

FEATURES OF BANK BUSINESS PROCESSES REENGINEERING IMPLEMENTATION IN CONDITIONS OF THE COMPETITIVE ENVIRONMENT

Statement of the issue. In modern conditions of economic performance, that is characterized by strengthening of competition in the world financial market both from the part of banks and non-bank financial institutions, implementation of the anti-crisis programs for development by the states and separate companies, strengthening of macro regulation of business structures activity, there is a necessity in operative consideration of the changes of business environment, that makes actual the question on improvement of existing, development and introduction of new strategies of business processes management. One of modern approaches in conditions of the world tendencies of business units restructuring, aimed at promotion of the efficiency of functioning and competitiveness of bank institutions in the market, is business processes reengineering.

Analysis of recent researches and publications. Considerable contribution in research of theoretical and practical aspects of reengineering was made by such foreign scientists as: T. Davenport [11], M. Hammer [10], M. Firsov [9] and etc.

Over the last years attention on the study of reengineering features is also focused by domestic patricians and researches from the banking sector – I.Bushueva [2], O. VovchaK [3], O. Derkach [4], S. Yegorycheva [5], A. Kerimov [6], O.Krykliy [7], V. Mishchenko [7]. As practice of foreign countries proves, reengineering, first of all, should be applied by the successful companies which are ready to refuse from stable position today for achievement of certain advantages in the future and apply new approaches to the management. Such foreign scientists, as P. Allen [1] and A.Tyutyunnyk [8] paid considerable attention to reengineering activity of bank institutions.

In view of considerable contribution of domestic and foreign scientists to research of the role and mechanisms of business processes reengineering implementation, it is necessary to focus of attention on those issues, related to the specific of the banking sector functioning and taking of administrative decisions by top-managers and owners aimed at strengthening of competitive advantages of banks in the market in future due to the successful use of reengineering schemes of bank business processes optimization. This research is devoted exactly to opening of these aspects.

Problem definition. Systematization of scientific researches with regard to the theoretical bases of business processes reengineering implementation in the banking sector is the purpose of the article, taking into account the consequences of the world financial crisis influence and necessity to develop new approaches to the bank business management, focusing attention on the administrative aspects of this process.

Exposure of the research basic material. The term “reengineering” acquired wide application in the banking sector relatively recently. Michael Hammer is considered to be the founder of reengineering concept. In 1993 his work “Corporation reengineering: the manifest of revolution in business” [10] came off the press. Reengineering is the effective method of business management, the basis of which is introduction of new technologies in conditions of the competitive activity growth in the world market. Business Process Reengineering is restructuring or formation of new processes aimed at increase of effectiveness and level of competitiveness of banks activity [1; 10; 11].

A lot of leading companies in the world, including the banks, in practice apply exactly business processes reengineering. According to the data of Ernst and Young company, only 100 of the biggest banks of the North America spent \$US 3,9 billion in 1999 on reengineering implementation. Other financial companies of the USA contributed to the projects on reengineering implementation approximately \$US 37 billion aimed at improvement of services quality and cost cutting [12].

A characteristic sign is that application of reengineering provides for the cardinal change, instead of successive improvement of business processes in companies.

Compared to the conservative style of bank activity management, application of reengineering enables to achieve such advantages:

- rapid adaptation to the business environment changes;
- growth of clients trust;
- increase of motivation for bank personnel activity;
- cost cutbacks and reduction of services rendering terms.

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Except for positive, sure, there are negative consequences of business processes reengineering, as most of leaders, applying reengineering in the bank, expect to obtain the planned results in the shortest time terms. Practice proves that the project on reengineering lasts no less than 6 months, here duration of procedures and expected results depends exactly upon size of the bank.

Implementation of reengineering only with participation of external team of specialists can result in low efficiency of the expected results in connection with non-conformity of available qualification of bank personnel to the necessary requirements with regard to application of these models. During implementation of reengineering by internal personnel only there is a risk of inadequate estimation of own possibilities. It substantiates the necessity to create mixed commands, combination of internal and external consultants.

In our opinion, a purpose of reengineering in bank activity consists in the exposure and refusing from ineffective methods of organization and management of business directions by replacing them with new high-quality and modern ones.

