unified and strict principles. This can be done in many ways, but experts' experience suggests that the most successful method is a process quality management (PQM). PQM includes description of a mission (fundamental goal) of organization, subdivision or department and a list of the key success factors (KSF), which are necessary and sufficient to implement

the mission. There are no more than eight key success factors. The next step after describing a mission and listing KSF is describing business processes both existing today and the new ones, needed for mission success. Usually there are from 20 to 30 different business processes in the organization. At this stage, the processes are ranged according to their importance, current efficiency and owners. The decision is usually made on the principle of who gains the most if the process is efficient and, if otherwise, who loses the most. Commonly the chosen ones are the members of the group for describing processes. At the organizational level, they could be executives and possibly senior managers.

There are many ways of implementing the task by the process owner, one of which is to use methodology of business process reengineering (BPR). It is worth noting that BRP usage requires synchronization, because a process owner decision to use BRP without comprehension and support of all senior managers can cause chaos in the whole organization. And vice versa, if all process owners use this approach simultaneously, the result will be exactly the same. Some methods used during improvement are relatively safe and even if for some reason they turn out to be wrong, the damage will not be enormous, but methods like BPR due to their radical nature require great caution (Chambers & Wheeler, 2009; Sheer, 1999).

### **Process Structures**

The third way of putting our knowledge about business processes into practice allows defining organizational structure and managing organization itself. This method is based upon the fact that organizational structures themselves have a crucial bearing on efficiency of the organization. Most of organizational structures are designed in a way that in fact they actively hamper the progress, instead of assisting it. This happens because of separated special departments locking themselves completely in their functional spheres, feeling like a self-sufficient structure and failing to understand that they exist to work as providers to their internal and external clients.

Structures, relying on the business processes more than existing ones, can avoid that by making working teams, which have all necessary specialists and are responsible for the whole process and not for the specific part related to their technical specialty. Organizational structure should have a goal, manifestation of which should follow its meaning; structure should be developed to suit the certain range of goals. Despite that, in most cases, developing of the organizational structure is understood as putting the names into squares drawn in advance on the organizational scheme.

Changing the organizational structure for it to reflect business processes can have significant long-term consequences (Hammer & Champy, 2007; Sheer, 2000).

### **Tendencies of the Modern Approach to Business Management**

On highly competitive markets, there are two groups of contractors:

- irregular (one-time) contractors, who, if given the choice, can easily turn to another provider;
- regular (loyal) contractors, who continuously work together and form special requirements to the product.

The latter group can be called partners, together with whom purposeful management of product value to the final consumer takes place. Partners in business network are keys to success, if partners have not

conformed their economic interests, winning the customers' loyalty will not be easy for them (Kamennova, Gromov, Ferapontov & Shmatalkuk, 2001).

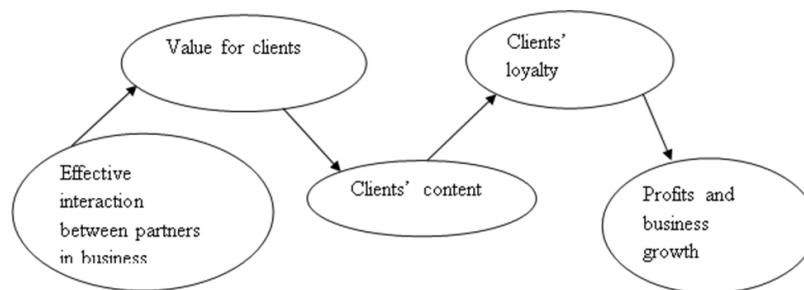
A company's top-manager is objectively interested in structuring his mutual relations with partners – providers and consumers - on the following basic principles:

- choice of the “key provider” - company's strategic partner, who provides key products and services to the client company;
- conclusion of lasting agreement on strategic partnership between the provider and the client (consumer). At the same time, of course, the client company should constantly monitor market of products or services provided by its strategic partner and benchmark (compare with industry bests) his efficiency to make sure, that products and services provided are the most effective.

Maximal integration of provider-client interaction (information support included) based on the most advanced and effective e-business technologies for providing products and services just-in-time (which means that quantity of product, time and conditions of delivery should be optimal for ensuring maximum clients efficiency).

Therefore, to manage a business also means to manage a portfolio of the clients trying to maximize the value created by the portfolio. At the same time, management of the client's portfolio excludes two components – financial management of client's relations (in fact, maximizing the value created by the client's portfolio) and operational management of client's relations (company's interaction with key clients).

