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The Impact of Business Processes on the Efficiency of Small and Medium-Sized Enterprises

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ABSTRACT

Small and medium businesses generate about half of the country's added value and therefore has a significant weight in the economy. At the same time, SMEs have little use in their activities of business process management, which provides flexibility in the enterprise and turns ideas into actions. The purpose of this study is to model effective basic business processes for a company-SME on the basis of a functional approach, taking into account the available human and material resources. The study is based on a SME enterprise. A quantitative and qualitative analysis of financial indicators and current business processes of the enterprise made it possible, on the basis of a functional approach, to model and improve the business process of sales. The implementation of the modernized business process allowed to increase the conversion of leads, the amount and growth of agreements, the size and growth of revenue, labor productivity, growth of revenue, as well as the efficiency of marketing costs. The results and methods of this study can be used by SME top managers to modernize business processes to improve the overall efficiency of the enterprise.

INTRODUCTION

There are 5.979.899 small and medium-sized enterprises registered in the Unified Register of Small and Medium-Sized Business Entities of the Russian Federation. SMEs generate around half of the total value added, therefore their contribution to the national economy can hardly be overestimated (Dumcius and Skersys, 2019). Meanwhile, the lack of finance, time and knowledge, makes the majority of SMEs model and consciously manage their key business processes on rare occasions (Chong, 2014). In this

regard, a case study of business process modeling and management in a particular SME is increasingly relevant. Business process modeling refers to the activity of developing and documenting the core business processes that provide significant value to the business (Panayiotou et al., 2017).

1. LITERATURE REVIEW

The significance of business processes as a link between a company's strategy and outcome cannot be overestimated, as they ensure corporate flexibility and turn ideas into activities (Kirchmer, 2017). A business process (BP) is a coordinated and standardized flow of activities performed by people or machines, which can cross functional or departmental boundaries to achieve a business objective and creates value for internal or external consumers (Chang, 2016). Business process has a key role in company's operations and hence must be properly planned and managed (Paschek et al., 2016). Business process management (BPM) is refers to the modeling, implementation, monitoring and improvement of business processes (Mendling et al., 2018). BPM improves company's organizational productivity, enables joint action of internal and external BP participants, and is a key to mastering digital transformations and innovations in a company's business model (Pradabwong et al., 2017; Vom Brocke and Mendling, 2018; Piątkowsk, 2020).

When effective, BPM ensures accurate alignment between BP and information technology designs, secures and corrects BP in a rapidly changing business environment, manages customer power and is flexible for reengineering (Alotaibi and Liu, 2017). If appropriate, the BPM strategy can effectively support a company's strategy, mitigate or prevent corporate inconsistencies in procurement, marketing, manufacturing, sales and finance (Izmailova et al., 2018). The success of BPM, however, directly depends on how well the information technologies are integrated (Rahimi et al., 2016). A critical place in BPM is occupied by BP performance measurement, since organizations are challenged to achieve effective and efficient results, and the choice of performance indicators is organization-dependent (Van Looy and Shafagatova, 2016; Cazabat et al., 2019).

In BPM, there are two basic approaches. The functional approach divides business processes into functional departments performing specific functions (e.g., sales and accounting). The procedural or process-based approach assigns an executive person with various functional responsibilities to perform the entire process or several process stages (selling, agreement making, invoice rendering, debit balance control, etc.). The vast majority of large and some medium-sized enterprises follow the functional approach, whereas many small and medium-sized enterprises (SMEs) may be short of funds and hence unable to attract a broad range of specialists. Therefore, they often resort to a process-centric approach (Harmon, 2019). Not only the shortage of financial and human resources but also the challenges of knowledge acquisition and scarce awareness of potential advantages keep SMEs from intense BPM processes, and the BPM system itself is often inadequately integrated (Bandara and Opsahl, 2017; Brocardo et al., 2019; Jurczuk, 2017; Kostiukevych et a., 2020).