Often practice of reengineering application is grounded by economic instability in the country, which should be overcome by introduction of new science-containing technologies. A lot of banks have mass application of reengineering for liquidation of the negative performance indicators caused by distribution of the world financial crisis. Necessity in reengineering as in the management instrument comes out also as a result of necessity in stimulation of bank development, strengthening of its competition positions in the market.

Consequently, according to the character of stimuli, we can define two kinds of reengineering:

- crisis reengineering, that is applied to the banks with the troubled financial status;
- development reengineering is applied to those banks which operate in normal conditions, but worsening of the competitive advantages, decline of bank activity efficiency takes place.

Bank activity reengineering is directed at the improvement of those directions which reliably will guarantee a stable income and competitive advantages for the bank that will allow retaining leadership by certain indices in the definite segment of bank services market. Reengineering enables to effectively direct activity of employees at achievement of aims defined by development strategy. It also relates to the marketing policy which increases the competitiveness of bank activity due to the price policy or non-standard methods of sales stimulation.

At implementation of business processes reengineering in banks it is necessary to define the key factors of reengineering, which some specialists refer to: customer-oriented approach, maximum satisfaction of customers' needs, providing of the competitive advantages and technological effectiveness of business processes (Fig.1).

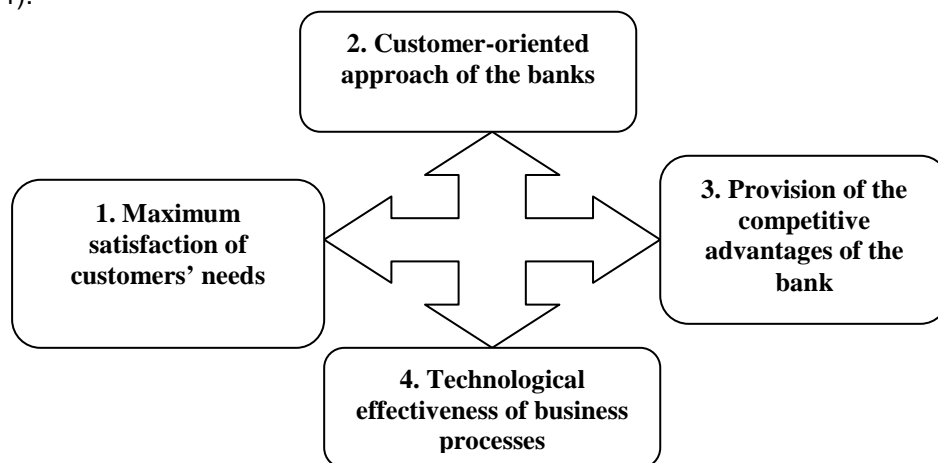


Fig.1. Estimation of reengineering criteria in bank activity

Source: [1; 6; 7].

The first criterion – customer-oriented approach – means that any action is directed at achievement of maximum satisfaction of customer's needs.

The second criterion of reengineering provides for formation of such effective business structure which involves attainment of profits in bank activity with simultaneous maximum satisfaction of customers' needs.

The third criterion of reengineering is directly related to creation of the competitive advantages and maintaining leading positions in the definite segment of bank services market.

Taking into account the criterion of technological effectiveness of business processes will allow forming of the informative field, where all participants will be able to get exhaustive information about the whole assortment and conditions of bank servicing.

In our opinion, the criteria offered above are somehow fuzzy, too abstract, have mutual duplication as, for example, customer-oriented approach and maximum satisfaction of customers' needs. Therefore we offer a line of criteria of banks reengineering optimization (Fig.2). It is also important to define the criteria of

person's competence, both among executives and external consultants who should be engaged in bank activity reengineering. We consider that the following are the important requirements to such persons (Fig. 2).

