

## INTRODUCTION OF THE APPROACH TO PROCESS MANAGEMENT OF THE ENTERPRISE AS THE BASIS OF IT ECONOMIC SECURITY

**Problem statement.** Numerous researches show that providing of the Economic Safety of the Enterprise (ESE) is possible only at integrated and system approach to its organization – timely and anticipatory identification and elimination of negative factors, in particular – internal ones. But concrete measures which would warn and (or) eliminated negative influence of these factors on ESE, aren't brought thus.

**Analysis of the last researches and publications.** Let us make the analysis connected with subject of article.

### **1. Definition concept of ESE**

Firstly concept ESE was considered the preservation of a trade secret and other secrets of the enterprise and many publications were devoted to this problem among them it is possible to mark works Marushchak (2007), Solodkiy and Timofeev (2013) and some others.

The Transformational Period of Economy of the Post-Soviet states forced to look at the problem more widely. At this time Economic Safety starts to be connected with external and internal economic threats. As an example it is possible to give definition: "...Economic Safety is a state of enterprise security from negative influence of the external and internal threats, destabilizing factors that provide steady realization of the main commercial interests and the purposes according to the Enterprise Charter" (Liannoy, 2006).

Kozachenko, Ponomarev, and Lyashchenko (2003) draw the following conclusions after the analysis of existing approaches to ESE problem: "ESE consists of several functional components which for each concrete enterprise may have various priorities depending on nature of existing threats. The major factor that define a condition of ESE is the possession the enterprise steady Competitive Advantages. These Advantages must correspond with strategic purpose of the enterprise. On the basis of the drawn conclusions we can formulate our own definition: "ESE is an existence of the Competitive Advantages caused by compliance of material, financial, staff, technical and technological potentials and organizational structure of the enterprise to its strategic objectives and tasks".

Similar definition is also given in (Pokropivnyy, 2002): "ESE is such state of Corporate Resources (resources of capital, staff, information technology equipment and rights) and enterprise opportunities at which their effective use for stable functioning and dynamic scientific technical and social development, prevention of Internal and External Negative Influences (Threats) are guaranteed most".

### **2. Definition of the Internal Factors influencing ESE**

The set of classifications of ESE Threats exists in (Gaponenko et al. 2007), (Gnilitskaya et al. 2011):

- by a source (internal, external);
- by the emergence nature (political, criminal, competitive, counter agency, other);
- by probability of realization (real, potential);
- by the object of encroachment (information, staff, finance, inventory items, business reputation, other);
- by possibility of forecast (predicted, not predicted);
- in size of expected damage (catastrophic, considerable, defiant difficulties);
- other classification signs.

Some lists of the internal reasons and the factors influencing ESE we will consider in more detail. Shmorgun and Holovko (2006) express opinion that Internal Factors include: "low level of equipment and technology; low level of the production organization; use of the credits on unprofitable conditions; bad clients of the enterprise; lack of a portfolio of orders; fast and unplanned expansion of economic activity".

External and Internal Threats are especially individual for each enterprise. At the same time, as Lyannoy (2006) considers that the specified categories include separate elements which are acceptable practically to any subject of economic activity: "... staff action or inaction (including deliberate and unintentional) that contradict interests of its commercial activity, leak or loss of information resources, undermining co.'s image of the enterprise in business circles, emergence of problems in relationship with real and potential partners, conflict situations with representatives of the criminal environment, the competitors supervising and law enforcement agencies, operational injuries or death of the personnel etc. treat Internal Threats and destabilizing Factors".

### **3. Degree of influence of Internal Factors on ESE**

Degree of influence can be considered on the example of statistics of the reasons of bankruptcies of the enterprises.

So, in the USA there is bankruptcies annually only about 1% of the operating companies. Thus, as a rule, 1/3 bankruptcies are caused with External, 2/3 – with Internal Factors (Shmorgun & Holovko, 2006). As for the Ukrainian enterprises, the return ratio is characteristic for them (Rogatenyuk, 2010).

According to other data External Factors make 10-15%, Internal 85-90% in the developed foreign countries (Zharkovskaya & Brodskiy, 2005). The world statistics says that the main reasons for bankruptcy of the enterprises are (Pavlova, 2006):

- lack of administrative experience at heads and owners of the enterprises (weak management) - 18%;
- narrow professionalism of the persons making decisions, - 20%;
- discrepancies of management to the requirements dictated by environment, - 45%.

