

THE IMPACT OF NON-COMPLIANCE TO BUSINESS PROCESSES A CASE OF A SOUTH AFRICAN COMMERCIAL BANK

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ABSTRACT

This paper investigates the non-compliance of most Business Processes in the implementation of the goals and targets of commercial Banks in Gauteng South Africa. The Banks lose millions of Rands, as a result of staff not adhering to the Business processes. The non-compliance has a major impact on the successful implementation of bank strategy. The study explores why staffs do not adhere to business processes and establishes their level of understanding and maturity in terms of business processes. The study was conducted in selected branches chosen randomly in Gauteng Province. The analysis done was on data obtained from audit reports, bank investigative reports and financial loss data reports provided by different branches. Questionnaires were also administered to staff in the different branches to understand their own perspective. It is evident from the research that non adherence to processes have a financial and reputational impact on the Banks. Non adherence also has detrimental and adverse impact on achieving overall objectives of the Banks. The most common areas not adhered to were notably; identification and verification of customers; transactions not authorised according to laid down procedures; customers cards not cancelled immediately when reported lost or stolen. The paper then concludes with several recommendations to Bank Management and Strategy implementers on how to use technological methods to check and monitor these processes.

Key words: strategy implementation, technological methods, process compliance, losses, reputation.

INTRODUCTION

The different types of commercial banks locally controlled in South Africa are up to about thirteen with branches all over the country. In addition to this South Africa has about six foreign control commercial banks and a further fourteen branches of foreign banks in the country. These commercial banks are regulated and supervised by the South African Reserve bank whose primary mandate as the central bank is to achieve and maintain price stability in the interest of a balanced and sustainable economic growth in the country in collaboration with other international institutions. Each of these branches and banks are a commercial entity and operate independently. It is in this light that this study became of interest in-order to investigate the procedural compliance within these branches.

In any successful business the main focus would be to make money and to stand out as exemplary from the rest. A successful business normally out-performs their competitors by a large factor and delivers faster profit growth than any other similar business. In Gauteng most Banks have suffered financial losses and reputational damage due to staff not adhering to the laid down procedures and work ethics. This has resulted in a huge negative

impact in terms of gaining customer confidence and achieving the ultimate goal which is to grow profits and gain a competitive advantage in the market.

The purpose of this study is to investigate and establish why most staff in banks do not adhere to business processes. The investigation will also include the level of maturity of these employees in terms of their understanding of these business processes. In order to understand the nature of the problem the study will focus on selected branches where an analysis will be conducted on the various data obtained from the audit reports, investigation reports and loss data reports to gain insights into the problem. The credibility of the research will mainly depend on the ability and effort displayed by the researcher when analysing these reports in order to understand the phenomena. Dewitt [6] summarised this problem in his Banking Channels strategy annual report by indicating that there has been an increase in Operational losses due to staff not adhering to business processes. He concluded by stating that Operational losses are detrimental to our business as it impacts negatively on profits and shareholder confidence.

LITERATURE REVIEW

In defining a business process Birger, Bider, Johannesson and Perjons [3], states that it is a set of functions in a sequence that delivers value for an internal or external customer. He then recommends organizing the design of business process using a business process factory to create a flow for design and implementation that includes a governance process, a management process and an operational process. The business process lifecycle consists of the process design, process implementation, process execution, monitoring and controlling, as well as process performed under governance guidelines. Kirchmer [15], states that for business process management to achieve good results, the value add to the customer must be of primary importance. On the other hand process is defined by Anderson [1], as the logical series of related transactions that convert input to results or output. A chain of logical connected repetitive activities that utilize the enterprise resources to refine an object (physical or mental) for the purpose of achieving, specified and measurable results/products for internal and external customers.

Dewitt [6], states that businesses have seen a steady decline in Sales targets as a result of customer dissatisfaction in products and services, due to staff not adhering to laid, down business processes that were designed to safe guard and add value to customers. In order to maintain a competitive advantage it is important that processes are constantly improved and updated. Competitive priorities are critical operational dimensions that a process or a supply chain must possess to satisfy internal as well as external customers, both now and in the future. Krajewski et al [16] in their study reported that competitive capabilities are cost, quality, time and flexibility dimensions that a process or supply chain actually possesses in order to deliver product or services and if these fall short of the priority attached to it then management must find ways to close the gap or revise the priority.