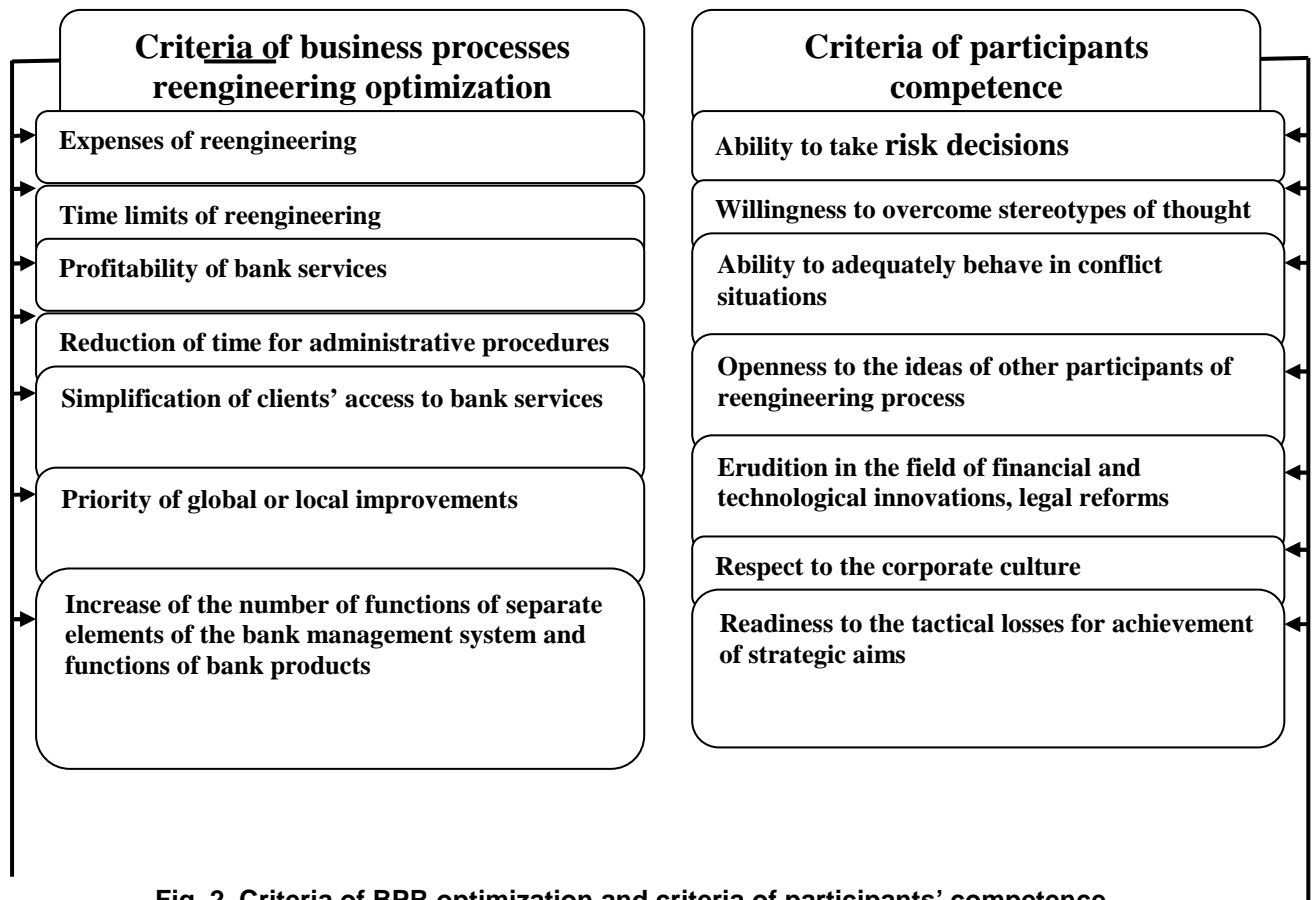


Fig. 2. Criteria of BPR optimization and criteria of participants' competence of bank activity reengineering

Source: author's development.

Reengineering is directed at achievement of many aims, but it can be considered that obtaining of the competitive advantages is its basic purpose, that is increase of both competitiveness and profitability of the company. Consequently, for achievement of the purpose mentioned above, the bank should fulfil a line of tasks which can be unified in the following three groups.

1. Organization of transparent and flexible checking system inside the bank, due to which administration will be able to quickly take substantiated decisions, and also plan and carry out the internal changes, increasing flexibility and ability of the bank to adapt to the external environment.