There is no single internationally recognized concept of small and medium-sized businesses, so the definition of SMEs varies significantly from country to country (Ribau et al., 2018; Haviernikova et al., 2019). In European countries, SMEs include companies employing fewer than 250 people whose annual turnover does not exceed 50 million euros and/or whose an annual balance sheet total does not exceed 43 million euros (Hilmersson and Johanson, 2016; Li, 2019). In the Russian Federation, SMEs are those business entities (legal entities and individual entrepreneurs) classified under the federal law as small-(micro companies included) and medium-sized companies and established in the national register of small and medium-sized organizations.

By the mean number of employees, SMEs are divided into three categories of medium-sized (101 to 250 persons), small (15 to 100 persons), and micro (15 persons and fewer) (Official website of the President of Russia, 2020). The annual limits of business income for each category of SMEs are 2 billion, 800 million, and 120 million rubles, respectively (Official website of the Government of the Russian Federation, 2020). In Russia, there are 5.979.899 small and medium-sized organizations, of which 16.978

are medium-sized businesses, 222.144 are small businesses, and 5.740.777 micro companies (Unified Register of Small and Medium-Sized Business Entities of the Russian Federation, 2020).

Since SMEs generate around half of the total value added, their contribution to the national economy can hardly be overestimated (Dumcius and Skersys, 2019; Du and Wang, 2020). Meanwhile, the lack of finance, time and knowledge, makes the majority of SMEs model and consciously manage their key business processes on rare occasions (Chong, 2014). In this regard, a case study of business process modeling and management in a particular SME is increasingly relevant. Business process modeling refers to the activity of developing and documenting the core business processes that provide significant value to the business (Panayiotou et al., 2017).

This study aims to model the core business processes in the SME organization using the functional approach while taking into account the human and material resources available to it. To achieve this goal, the study sets the following objectives:

- analyze the company's structure including the available human resources;
- analyze the existing business processes, which are related to the major activities of the company;
- based on the analysis, model those business processes allowing for the more efficient use of resources and higher productivity;
- after the integration of new business processes, evaluate their effectiveness by measuring: the total number of agreements; the number of new agreements per month; monthly and total revenue; monthly revenue gain; the incoming lead conversion.

The research hypothesis is that a company integrating a functional process model into a certain area of performance will increase its labor productivity, thereby making more revenue and agreements, improving the lead conversion rates, and reaching cost-effective marketing.

2. MATERIALS AND METHODS

The research object is one of the functional areas of the SME organization (i.e., Sales) operating in Russia. This is a B2B company specializing at intellectual property trade, which customers pay a monthly fee for certain services on a contractual basis. The company agreed to participate in the study and provide all the necessary data including commercial information on condition of anonymity. The company's employees were asked to complete a survey, which contained the following questions:

- What are your daily/weekly/monthly functional responsibilities?
- What responsibilities, in your opinion, do not correspond to your core functionality?
- Are you satisfied with the level of labor automation in your department/company? If not, which processes need automation?
- What functional improvements, in your opinion, would boost the efficiency of your work?
- Describe your sales-related actions.

All participants were also interviewed about the sales process and related aspects such as automation, etc. In general, the following data were collected and transferred to further comparative, descriptive, quantitative and qualitative analyses: the company's organizational structure; manning table; job descriptions; sales-related orders and instructions; monthly revenue figures and new agreement counts for the 12 months prior and subsequently to the BP model integration; employee survey/interview results. The key steps in the current research process are depicted below:

- Review previous studies on business process management,
- Collect and process data about the Company and its sales processes,
- Visualize the working sales process flow,
- Analyze the sales process flow from the functional perspective,
- Assess the business process automation level,

- Identify functional imbalances,
- Optimize the sales process model,
- Implement the new sales process model,
- Analyze consequences,
- Review progress after the new sales process model,
- Draw recommendations.

