

# Lecture 2. The concept of process oriented approach at trade enterprise

## *Lecture plan*

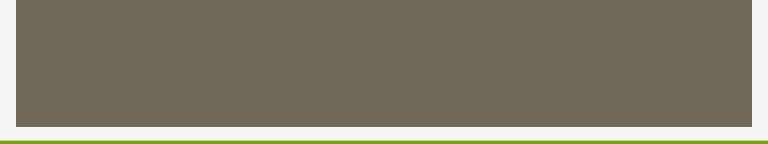
1. The concept of process oriented approach at trade enterprise.
2. Process-based management.
3. The functional versus process oriented approach at trade enterprise.
4. The effects of process oriented approach at trade enterprise.

## 1. The concept of process oriented approach at trade enterprise

The changing environment of enterprise creates the premises of the process approach in management - the new chances of development and the possibility of application of modern management methods, and also gives uncertainty and the high level of risk.

## Classical vs. modern management paradigms

<b>Classical management paradigms</b>	<b>Modern management paradigms</b>
Management focus on a reduction of direct manufacturing/service cost	Management focus on a reduction of indirect manufacturing/service cost as well as reaching a high competence
Tasks, operations and processes are stable	Tasks, operations and processes are non-stable, flexible, agile and there is a constant change
Product lines are based on a single and dominant technology with a long product life-cycles	Product lines are based on a multi-core technologies with a short product life-cycles
Managers are decision makers and workers are only passive executors of decisions	Managers are only coaches or facilitators and workers have knowledge to do tasks
Global markets are functioning on national criterion and national companies dominate on local markets	Global markets are functioning on global criterion and national companies operate on global markets



The paradigm of process thinking assumes the horizontal view in the organisation, which is recognized as a collection (set) of interrelated processes. Systems and process views in organisations are the starting point for designing and organizing any system, being able more skilfully to answer to new business reality, which is characterized by a strong competition and a change of customers expectations.

The process-oriented approach to management recommends general thinking about processes as related with each other's actions. Their identification allows for better understanding of creating the value, and enlarges their improvement and constant improvement of effective functioning of the organisation and the degree of internal and external customers satisfaction. The process orientation relates to not only material processes (manufacturing/production) but also immaterial processes, which have a service feature and are based on information processing activities, run at any level and area of organisation functioning.

Modern management paradigms lead us to new principles for management, which should allow us to:

- ❑ create the value, which is a basic social duty of the enterprise,
- ❑ develop the quality, which is a fundamental competitive requirement,
- ❑ react on the environmental change and customers' expectations,

- ❑ be agile and flexible in communication and operations,
- ❑ be innovative by taking care new ideas, using the staff creativity,
- ❑ integrate technology in order to be competitive,
- ❑ work in a team by creating and developing decentralized multifunction and multidisciplinary teams in the enterprise.

Modern management theory and practice is coming back to the root – to the process concept. A question - what is new in this approach today – does not have a simple answer. Is it the only adaptation of old patterns to new times or is it a qualitatively new concept? In some opinions there is a radical change in process management methodology interpretation and also the components of the organisation defined as the process organisation were significantly broadened. Basic premises of these changes are fundamentally different conditions in which they work within present organisations.



## 2. Process-based management

Process-based management is a management approach that views a business as a collection of processes. The processes are managed and improved by organization in purpose of achieving their vision, mission and core value. A clear correlation between processes and the vision supports the company to plan strategies, build a business structure and use sufficient resources that require achieving success in the long run.

# Evolution of the process oriented approach in management

Stage	Description
<p data-bbox="86 571 434 606"><b>I wave – 1920-1980</b></p> <p data-bbox="86 635 656 792">F.Taylor and H.Fayol - the bases for scientific theory of organisation management</p>	<p data-bbox="705 571 1835 671">The aim of management is to use the work time better and to lower costs of production. It is possible by:</p> <ul data-bbox="772 692 1796 899" style="list-style-type: none"><li>a) the division of the process into simple tasks,</li><li>b) the rationalization of ways executing indispensable tasks,</li><li>c) the elimination of redundant actions,</li><li>d) coupling with motivation system.</li></ul>
<p data-bbox="86 928 454 963"><b>II wave – 1980-2000</b></p> <p data-bbox="86 992 656 1092">M.Hammer and J.Champy – BPR (Business Process Reengineering)</p> <p data-bbox="86 1106 444 1142">TQM and ISO methods</p> <p data-bbox="86 1163 454 1199">Time-based competition</p>	<p data-bbox="705 928 1835 1028">The aim of management is to focus on the value added processes and to redesign the process flow. It is possible by:</p> <ul data-bbox="772 1049 1777 1256" style="list-style-type: none"><li>a) one-of-a-kind project undertaking,</li><li>b) reduction of resource utilisation,</li><li>c) identifying values and primary vs. supportive processes,</li><li>d) taking outsourcing as a restructuring method.</li></ul>

### III wave – 2000-2010

BPM (Business Process Management) orchestration and choreography  
IT implementations  
Web-enabled e-business

The aim of management is to introduce evolutionary change by bridging the gap between IT and business methods and tools. It is possible by:


- a) system and holistic approach to management,
- b) focusing on processes as reference base for organisation,
- c) involving human intelligence and judgement,
- d) managing networks not chains (choreography).