2. Definition and carrying out of actions directed at reduction of duration or volume of expenses of bank activity.

3. Improvement of the informative system of the bank.

Pursuant to the statements of many scientists, 65 % of bank transactions, which are carried out by the personnel, do not generate profitability, 30 % are necessary, therefore it is impossible without them, however they also do not create any additional value, and only 5 % form incomes of the bank [8].

In opinion of foreign experts, for successful fulfilment of processes in bank activity it is necessary combine together 4 elements:

- 1) existing terms should induce all the team to assertive actions;
- 2) the prospects of future periods are to be obvious;
- 3) awareness of necessary changes from the part of administration;
- 4) comprising of the whole organization and team, fundamental change of work organization for every employee and his/her surroundings, responsibility of the personnel for his/her actions.

Bank activity has its features which require application of other approaches to reengineering compared to other organizations. In table 1 the consequences of influencing on reengineering of bank activity features are given.

Table 1

Influencing on reengineering of bank business features

Features of bank activity	Influencing on reengineering
Attitude toward risk	Limitation of executors authorities in decisions taking
Range of services	Impossibility of simultaneous realization of all bank processes and reengineering separately by every segment
Rendering of services in national and foreign currencies	Necessity of defining the expedience of these processes
Importance of information technologies	Impossibility to implement reengineering without taking into account information technologies
Services are rendered through own sales channels	The right to independently analyse the results obtained
Providing of the statistical accounting to the state bodies	Rigid requirements with regard to introduction of the projects
Perceptivity to the threat of laundering of "dirty" money	Obligatory consideration of bank features in the rules of the internal financial monitoring

Source: systematized by the author based on [4; 7].

Modern concepts of bank management are based on process approach, according to which activity of the bank is represented as a complex of definite business processes. Nowadays there is no common approach to the definition of notion of business process, but in general it is understood as a definite complex of related actions aimed at achievement of certain results within the limits of definite organization.

In opinion of some scientists, management reengineering in bank activity should be carried out according to the following four stages (Fig. 3).

There are such stages of reengineering: initial stage (creation of the concept), phases of development, implementation and completion.

At the first stage of reengineering, the project group, which includes both managers of the bank and independent consultants, should be created. At creation of such group it is necessary to take into account that during carrying out of reengineering, managers should have corresponding professional knowledge and skills, however the task of consultants is in rapid and cheaper adaptation of internal business climate of the bank to the variable conditions of existing external business environment.