3. RESULTS

The Company under study belongs to the category of small business, employing 29 persons and earning up to 500 million rubles annually, and can be found in the Unified Register of Small and Medium-Sized Business Entities. At the time of sales process integration, the Company had 4.090 agreements signed with legal entities and sole entrepreneurs. Every month, the Company issues invoices to partners. These are physically printed out of the database along with the service acceptance acts. Both bear the facsimile signature of the CEO and the seal of the Company. These documents are sealed in envelopes with glued stamps and sent by regular mail to each partner.

Twelve months before the new sales process model was integrated, the Company recorded a downward trend in the number of new agreements and, consequently, a drop in the monthly revenue. The comparative study of the total agreement count and the number of new agreements shows that despite the growing total, the monthly rate of growth in the number of new agreements declined by 79 agreements per month or by more than a double (Figure 1).

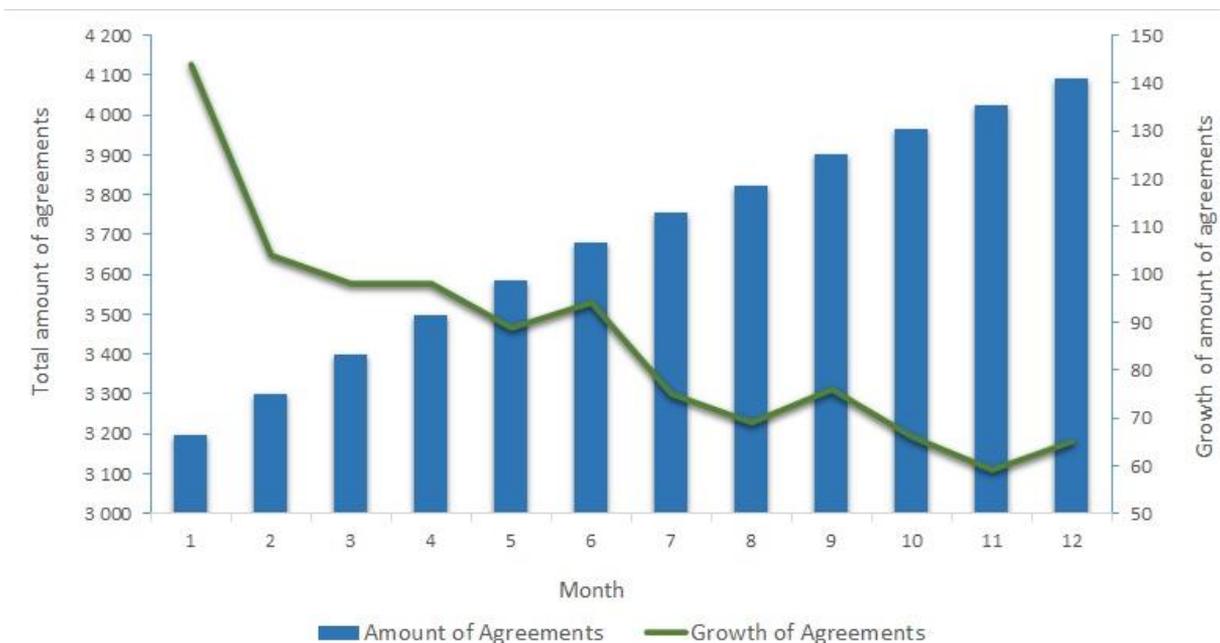


Figure 1. The Comparative View of Changes in the Total Agreement Amount and the Rate of Growth in the Amount of New Agreements per Month, adapted from data provided by the Company

Source: developed by the authors from data provided by the Company

The total agreement count gained 893 agreements during the pre-integration period (27.9%), growing from 3.197 to 4.090. Despite the revenue growth from 32.3 million to 40.1 million rubles (by 7.7 million rubles or 24% over 12 months), its monthly rate dropped 2.4% from 1.2 million to 0.496 million rubles per month during the study period (Figure 2).