With about Russia, Zharkovskaya and Brodsky (2005) consider that External and Internal Factors take approximately 50%. In work of Antonova (2004) it is claimed that most often reasons of enterprises insolvency are Internal Factors. According to other point of view for the Russian reality 2/3 reasons of insolvency have the external reasons, 1/3 - the internal reasons connected with production - economic activity of the enterprise.

#### **4. Necessity of the prevention of negative influence of Internal Factors**

In work of Tumar (2006) the following justification of application of preventive measures for EBP level increase is carried out: "Reactive and Preventive Approaches logically correspond, however, with some reservations, to such developed concepts, as "Passive Defense" and "Active Defense". Passive Defense, though is more expensive on resources and obviously traumatic for the user, nevertheless, always is in a ready state and works as an additional insuring factor, the last boundary of the defense, the integral component of all system of defense.

It is obvious that it is better to leave Reactive Approach "as a last resort" when the policy of Prevention doesn't work. In an ideal the enterprise has to seek for obtaining anticipatory information thanks to which it is possible to distinguish already on distant approaches real threats and rather far to bypass them, or to neutralize". Further Tumar (2006) draws a conclusion that: "Much more expedient is the greatest possible use of a Preventive component, rational anticipatory actions".

#### **5. Events for the Prevention and Elimination of negative influence of Internal Factors**

The author didn't find the description of the concrete events offered for the solution of this problem - in numerous articles it is usually written that such measures need to be developed and introduced. As an example it is possible to cite Kovalenko (2008) "... the greatest value in ensuring Economic Safety of Business belongs to primary, i.e. to economical legal and organizational events, as they provide the Base of System of Safety, unlike the secondary - technical, physical and other actions".

#### **6. Definition of concepts Functional Approach to Management of organization and Approach to Process Management of organization**

Up to the end of XX centuries, at the Organization of Business and Management of Business activity practically methods of the Classical Organizational Theory F. Taylor were applied everywhere. These methods were stated in the book "The Principles of Scientific Management", published in 1911. This Theory is based on the Principles of Division of Labor formulated still by A. Smith in his book "The Wealth of Nations", published in 1776. This Theory without considerable changes is, in fact, the base of existing Functional Approach to Management (FAM) of organization.

Founders of Engineering Approach to the Business organization (which part is the Approach to Process Management (APM) of organization) M. Hammer and J. Champy, in their turn, describe the problems which are inevitably arising, as a matter of fact, on condition of boundless reign of FAM. In their opinion (Hammer & Champy, 1997), lay breaking natural process into a set of small tasks the enterprise, must take help of "School of the Organization of Business of the name Humpty Dumpty" as it is compelled to employ "all Royal Cavalry and all Royal Host" again to aggregate the fragmented Process. This "cavalry" and at this "host" has concrete positions in the staff list of the enterprise (the Planner, the Auditor, the Forwarding Agent, the Controller, Coherent, the Managing Director, etc.), but all of them are only the "glue" - fasten those who actually does real work. They never add nothing to the Consumer Cost of made production. However, judging by the size and dynamics of growth of overhead costs, "the majority of the companies pay more for "glue", than for work, and it is the best means to appear in trouble".

Vishnyakov and Dyatlova (2004) compare the Approaches stated above: "FAM was quite justified in the conditions of constantly increasing demand accelerating growth of the companies, in the presence of the guaranteed sales markets. Its essence consists in management of sets of Functions. All set of Activities of the organization breaks into sets of Functions (uniform and specialized) which concentrate in separate Divisions. Divisions are built in Hierarchical Structures. Management of such Structure also is reduced actually to management of Functions. FAM is quite simple, clear to the staff of the organizations, is easily acquired and duplicated across and verticals by accumulation of Hierarchies.

Transition to APM means transition to Management of Enterprise Activity unlike management of structures, characteristic for FAM.

All Activity of the enterprises consists of two types of activities: repeating (which should be carried out periodically or in case of approach of certain events) and "single", unique on structure which doesn't

repeat further in such look. The first type of Activities is called as the Processes, the second – Actions, Projects, Programs, etc. If this is so, then to operate Company's Activity means to operate its Processes (Process Management) and Projects (Project Management).

However, Structures too are intended for management of activity! FAM in this sense has to be brought out of APM simply: in order that it is correct to create sets of Functions for management, it is necessary to know just Processes. But, cutting Processes on Function and uniting them in sets, FAM doesn't mean Processes, it relies on experience, on empirically established lists of Functions.