Everything everyone does in an organization is part of a process. Invariably if you want to improve what the organization does, then you have to focus on improving the process. The augment echoed by Bognar and Gaal [3], Evan [8], states that by putting your emphasis on the process, you avoid the typical trap that so many business leaders seem to fall prey to looking to cut costs, they focus on trimming payrolls or pushing people to do more with less. This short sighted approach may get a brief bump in performance. However, in the long run you end up increasing costs; reducing value to customer and making it harder for the company to compete both locally and internationally.

The problems that affect most banks are not task problems but are process problems. The reason we are slow to deliver results is not that our people are performing their individual tasks slowly or inefficiently, it normally because people are performing tasks that are not required at all to achieve the desired result and because they encounter agonizing delays in getting the work done. An observation from a study by Hammer [11], stated that normally there would be lack of continuity from the person who does one task to the person who does the next

one, in short, our problems lie not in the performance of individual tasks and activities or the units works, but in the processes and how these units fit together as whole.

According to Kirchmer [15], the top ten most common mistakes made by businesses in terms of the design of business processes are:

- Local optimization of one process or function without regard for the end result for the customer
- Treating business process management as a technical exercise instead of the adoption of a new management approach
- Ignoring management and continuous improvement of the processes that help people prepare for their roles in a process centric business
- Treating business process management as a project, not as an ongoing exercise in continuous improvement
- Focusing on the aspects of business process management that are easiest for an organisation to adapt to, instead of setting the priorities based on the delivered value
- Designing KPI's solely in operational terms instead of metrics that reflect value delivered to the customer
- Failing to adapt the organisation and incentives to new process designs
- Punishing failure in early efforts instead of embracing creativity and innovation and making it safe to take risks and learn from mistakes
- Expecting that an organisation can stay rigidly structured - successful process -orientated companies are collaborative, like a jazz band.

It is difficult to keep policies and procedures up to date, due to ever increasing changes. Policies and procedures can become ineffective very quickly. One of the reasons that may cause these changes might be that procedures take too long. If you have say thirty-five pages of procedures in text format, one would not expect employees to understand, let alone use them. There is a risk that these procedures would remain unclear, overly complicated and just plain boring to most employees. Another reason why procedures may not be up to date is that they are not owned by the employees since they are not normally involved in compiling these documents. A report by Anderson [1], stated that employees usually identify areas of improvement in the procedures during use but are unlikely to make any changes based on laws, regulations and company practices if not given the **mandate**. According to Vermeulen [22], the result of the economic down turn in businesses has resulted in increased focus on the reduction of costs which will include minimising losses as a result of both internal and external fraud or processing errors. He also echoed that Business processes will thus include organisations internal processes as well as those of its external customers and suppliers.

Maybe another reason why people don't follow processes is perhaps because they cannot find these procedures. Maybe they do not even know that their organisations have procedures. It can also be said that if procedures are not offering helpful information then your employees will not have a reason to use them. Poorly written procedures will result in people not following them.

A research study conducted by Embrey [7], to investigate the process guidelines lied down for company employees revealed that most employees could not adhere to procedures because of the following four reasons ranked in their order of importance.

- If followed strictly the required job would not get completed.
- Employees are not aware that procedures exists
- Employees prefer to rely on their skills and experience
- Employees assume that they know what is in the procedure

The most highly ranked strategies for improvement were indicated as follows:

- Involving users in the design of procedures
- Writing procedures in plain and clear English
- Updating procedures when planed and working practises change

- Ensuring that procedures always reflect current and world class working practices

Harrington [12], in his findings wrote that having processes in place usually makes it easier for someone else to carry out a job with minimal disruption to clients and the overall business. If organisations can produce, manufacture and deliver high quality, low cost products that meet customer requirements in a timely manner, then its probability of success is increased. To understand business processes and how they can contribute to the success of an organisation it is important to understand how:

- Integrated system and business processes add value to the organisation
- Knowledge and technology in the form of processes, and procedure impact on the performance of the organisation
- Managers and well managed team work should achieve operating and organisational objectives.