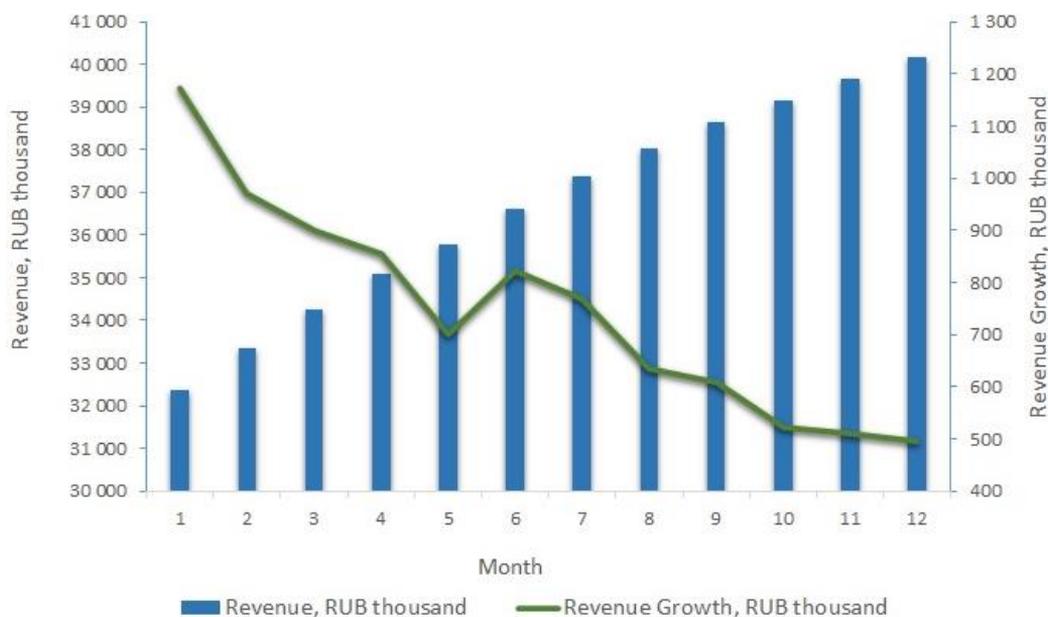


Figure 2. The Comparative View of Changes in the Total Revenue and the Monthly Revenue Growth Rate, adapted from data provided by the Company

Source: developed by the authors from data provided by the Company

Note that the following indicator pairs do not correlate directly with one another, since a single contractual sum was negotiated upon with the partner before the conclusion of the agreement and all receipts thus vary: the total agreement count and total revenue; the rate of growth in the number of new agreements and the revenue growth rate.

The comparative study of the incoming leads showed a significant drop in their number during the pre-integration period, with the generation rate of 180 to 160 leads per month. The lead conversion rate has also decreased, from 80 to 40% (Figure 3).



Figure 3. The Comparative View of Changes in Lead Generation and Lead Conversion Rate, adapted from data provided by the Company

Source: developed by the authors from data provided by the Company

Sales managers drew attention to an increased load originating from functions that were time-consuming and not directly related to sales. While spending work hours on performing these functions, managers had little time to manage the incoming leads, which affected their performance in agreement making. The Company is a vertically integrated structure divided into 4 functional departments: Marketing Department, Administrative Department, Sales Department, and Accounting Department (Figure 4).