### IV wave – 2010-...

ABBPM (Agent Based Business Process Management)  
KBM (Knowledge Based Management)  
BPM Excellence

The aim of management is to use the IT and human resources as agents playing different roles in different processes. It is possible by:

- a) the coordination of actions by agreeing upon agents' roles and future work in the goal-oriented collaboration,
- b) the setting of *ad hoc* processes,
- c) the setting of mobile processes,
- d) challenging complexity.



From a process perspective, an enterprise regards its business as a system of vision-achieving vertical processes rather than specific activities and tasks of individual functions. The system is not a method or tool for a particular process, but a holistic approach to manage all the processes in one enterprise. Therefore, to manage processes in one of effectiveness, the enterprise must have an effective team network and full knowledge of their vision.

## Advantages of process-based management:

- ❖ Documenting a process provides a clear guideline of how enterprise improves their processes and performances over time.
- ❖ Process based management measures the full set of activities in one business. For instance, it focuses on internal processes such as customer satisfaction, quality of product and security as well as financial results including revenues, profits, costs, and budget.
- ❖ Understanding of the correlations between business processes avoids taking wrong decisions. It reduces costs, time and resources wasting on unnecessary things.

- ❖ Analyzing the processes, an enterprise will be able to predict sources of hazard and choose right decisions.
- ❖ The system protects intellectual capital of the enterprise. Monitoring the development of processes, the enterprise can analyze risks and its weakness.
- ❖ Focusing on continuous improvement and customer's requirements, the enterprise improves customer services which deliver value to its customers.
- ❖ Evaluating the process assures the results a company expecting to obtain.

- ❖ Process based management is an integration of both input and output in business process. It controls personnel, technical and financial resources in a holistic viewpoint.
- ❖ The enterprise can improve IT system that reduces unnecessary complexity and improves the quality of performance measurement.
- ❖ Analyzing processes and implementing new objects if required, the enterprise deal with fast changes in demand.

*Documenting the process*

To manage its business from a process based perspective, an organisation requires to understand what defines the process and which activities they consist of. A business consists of different departments in charge of specific jobs or functions. Therefore, the processes support these managerial sectors and transform successful outputs.

*Analyzing process performance*

Analysed and clarified processes are allowed to implement on the actual business. Then, an organisation monitors its business and improves the overall stage of process. To evaluate the sequence of process, measurement is an essential element that shows results of process performance with numerical and comparative data.

*Implementing the improvements*

Having designed the processes of management system and analysed the performances using useful measurements, the final step is how to improve the system and maintain its effectiveness. Therefore, implementing the improvements is a key activity to examine the processes and improve the flow of the management system.

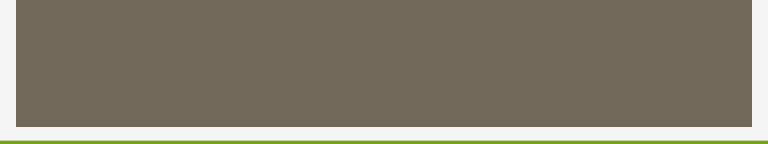
Fig. Three stages in process-based management



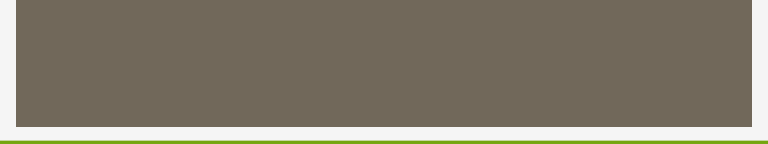
### 3. The functional versus process oriented approach at trade enterprise

Business functions within an organisation can be grouped into certain areas, for example: accounting, finance, marketing, manufacturing, human resource management, research and development, information services. Typical business functions in an enterprise are: buy raw material, sell end products, manufacture goods, maintain production facilities or contract employees.

In the business management practice a functional orientation still dominates. In this classical management approach a specialization of work is a criterion to organize and manage the work, especially by dividing product responsibility and working range into specialization units – functions. The functional structure is the most basic organisational form wherein employees are grouped together according to similar activities, tasks and skills.