Switching attention of partners from deals to forming lasting relations with contractors allows members of the value chain to gain stable financial advantage. This conclusion is represented schematically in Figure 1.



**Figure 1: “Final client service – profits” chain**

“Final client service – profits” chain is a powerful instrument allowing to understand how assembling partners into business networks can be the leverage to build-up efficiency of company's activities.

First of all, it is obvious that there is a direct connection between good client service and stable profit growth. As a result, provision of high-quality products and services by business network for clients should be considered the highest priority (Deming, 2009).

“Final client service – profits” chain underlines importance for the top-managers of managing a value chain, in which partner's relations enhance business indices.

The key to managing the “final client service – profits” chain is inter-firm relation, which assists fast reaction to customers' needs and considerate attitude towards them after the sale. However, inter-firm

relation of this kind is possible only if partners are authorized to make decisions, motivated to solve problems together. By encouraging initiative of the partners, rewarding their proposals for improvements of products and services business network fully uses its potential for the benefit of business development.

Studies have identified that “traditional” (functional) structure of business management, in which a group of companies is seen and managed as a traditional company consisting of functional departments (marketing, financial, sales, etc.), has a whole range of flaws, which doesn’t allow the company it is used in to successfully compete with the ones using process management structure.

In a “functional” company, hierarchical subordination is more important than horizontal cooperation in business process. Therefore, each employee works not for client (internal or external) and common cause (maximization of company’s value), but for his superior and his department. Signs of effective business management system are represented in Figure 2.

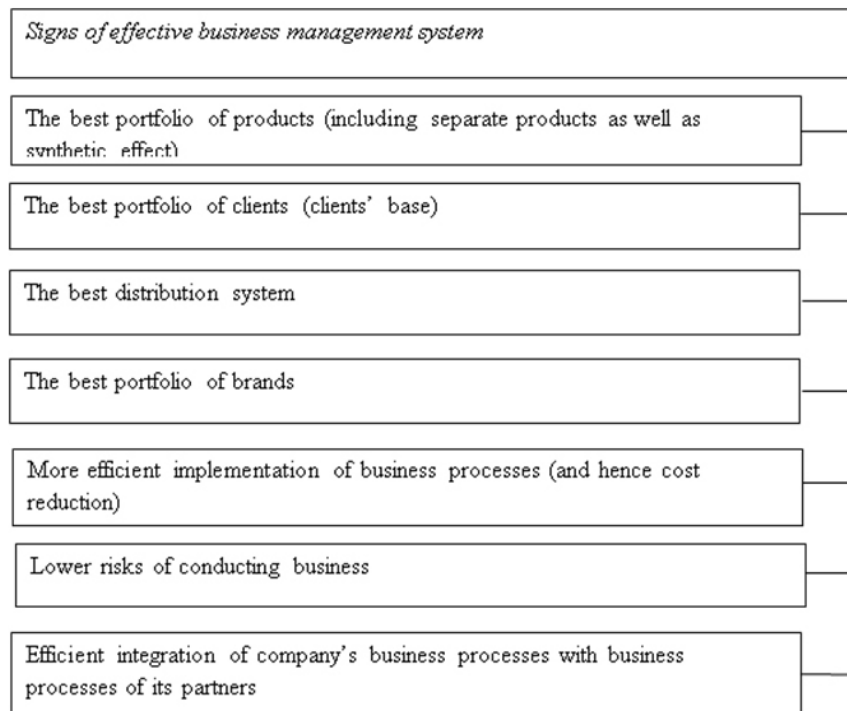


Figure 2: Effective business management system

Functional structure of a company (created by Adam Smith in the late 18<sup>th</sup> century and adapted by Henry Ford and Alfred P. Sloan to support large-scale assembly line manufactures in the early 20<sup>th</sup> century) is aimed at simple tasks and sophisticated systems of coordination and control (and, respectively, high level of bureaucracy). This system worked well in an era of mass production of standard products with long lifecycle, which sadly is a thing of the past (Deming, 2009).