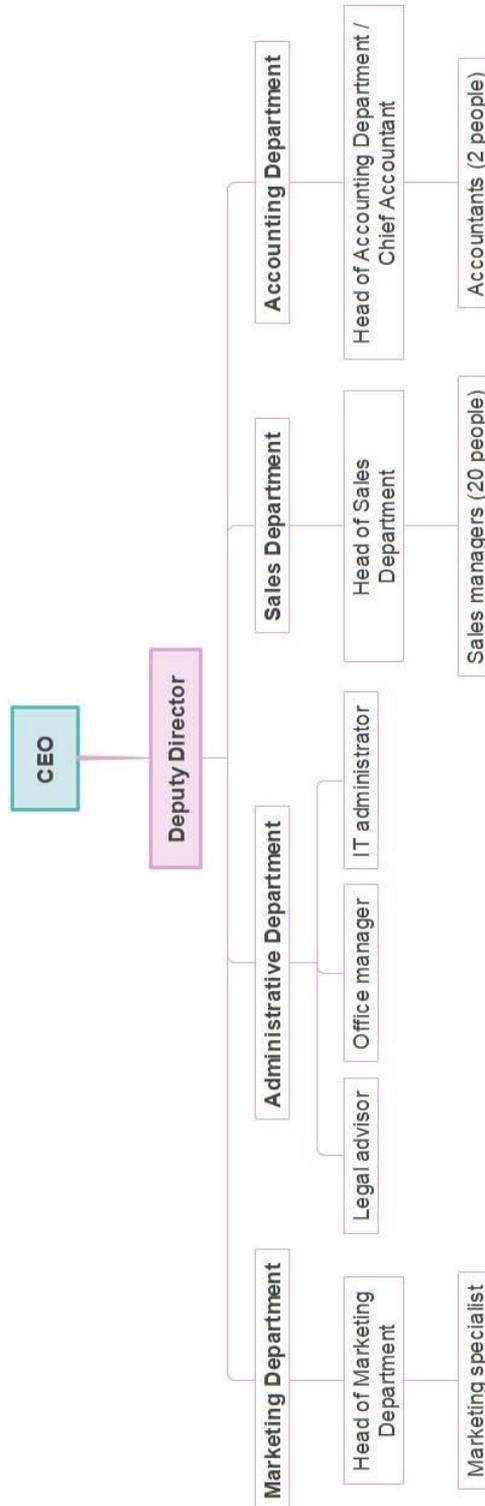


Figure 4. The Organizational Chart of the Company's Structure, adapted from data provided by the Company
 Source: developed by the authors from data provided by the Company

Table 1. The Outline of Company's Departmental Functions, adapted from data provided by the Company

<i>Department</i>	<i>Employee</i>	<i>Functional Responsibilities</i>
Marketing	Head of department, Marketing specialist	<ul style="list-style-type: none"> – Marketing process organization; – Lead generation*
Administrative Department	Legal advisor	<ul style="list-style-type: none"> – Prosecuting or defending lawsuits; – Preparing in-house documents; – Concluding agreements with customers*; – Work with partners on agreements*; – Settlement of claims against debtors
	Office manager	<ul style="list-style-type: none"> – Answering incoming calls; – Managing document flow between departments; – Registering source documents*; – Purchasing office supplies
	IT administrator	<ul style="list-style-type: none"> – Managing and maintaining hardware and software; – Managing and maintaining CRM*; – Integrating CRM with necessary document templates*; – Printing invoices and acts from CRM*; – Analytical reporting
Sales Department	Head of department	<ul style="list-style-type: none"> – Sales process organization; – Sales
	Sales managers	<ul style="list-style-type: none"> – Sales – Agreement negotiation with potential parties to the agreement (generated leads)*; – Entering details related to the agreement into the CRM database*; – Settlement of agreement-related issues (documentation, receivables, technical issue, etc.) with the partners*
Accounting Department	Head of Accounting Department / Chief Accountant	<ul style="list-style-type: none"> – Accounting process organization and control
	Accountants	<ul style="list-style-type: none"> – Collecting and recording financial information of the company; – Invoicing and issuing service acceptance acts*; – Updating payment statuses in CRM*; – Accounts receivable control*; – Submitting appropriate paperwork to regulatory organizations

Source: developed by the authors from data provided by the Company

Note: “” – sales-related functions; knowing what functional responsibilities are sales-related may help business process auditors understand whether departments and employees perform the ‘right’ functions.*

Table 1 shows a summary of the basic functions of various departments and persons employed there. By nature, these functions are similar to those in other companies. The sales process in the company is not regulated by in-house documents. Based on the employee feedback and documentation analysis, the sales process flow has the following key stages: lead generation; negotiation with a potential partner; agreement conclusion; invoice and acceptance act generation; invoice payment control. The duplication problem with bank payment functions is linked to the presence of two duplicates of CRM, one used by the managers and one used by the Accounting Department staff. Both databases are based on the 1C software, which is popular in Russia and other post-Soviet countries. The top management of the Company explained their decision to duplicate data on a database by saying that it was an attempt to avoid the loss of data, which could affect the accuracy of financial and tax reporting. Both databases are manually synchronized at certain intervals to ensure that there are no mismatches between the two CRMs. The sales process automation assessment showed the integration of standard agreement templates for managers, which could be exported in a Word format with the full details of the partner auto-

matically entered. The CRM also has invoice and acceptance act templates, which makes it possible to print their copies in bulk and thus secure the Company during inspections and/or court proceedings over receivables.