The main advantages of APM before FAM are:

- 1) increase of speed of company's reaction on changes by exception of process excessive (not influencing result) control points and information transferring;
- 2) ensuring aiming of all employees to the result (a product, service). At FAM activity of divisions is directed on satisfaction of requirements of the head, instead of the client;
- 3) reduction of the expenses connected with duplication of functions and expenses, not necessary for achievement of result.

Thus, APM allows to organize activity so that it was flexible, directed on continuous improvement of quality of the final product, decrease in its cost and satisfaction of the client".

**From the analysis of publications it is possible to draw the following conclusions:**

- 1) ESE considerably is an existence of Competitive Advantages and the corresponding condition of Corporate Resources;
- 2) the majority of Competitive Advantages and Corporate Resources represent the Internal Factors influencing a condition of ESE. Internal Factors conditionally share on groups which are connected with production and organizational Processes, the Personnel, Finance;
- 3) for Ukraine about 1/3 of all bankruptcies are caused by Internal Factors;
- 4) to prevent negative influence of Internal Factors one ESE is better than to correct;
- 5) there are no concrete measures to prevent and eliminate of negative influence of Internal Factors on ESE for today;
- 6) APM to business is more progressive and corresponding to a current state of Economy than traditional FAM.

**Problem definition.** The work purpose is to show that introduction of the Approach to Process Management at the complex decision at the prevention and elimination of negative influence of Internal Factors on Economic Security of the Enterprise.

**Statement of the main research.** Before considering how there is an introduction of APM at the enterprise, we will define concepts the **Process** and the **Project**.

The **Process** is the connected set of repeated Actions (Functions) which will transform an initial material and (or) information to the final product (service) according to previously established rules.

The **Project** - the unique Process consisting of a set of interconnected and controlled Works (Functions) with start dates and the termination, and undertaken to achieve the objectives of compliance to concrete requirements, including restrictions on time, expenses and resources.

The structure of the Business Processes (BP) of the organization is defined by specifics of its activity. Usually BP of the enterprise divides into the Main and Auxiliary. The Main BP those which results provide creation of the Main Product or Service. This are: Sales, Production, Supply and others. Auxiliary processes - support effective functioning of the Main processes. Such BP are: Legal Providing, Management of Finance, Human Resource Management and others.

**Introduction of the APM** by the organization assumes a complex of works on identification of its BP, to the description of their Structure, installation of Indicators of their efficiency, and also definition of Procedures of Management by Processes.

Procedures of management of BP are realized as Project Approach (most often today), and Process Approach (the so-called cycle Continuous Process Improvement (CPI)). **Project Approach** assumes realization from time to time the special project to reconsider part of BP which isn't meeting modern requirements. The structure of Project Group surely joins the Experts who are well knowing existing BP (if it is a question of BP improvement). On the contrary in case of Reengineering the number of to Experts has to be little, and their role is reduced to criticism of decisions of Group. **CPI** means that the company may have special BP which purpose is improve of BP of the Company and management of their Structure.

**There are two kinds of Processes Management Activity:** Management of Results of BP during their realization and Management of Structure (design) of BP.

**Management of Structure of BP** means design (engineering) or improvement of BP and, respectively, definition or correction of Indicators of its efficiency, BP introduction in daily practice of the company, monitoring of values of its Indicators, the Analysis of deviations of Indicators and making decisions on the directions of further improvement of BP.

Change of BP can take place in two forms: revolutionary (**reengineering**) and evolutionary (**improvement**). Reengineering actually projects new BP on a place of existing ones (without thinking about existing ones). Such Method is usually risky and demands radical reorganization of Activity and big investments, but it is capable to yield radical results, changing BP characteristics many times, and even in

tens times. Improvement of BP relies on Processes "as is" and does characteristics of processes 20-30% better (typical figures). This Method is much less risky, but isn't capable to change a situation considerably.

After BP is described, analysed and improved, it is necessary to provide possibility of its performance, which is to introduce BP in organization Activity. For this purpose the actions which performance is necessary for work both BP, and employees within new process, for example, addition of provision on awarding of employees by point on awarding/re-awarding for results of works within BP, carrying out actions for training of employees in work within new BP, etc. are defined. Responsible Persons for the planned Actions and terms of their performance must be appointed. All these Actions are written in Plan of Transition to advanced BP.

The key moment in introduction and further management of BP is appointment and motivation of the so-called **Owner of BP** who has to exercise daily control of BP and is responsible for its results. The Owner of BP is the Person bearing full responsibility for BP and allocated with powers concerning this BP (both on adoption of operational decisions, and concerning BP structure). This Also employee is main "motor" of increase of efficiency of BP.