The views held by Krajewski [16], stated that In order to understand the strategic importance of business processes, it is essential that the employees understand processes in view of cross functional coordination that processes must add value for customers throughout the supply chain. He added that organisations must not “miss strategic insight” as it is processes that add value for customers throughout the supply chain and that the supply chain reinforces the link between processes and performance.

To improve business processes, Harrington [12], stated that organisations should firstly

- obtain management support
- have a long term commitment
- apply disciplined methodology
- assign process owners
- develop a measurement feedback system
- focus on the process.

In order for processes to be effective we need to ensure that quality is included in every step of the way. Besterfield [2], Grover and Jeong [10] and Miller and Pearce [17] added that Total Quality Management (TQM) is a proven technique that guarantees survival in world class competition and only by changing the actions of management will culture the actions of an entire organisation is transformed. Key to understanding the TQM concept is that it is applied companywide and includes all business processes that occur in the organisation. It relies on total employee involvement, commitment and visibility in support of improvement. It calls for commitment and leadership from the top in an approach to improve the competitiveness, effectiveness and flexibility of the whole organisation.

Total quality management is an essential component when designing business processes. If processes are designed to cater for both staff and customers from the beginning we might not have issues where staff does not adhere to processes. It is important that staff members who deal with processes on a daily basis are involved in the designing of the processes. Quality assurance testing must be done on all processes before it is implemented in the branches.

It is also noted that no organisation can compete successfully on all dimensions of customer value unless management set up goals carefully; the operations strategy of any organisation depends almost entirely on the organisations value proposition. As our focus is on exceptional customer service it is vitally important that the business provides customers with the correct products and services that are aligned to customer expectations and needs.

The findings revealed by Gozdan [9], states that in-order to remain both competitive and viable in today’s business world, companies of all sizes continue to employ business process improvement techniques. Thus poorly designed business processes and non-adherence to business processes will negatively impact on the value proposition to customers.

RESEARCH METHODOLOGY

The main methodologies that were used in the study are as follows: Desktop research and document review; ten branches in different sectors and locations in Gauteng were selected, and questionnaire surveys were administered to these branches; the investigation reports where potential fraud has emanated as a result of non-adherence to processes, the loss data records where the non-adherence to processes have resulted into losses and audit reports normally requested by management were analysed for the current financial year. Quantitative statistical analyses were conducted. The following activities were done: Development of a research design; the development and piloting of questionnaires; Conducting the field survey; Data collection, collation, uploading and analysis; Reporting on findings, results and general discussions; Recommendations and conclusions were drawn on the non-adherence to processes by the bank employees. The aim of this survey is to determine the problems caused by non-adherence, and what needs to be done to address these problems. The study applied the probability random sampling method. The study sampled ten branches in the different parts of Gauteng; and each of these branches had approximately twenty employees per branch.

Findings and Recommendations

The data analysis was done using SPSS. The analysis is descriptive through the use of frequency tables. A brief explanation of the various report used in the analysis is given below:

Audit reports: The objective of internal audits conducted is to provide management with reasonable but not absolute assurance regarding the achievement of objectives regarding effectiveness and efficiency of operations and product delivery, reliability of financial reporting and compliance with laws and regulations. Internal audit reports were analysed to identify findings relating to non-adherence to processes. The researcher focused on common trends where processes were not adhered to. The reports were further analysed for recommendations made by the auditor to see if these recommendations could be implemented.