Table 2. The Comparative Functional Study of Initial Sales Process, developed by the authors

<i>Sales Process Model</i>	<i>Formal Executor</i>	<i>Actual Executor</i>	<i>Frequency</i>
Lead generation	Marketing Department	Marketing Department	Daily
Agreement negotiation with potential parties to the agreement (generated leads)	Sales Department	Sales Department	Daily
Entering personal details about the party into the CRM database	Sales Department	Sales Department	Daily
Agreement execution	Legal advisor	Sales Department	Daily
Preparing and sending agreement by mail	Office manager	Sales Department	Daily
Control over the agreement delivery receipt, agreement signing, and return	Sales Department	Sales Department	
Agreement activation in CRM	Sales Department	Sales Department	
Listing invoice candidates	IT administrator	IT administrator	
Printing invoices and acceptance acts	IT administrator	IT administrator	
Printing envelopes with the corresponding addresses	IT administrator	IT administrator	
Placing the facsimile signature and the company's seal, placing the document in the envelope, stamping, and mailing	Office manager	Office manager Sales Department	Once per month, 4 days
Updating payment status in CRM	Accountant	Accountant Sales Department	Daily
Accounts receivable control	Accountant	Sales Department	Daily
Managing receivables	Sales Department	Sales Department	Daily

Source: developed by the authors from data provided by the Company

To identify functional imbalances in the current sales process, a comparative study of the functional departments was conducted (Table 2). Data in Table 2 shows that 5 out of 14 functions are not related to sales and should be performed by other departments. Besides their direct responsibilities, sales managers also act as legal advisers, office managers and accountants. This means that the sales process was managed according to the process approach. The Company's CEO approved and put into action the new BP model (Table 3).

Table 3. The BP Sales 2.0 Framework (Optimized Sales Process Model), developed by the authors

<i>BP Sales 2.0</i>	<i>Responsible division/employee</i>
Lead generation	Marketing Department
Agreement negotiation with leads	Sales Department
Entering personal details about the party into the CRM database	Sales Department
Agreement execution	Legal advisor
Preparing and sending agreement by mail	Office manager
Control over the agreement delivery receipt, agreement signing, and return	Sales Department
Agreement activation in CRM	Sales Department
Listing invoice candidates	IT administrator
Printing invoices and acceptance acts	IT administrator
Printing envelopes with the corresponding addresses	IT administrator
Placing the facsimile signature and the company's seal, placing the document in the envelope, stamping, and mailing	Office manager
Updating payment status in CRM	Accounting Department
Accounts receivable control	Accounting Department
Managing receivables	Sales Department

Source: developed by the authors from data provided by the Company

As can be seen from Table 3, the agreement preparation function, mailing operations and payment control duties were transferred to the legal adviser, office manager, and the Accounting Department, respectively. The latter was sentenced to provide the Sales Department with a debtor list on a weekly basis. For BP Sales 2.0, no additional human resources were required. Hence, the Company was not burdened with the excessive bureaucratic procedures, and the business process restructuring was carried out within a week. Based on the BP automation assessment results, recommendations for merging two CRM databases in a single one with different access levels set for Accounting and Sales Departments and with a daily automatic backup feature. Furthermore, it was recommended to integrate CRM with the electronic document management system. Since these improvements were time-consuming and required significant material costs (e.g., programming), actions towards them were still in progress by the end of the study. Twelve months after the BP Sales 2.0 a second interview was conducted. Now when sales managers spent more than 90% of their work hours on their direct functional responsibilities, the top management reported a significant increase in the sales manager productivity. The output of office managers, accountants, and legal advisers, however, somewhat decreased due to the redistribution of functions in a new BP model. The upward trend in sales manager productivity provoked the revenue growth, which allowed the Company to hire temporary labor to cope with the peak workload (mass distribution of invoices and acts).