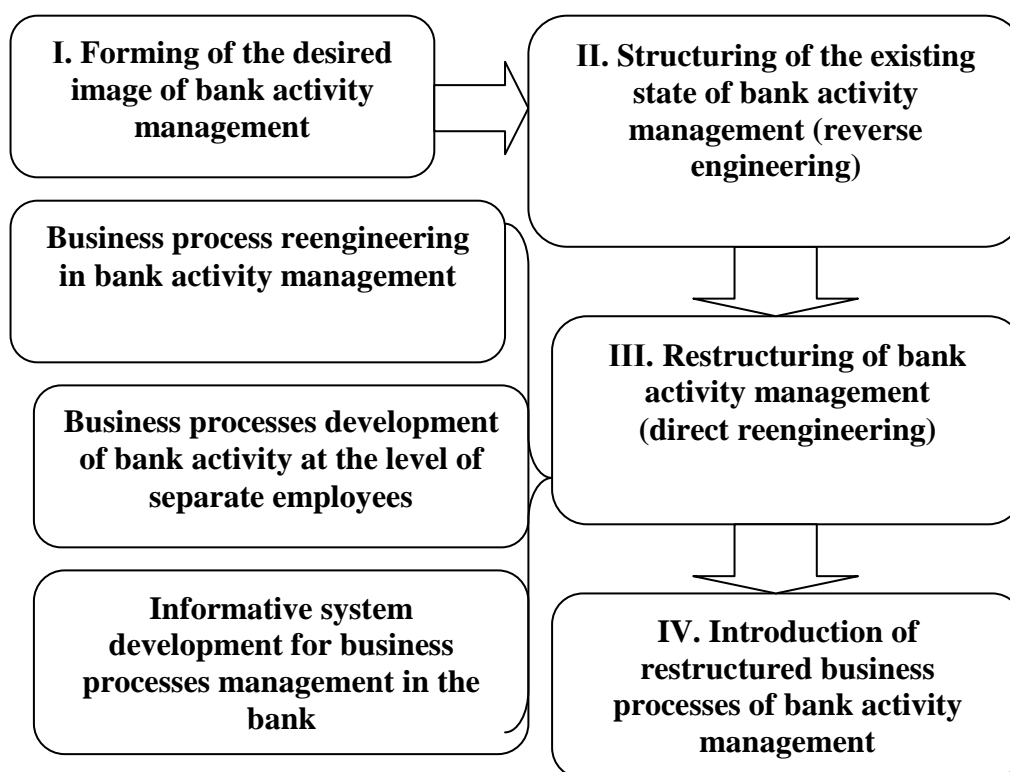


Fig. 3. Stages of management reengineering in bank activity

Source: [2; 6].

The stages included into the basic phases of business processes reengineering in the bank depend upon prominent aims and principles. The exhaustive list of selected processes for bank activity reengineering provides for previous needs assessment of the bank customers, determining the strategy of bank development.

Structuring of future processes with application of information technologies possibilities is carried out at the next stage.

The following phase of implementation includes such stages: laboratory stage, whereby the level of hypotheses authenticity is tested; pilot introduction that provides for implementation of separate projects; mass introduction within the scale of the whole bank.

At the final stage of reengineering, the results are summarized; efficiency of the implemented measures is estimated.

Conclusions and subsequent researches. Therefore, presently reengineering is considered to be enough actual matter of improvement of bank business management that enables bank institutions to achieve the competitive advantages, to increase profits and simultaneously to cut down expenses, as well as to quickly respond to the changes of market conjuncture. Reengineering in bank activity which is also directed at support of bank liquidity, is the basic method of anti-crisis management of bank development, providing for the rapid and high-quality changes in bank activity aimed at achievement of financial efficiency and stability in conditions of the competitive environment.

Implementation and efficiency estimation for the selected mechanisms and instruments of business processes reengineering carrying out in banks are the prospects of subsequent researches in this direction, as well as adaptation of the best experience of the European bank institutions in BPR implementation to the conditions of the financial system development in Ukraine.

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Annotation

Kudliak Yu.V. FEATURES OF BANK BUSINESS PROCESSES REENGINEERING IMPLEMENTATION IN CONDITIONS OF THE COMPETITIVE ENVIRONMENT

The purpose of the article is research of the theoretical bases of conducting of business processes reengineering implementation in the banking sector.

Research methodology. As a result of analysing, organizing and summarizing the scientific works of leading domestic and foreign scientists, the essence of business processes reengineering was researched in such aspects: the methods of compilation and group existing of scientific views on the selection of stages of business processes reengineering implementation were used; the criteria of BPR optimization and competence of the participants of banking activities reengineering were proposed; historical analysis of the formation of business process reengineering concept was held.

Results. The advantages and disadvantages of reengineering application are compared with a

conservative approach to the banking business management. The procedure and stages of business processes reengineering implementation are analysed and systematized. Peculiarities of influence of the banking activity specifics on the development and implementation of reengineering optimization schemes and strengthening the competitive positions of the institutions in the market are revealed.

Scientific novelty. As a result of research the optimization reengineering and participants competence criteria are offered, the essence of which lies in the formulation and selection of a list of clear guidance to banking activities reengineering implementation that will achieve optimal results, avoid the conflict of the strategic goals of the bank development, and maximum motivate staff of the bank for stable effectively work in evolving and changeable system at all stages of this process.

Practical significance. The necessity to use reengineering as an effective tool for business processes management in bank is revealed. Implementation of the research results will allow optimizing the management system of the banking institution and prolonging the life cycle of the institution activity in the market and increase of its competitiveness, improve the mechanisms of corporate governance in the bank.

Key words: bank, business process reengineering (BPR), crisis reengineering, development reengineering, BPR optimization criteria in the bank.