Some modifications of this structure to avoid weaknesses are: divisional structure, hybrid structure and matrix structure. The idea behind this structure is to group these employees in one department (division) of an organisation. The grouping of activities, tasks and skills into one department enables the assignment of one senior manager to whom all members of the department report.



This position in many organisations is labelled as vice-president, responsible for particular function. The simple functional structure tends to centralize decision making at the top of an organisation, and decisions about the coordination of activities, tasks and skills must be made at the top level of an organisation.

Functional structure of organisation has many strengths and also weaknesses. Some advantages and strengths of this structure are as follows:

- ❑ strategic decisions are made at the top, facilitating a unity of direction as top management provides coordination and control to the organisation and departments can be provided with goals and objectives that will support the overall organisation strategy,
- ❑ efficient use of resources, particularly by having departments and units which share common facilities or machinery in one place and by economies of scale each department is able to serve other departments efficiently,

- ❑ enhanced coordination within functions, as common backgrounds within department and collegiality imply that members of the department are more likely to work as a team to achieve the department's goals,
- ❑ in-depth skill development, as department members have opportunities to specialize their skill to a greater extent by sharing information and more intensive training due to the similarity of knowledge,
- ❑ clear career paths, as employees have a clear understanding of job requirements and the path leading to career promotion.

However, the functional structure has also some disadvantages and weaknesses:

- poor coordination across functions, as members of each department are isolated towards other departments it implies that members of the department are more resistant to support or compromise with other departments to achieve the overall organisational goals,
- slow decision making, because of senior managers overloading causing delays, and lowering quality of decision making,

- performance responsibility unclear, as contribution of each department to the organisational result is not easily understood even all departments contribute to accomplishment of an organisational goal,
- less innovative, as employees become focused only on departmental goals rather than on the overall organisational goals some new product/service ideas, new methods and technologies suggestions are lost, particularly when an inter-departmental coordination and communication is needed,
- limited inter-departmental management training, as extensive training and experience in one department reduce opportunity for developing broader management.



## The process oriented thinking facilitates:

- understanding of the own role and participation in the strategic performance of the whole trade enterprise – it locates the member in the sequence of the activities of the whole, and not in a limited frame of departments and units, usually as teams specializing in realization of the homogeneous tasks;

- understanding and the verification of the sense of own work because of its usefulness for the customer, and not only for a supervisor's opinion, as the customer substitute;
- organizational changes and transformations by support of the members of the trade enterprise in the scope of knowledge acquisition and accumulation, and also organizational learning to build competitive advantage.

## Function – oriented vs. process – oriented business management

Element	Function-oriented	Process-oriented
Communication channels	Highly structured information flow in formal trade enterprise	Process visible internal and external information flow
Operations	Unified with limited range	Linked and integrated
Decision making responsibility	Formal and centralized	Decentralized by delegating and new authorities
Adaptability	Limited range – resistance and slow change	Process range – flexibility and agility
Work	Formal and low effectiveness	VA process design, effectiveness
Control	Formal with function control	Self-control with process focus and monitoring
Behaviors	Strictly defined by location and position description	Defined by process needs and process workers skills
Participation	Low commitment, decisions from the top	High commitment, team work, co-operation between teams
Form of information	Orders, control	Process measures and indicators

There are many reasons to change the enterprise management vision to process oriented one. For example it could be a case for process oriented vision when:

- **realized tasks do not relate to building the value of the firm**

- **nobody manages or controls processes and nobody is responsible for it**

- **there is a considerable level of bureaucracy, which makes difficult the efficient performance of an enterprise**

- **many varied procedures and instruction exist, which implies knowledge dispersion**

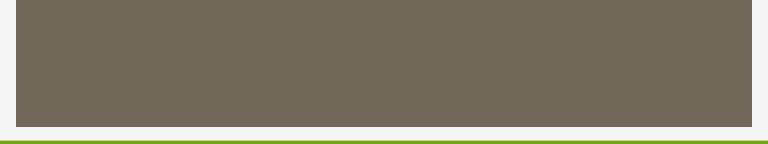
- **there is a lack of control of the process efficiency**

- **nobody is able to co-ordinate the whole process, many persons are engaged in processes, but this is not the work of one functional department or unit**

However thinking in categories of processes can also have some barriers and disadvantages:

- the possibility of integration of activities in team forms of work,
- shortening the information flow by taking advantage from hierarchic structures,
- transfer of decision authorizations to the direct places of doing the works,
- the development of workers' innovations and broadening the competence range,
- overcoming contradictions from the lack of conjunction between tasks,
- authorizations and responsibility.