The study of post-integration data confirmed the positive influence of BP Sales 2.0. For instance, the total number of agreements increased by 1338 (32.7%), from 4090 to 5428 agreements (Figure 5).



Figure 5. The Comparative View of Changes in the Total Agreement Amount and the Monthly Rate of Growth in the Amount of New Agreements after BP Sales 2.0, adapted from data provided by the Company

Source: developed by the authors from data provided by the Company

The first two months after the integration of BP Sales 2.0 the rate of growth in the number of new agreements remained without change (64 vs 67 agreements per month, respectively), which can be explained by the specificity of the B2B market. Starting with the third month, the number of new agreements showed a steady growth of 106%, reaching 132 agreements per month by the end of the study. The revenue growth chart revealed a curve that was more dynamic as compared to the pre-integration period. The total revenue figure amounted to 557.4 million rubles over the last year of post-integration, assuming an increased growth rate of 53.3 million rubles per month (Figure 6), 13.1 million (32.7%) higher than that in pre-integration period.



Figure 6. The Comparative View of Changes in the Total Revenue and the Monthly Revenue Growth Rate after BP Sales 2.0, adapted from data provided by the Company

Source: developed by the authors from data provided by the Company

Similarly, to the newly concluded agreement count indicator, the monthly growth rate of revenue suggests the presence of certain inertia during the first two months after the integration of BP Sales 2.0., followed by a stable growth from 0.496 million to 1.3 million rubles over a year (161%).