The Account and Control of Indicators of Efficiency (Productivity) of BP is made to be convinced of efficiency of advanced BP after its introduction, and also for timely initiation of repeated improvement of BP at emergence of new requirements to its results. The Actual Indicators are analyzed regarding deviations from planned or from necessary according to the new requirements imposed to BP. The reasons of deviations become clear and decisions are made on need of carrying out adjustment or further improvement of BP.

Further activity is reduced to **management of regular performance of BP (operational management)** which assumes steps on planning of Indicators of BP, Monitoring of Performance of BP and Control of Achievement of its Indicators, the Analysis of the Reasons of deviations of indicators and making Decisions on operational impacts on BP.

Successful introduction of APM is a difficult task. In this context the usage of the **Professional Tools**, allowing to describe and to analyze BP, to do them more transparent and operated becomes essentially important.

Application of Tools allows to reduce significantly terms of projects, to increase quality of results, to store information on BP in a uniform format, conveniently, consistently, to generate on the basis of models procedural documents, etc. It is very important question for the enterprises with staff more than 100-500 people. Without Tool the decision of described above tasks is almost impossible, at least, is extremely labor-consuming and is expensive.

**We will consider some results of realization of APM and their influence on ESE:**

- coherence of results of operations within BP is provided (influence on EBP – production and organizational processes are optimized since disappear contradictions in actions and interests of functional divisions of the organization);

- overhead costs and, as a result, cost of result of BP are cut (influence on ESE – improves a financial state, production and organizational processes are optimized since there is no need for frequent information transfer and intermediate results between functional divisions and in a large number of the unnecessary operations generated by absence of understanding by performers of the role in process);

- time of performance of BP is reduced at simultaneous improvement of quality of performed works as the result of an exception of operations of information transfer on management hierarchy (influence on ESE – production and organizational processes are optimized since actually activity of heads is directed on "sticking together" functions in processes – naturally that the transmitted data is thus distorted and quality of result worsens);

- opportunity arises to estimate the efficiency of the operations (functions) which are carried out within BP, from the point of view of efficiency of BP as a whole (influence on ESE – the financial state improves, production and organizational processes are optimized since results of work of employees are estimated from the point of view of additional cost to the end result of process);

- there is an opportunity to construct System of Staff Motivation, based on encouragement of employees depending on achievement of results of BP in which they participate (influence on ESE – relationship in collective improves since at FAM interest of employees in the end result of process is absent - the main consumer of results of their works are functional heads).

**Conclusions from this research.** Introduction of the Approach to Process Management of the enterprise warns and eliminates (or reduces) negative influence of all groups of the Internal Factors connected with production and organizational Processes, the Personnel, Finance. It is possible to claim that introduction of this Approach may become a basis of Economic Security of the Enterprise.

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## **Hutsa O.M. INTRODUCTION OF THE APPROACH TO PROCESS MANAGEMENT OF THE ENTERPRISE AS THE BASIS OF IT ECONOMIC SECURITY**

**Purpose:** to show that introduction of the Approach to Process Management of the enterprise is the complex decision ensuring of it Economic Security.

**Methodology of research:** the Method of the Comparative Analysis of Objects is applied at the beginning of research, in this case objects it is Design Approach and Continuous Process Improvement to realization of procedures of management by processes.

The Method of the Stage-by-stage Analysis of Functioning of Difficult Systems is applied further (to the analysis of results). Two kinds of activity on management of processes - Management of Results of business processes during their realization and Management of Structure (design) of business processes are analyzed by means of this method.

The Method of the Analysis of Relationships of Cause and Effect is applied by consideration of influence of results of realization of the Approach to Process Management of the enterprise on it Economic Security.

**Findings:** it is established that introduction of the Approach to Process Management of the enterprise warns and eliminates (or reduces) negative influence of all groups of the Internal Factors connected with production and organizational processes, the personnel, finance.

**Originality:** for the first time introduction of the Approach to Process Management of the enterprise is considered from the point of view of ensuring of it Economic Security.

**Practical value:** Engineering of processes gives improvement of characteristics of processes and, as a result, reduction of negative influence of Internal Factors on the average for 20-30%.

**Key words:** Approach to Process Management of the enterprise, External and Internal Factors, Economic Security of the enterprise, Functional Approach to Management of the enterprise.