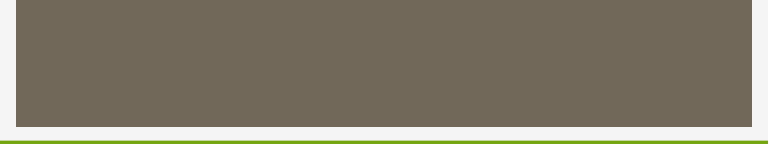
The differences between process and function oriented management can be seen in many aspects. These aspects suggest that process oriented management is not a binary matter. It could be seen and measured by a scale starting with 0 if none of these aspects is deployed and ends at a maximum level of process orientation, when the organisation is fully developed in all aspects. The first aspect is about process design and documentation.



A precise definition and description of the organisation processes is the starting point for process management. The second aspect is to get support of senior executives (top management), which means also decision making about an appropriate structure for management. The third aspect is to build the process oriented organisation structure to the process view, following the principle “structure follows process”.

The existence of process owners is the most visible difference between function-oriented and process-oriented organisation. A business process needs to have a manager who has end-to-end authority and responsibility of the process. The fourth aspect is to apply the concept of process performance measurement. By focusing measurement on processes rather than functions, a common view across separate organisational units can be achieved.





The fifth aspect is to adopt an appropriate organisation culture, because teamwork, readiness to change, customer orientation and cooperative leadership style go together with the process-oriented approach. The sixth aspect is to implement information technology which can act as an enabler for process oriented management, as IT systems integrate all the information flowing through organisation in order to support process approach.

The seventh aspect in process-oriented management is to develop an appropriate knowledge system about certain process improvement, process redesign and change management techniques. The eighth aspect is to develop an appropriate human resource (HR) management system (HRM) as the process design should also determine job descriptions. Finally, as a form of coordination and integration, a formal instance of all processes coordination projects is necessary to organise (called sometimes as “BPM office”).

## 4. The effects of process oriented approach at trade enterprise

The typical, positive effects of process oriented management, usually described in statements with or without empirical arguments and case study reports, include the following benefits:

- relative extraordinary improvements in cost, quality, speed, profitability and other key areas by focusing on, measuring and redesigning customer-facing and internal processes,
- increase of product or service quality,
- improvement of quality,
- increase of internal and external customer satisfaction,

- products or services offered better fit customer requirements,
- improvement of customer satisfaction,
- optimization of all steps and procedures in the value chain,
- increase of added value by sourcing out non-competitive activities and concentration on core competences,
- reduction of cost,
- reduction of response time,
- improvement of operational effectiveness,
- increase in cycle time speed,
- improvement of productivity,

- increase of company value,
- elimination of ownership uncertainty,
- clear description of boundaries and interfaces,
- definition of a process in structured, readily understood way (facilitating communication, serving as a learning vehicle),
- acting proactively rather than reactively by taking corrective actions.

Application of process oriented approach and implementation of BPM methods and tools additionally can lead to some synergetic effects and benefits:

- ❖ **effective communication**, because acceptance, open-minded thinking (systems thinking) and ability to lesson to co-workers are necessary for a new communication,
- ❖ **teamwork in organisation units**, because the only way is to set goals, measure results, evaluate the work and solve problems by working in teams which directly benefit in employees engagement and creativity,

- ❖ developing new forms of organisational learning, particularly by coaching, because educated and reliable co-worker can better make decisions and the particular task and work become an individual way of learning and making decision with the organisation learning,
- ❖ standardization of all organisation descriptions and modelling, because employees learn the whole process flow, principles and organisational roles by unified representations as set of business models,
- ❖ real time monitoring of workflow, as all process participants know the current state of a process and an allocation of responsibility,

- ❖ acceptance and involvement of top management and key persons, because effective process oriented management is only possible by top management involvement,
- ❖ developing a framework for implementation of quality management system, particularly the ISO standard system, because process orientation is a necessary step for quality management,



- ❖ effective design or purchase and implementation of integrated IT systems, particularly integrated management systems, decision support systems, ERP systems,
- ❖ identification and classification of areas for organisational improvements, particularly by AS-IS process modelling and analysis and also by TO BE process modelling,
- ❖ developing skills and organisational knowledge, particularly the process oriented staff training and process oriented IT system implementations.

The use of the process-oriented approach in management does not mean a resignation from classic functional relations and dependences described in the organisational structure. The difficulty in practising the process oriented approach results from a structural thinking, which was grounded in the organisations within many years. The fundamental question is: are the process and function oriented approaches in an antagonistic, contradictory or a coexistence relation? In many organisations usually it looks like a coexistence of both management approaches.

The top-level management staff initiates the process orientation as a new way of the approach to the management in the organisation. Therefore the implementation of process-oriented management begins at the top of the organisation. The basic assumptions are constant improvement and organisational learning. The processoriented management assumes instability of processes, but also abilities for innovations, flexibility and agility of staff activities.

*"That's all Folks!"*



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