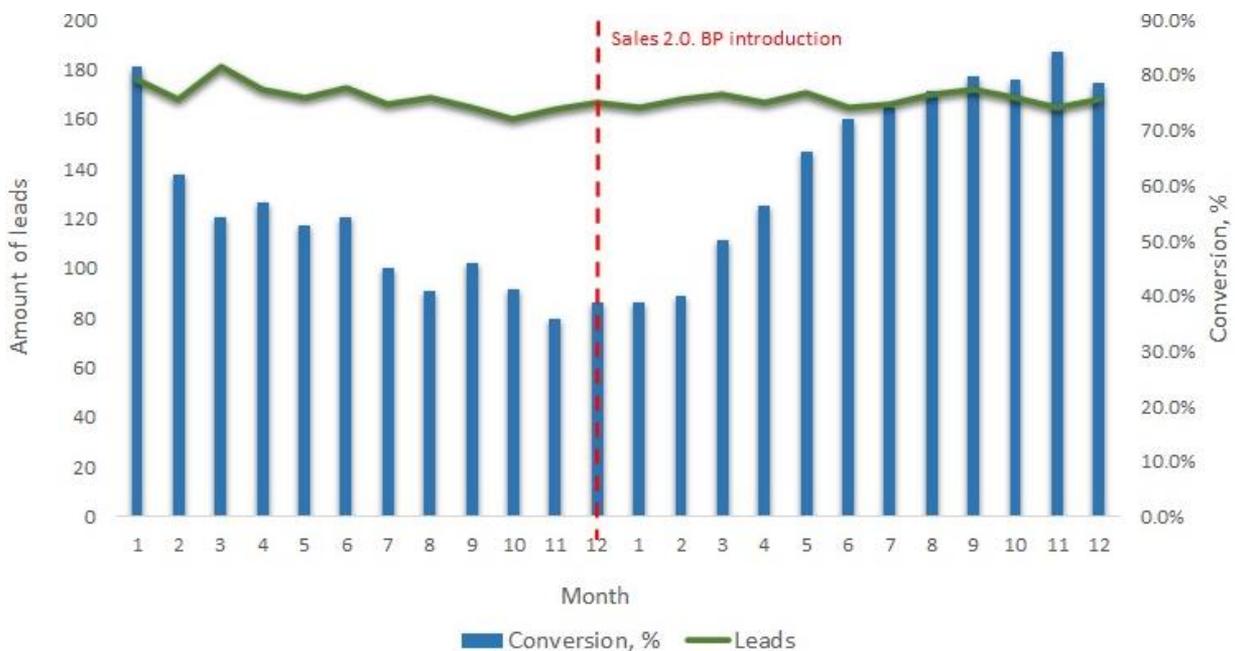


Figure 7. The Comparative View of Changes in Lead Generation and Lead Conversion Rate after BP Sales 2.0, adapted from data provided by the Company

Source: developed by the authors from data provided by the Company

The incoming lead conversion rate increased from 38.9% to 80% over the post-integration period of 12 months. All prior and subsequent data are given in Table 4.

Table 4. The Company's Performance Prior and Subsequently to BP Sales 2.0, developed by the authors based on data from the Company

<i>Indicator</i>	<i>Before BP Sales 2.0</i>	<i>After BP Sales 2.0</i>	<i>Difference</i>
Total agreement count over 12 months, items	893	1 338	445
The number of new agreements over 12 months, items	65	132	67
The number of new agreements per month, items	-79	67	146
Total revenue over 12 months, million RUB	440.4	557.4	117.0
Total revenue growth rate, million RUB	7.8	13.1	5.3
Monthly revenue at the end of the 12th month, million RUB	0.496	1.296	0.800
Change of monthly revenue figure, million RUB	-0.678	0.800	1.478
Lead conversion rate at the end of the 12th month, %	38.9%	78.6%	39.6%
Change of the lead conversion rate, %	-52.4%	101.8%	154.2%

Source: developed by the authors from data provided by the Company

4. DISCUSSION

This study confirms that the SME under study is historically inclined towards a process approach (Harmon, 2019). Its previous sales process was neither purposefully modeled, nor consciously managed (Chong, 2014). Meanwhile, the available human and financial resources allowed the Company to eventually model and implement the BPM system and later attract more labor force. The lack of resources is a typical challenge in BPM (Bandara and Opsahl, 2017; Jurczuk, 2017; Stojanovic et al., 2017). In this case, however, problems with the BPM system integration originated from the lack of BPM competence and the understanding of advantages that such integration could bring (Broccardo et al., 2019, Gagarina et al., 2018; Sanchis-Pedregosa et al., 2020).

In this study, the choice of BP effectiveness indicators (i.e., agreement count, lead conversion and revenue) was determined by the specificity of both the sales process and the Company's activity (Van Looy and Shafagatova, 2016). The sales process model has proven effective (Izmailova et al., 2018), whereas the BPM system had a positive impact on the overall performance of the Company, as evidenced by the rapid revenue growth (Braunnagel et al., 2016; Pejic Bach et al., 2019). Furthermore, the relationship between BPM and non-financial indicators was found to be either direct (productivity and lead conversion) or indirect (revenue, profitability, etc.) depending on the indicator (Glavan and Vukšić, 2017).

CONCLUSIONS

The research objectives were reached and the research hypothesis was confirmed. Based on the Company's performance statistics, the functional model of sales process was created, which was then put to practice in the Sales Department. Integrating this model made sales managers more productive, lead conversion improve by 39.6%, the amount of agreements grow by 106%, monthly revenue and 12-month revenue increase 32.7 and 26.5%, respectively, from the previous period.

This study has one major limitation. The SME entity under study is specific in terms of activity, organizational structure, and business processes. Therefore, similar studies on other organizations, activity, organizational structure, and business processes distinct from those addressed here, may contribute alternative findings.

The methodological framework and findings of this study may be applied by SMEs for business process optimization and modeling in order to increase labor productivity, reach cost-effective marketing, gain more profits, and improve other parameters of performance. These can also be used by other researchers exploring the impact of functional BPM on the corporate activities and outcomes.

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