The twenty-first century demands organizational structures, which can support flexible “product production” and “keep up” with its short lifecycle. Hence, company structure should be exactly the opposite of the functional one: it should combine sophisticated tasks (which are implemented by qualified personnel) and simple systems of coordination and control (with relatively low level of bureaucracy). Process structure of a company involves hierarchy of cross-functional business processes headed by process managers or



coordinators (“owners” of processes) and implemented by process teams. It meets the requirements of the twenty-first century’s economy due to the following reasons:

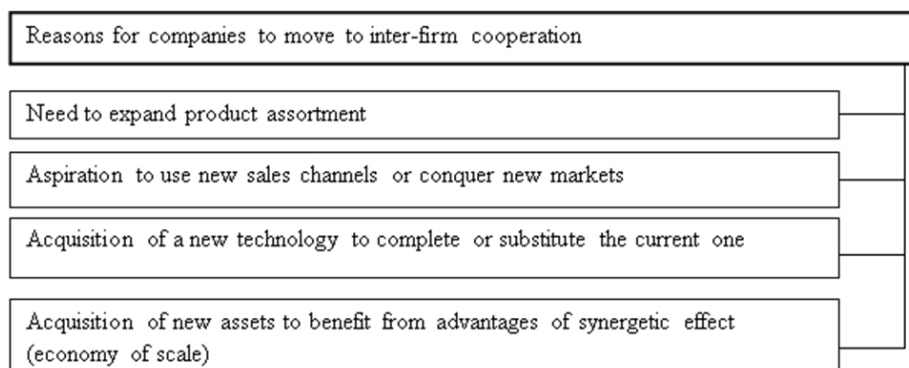
- company’s performance is greatly improving, as presence of the manager/owner of each business process, his responsibility for the results of its implementation allow to make managing decisions clear;
- so long as processes exchange the final products, there is a possibility to build the system of internal cost accounting and internal entrepreneurship, which is difficult in a traditional structure;
- there is a possibility for managing by goals and developing effective compensation system for personnel on that basis. In combination with cost approach to management, it allows to improve personnel’s performance;
- after moving to process company structure, mutual relations between departments, both vertical and horizontal, are built according to the system “client-contractor”, which allows to remove barriers between departments.

Thus, in process-oriented company’s management system personnel are given tasks and goals (what needs to be made) and there is also:

- a system of the financial compensation, which makes it economically beneficial for personnel members to implement their tasks and achieve goals;
- a system of restrictions for the employees to observe while implementing tasks;
- a control system allowing management to interfere in time and either prevent or quickly correct the error with minimal financial losses for the company.

Analyses of business-processes and their cost models allows to aim inter-corporate relations at the main business target – value creation. It is attained by transfer of resources and responsibility to owners of business processes and their implementers, which promotes well-timed decision making. Second level of business processes regards inter-firm relations management – one of the most distinguishing characteristics of modern economic development.

Arrangements between companies include various types and lines of business activities – research and development, production, resourcing, sales, etc. Main reasons for a company to move to the inter-firm cooperation are demonstrated in Figure 3.



**Figure 3: Main reasons for a company to move to inter-firm cooperation**

The extreme difficulty of establishing optimal model of inter-firm relations requires special flexibility in organization of market participants' interaction, which could minimize conflicts and allow to "tune" business according to environmental changes.

Each company nowadays not only benefits from its internal advantages (conceiving innovations, refining technology, changing management), but creates new competing advantages using partner's relations.

In conditions of the "new economy", owning production factors (capital, labor, land) is losing its critical importance. Competitive advantage is now the ability of partners to join their achievements in effective chain of creating value for customer, which could be called "entrepreneurs business network".

### 3. CONCLUSION

From time to time each manager, especially a senior one, needs to look aside from current affairs and inspect business with the eyes of the strategist: what is the overall company's situation, does a company move in the right direction, what objectives should be considered matters of high priority, what factors pose a threat.

Relentless business logic confirms: there is no serene existence. Business world of the twenty-first century is dynamic and competitive. Problems emerge on the daily basis; they should be seen and solved promptly and orderly. Or even better – foreseen and prevented.

New possibilities appear equally often and they need to be estimated and used to company's benefit. These objectives are extremely difficult, but this is the exact situation where modern management concepts and technologies can come to the aid.

Potentially there are great advantages provided by deeper understanding and higher orientation towards business process management. For instance, in these conditions synchronization of work should become much more effective, as work moves from department to department with less number of errors and client demands are met in time and on the first try. Knowledge about customers becomes better, usually considerably, conflicts between departments lessens as well as delays between different stages of the process.

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