Special investigation reports

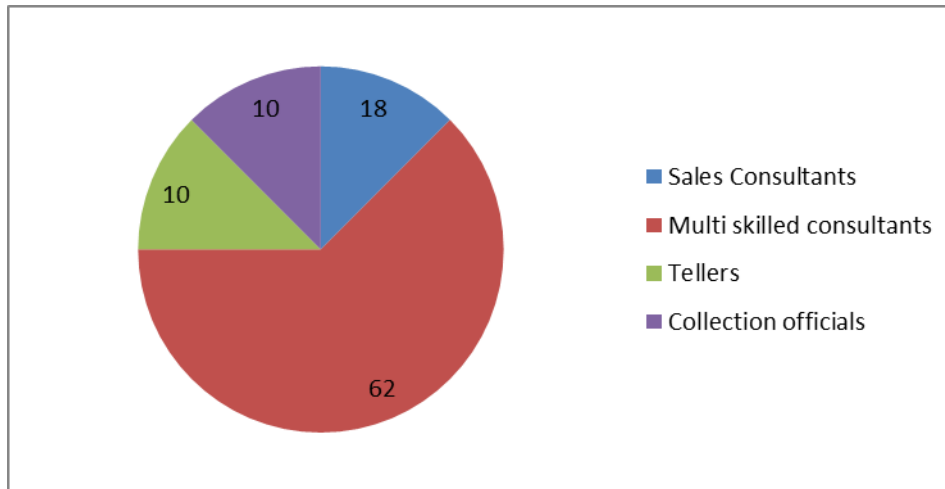
Investigations are conducted when there are losses or where criminal activity is suspected. Investigation reports were analysed to identify common processes breached that resulted in losses. Only reports that highlighted staff negligence were taken into consideration. The total value of cash losses relating to staff negligence was noted.

Loss data reports: All operational losses including in internal/external fraud, from the branches are captured onto the open pages system. Loss data for the research was extracted from the open pages system for the period October 2013 to September 2014. These loss data was analysed to determine the root course of these problems.

During the survey 150 staff members responded to the survey of which 75% were female and 25% male. The respondents were aged between 22 and 56. The response was quite high because the researcher visited each of the selected branches and then administered the questionnaires with the help of the supervisors.

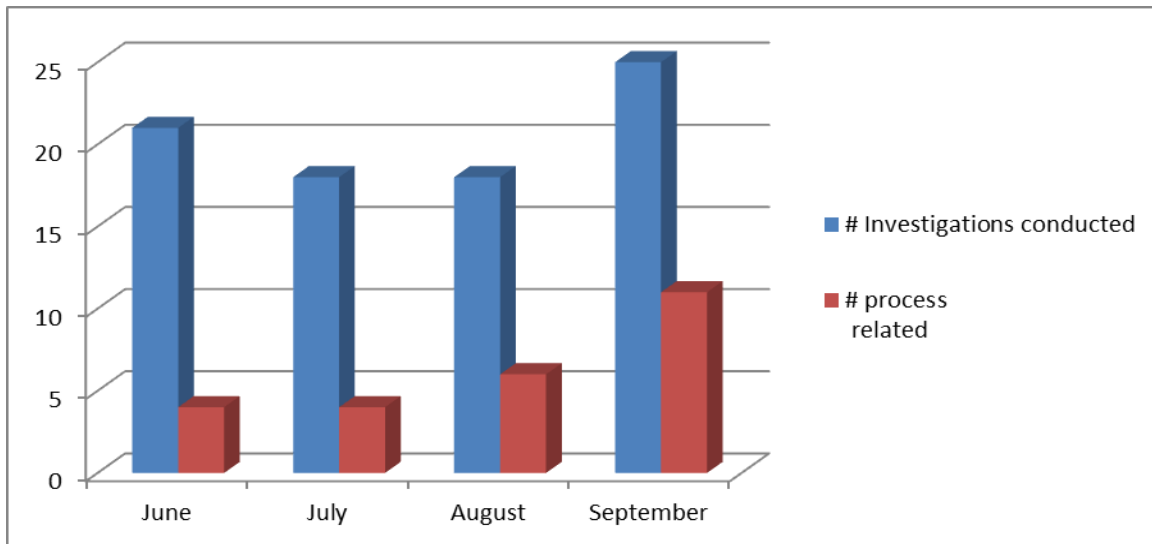
In figure 1 below shows the classification of the respondents based on their main responsibilities in the bank. The findings revealed that 62% of staff were multi skilled and worked at various positions within the bank and therefore were more squinted with most processes. These groups of multi skilled consultants were more than willing to participate in the survey as compared to their counterparts' in sales, service and transactions. These other roles only concentrated at specific processes in their area of expertise.

Figure 1: The bank employee category of responsibility



The Figure below shows the total number of investigations conducted during the period June 2014 to October 2014. These investigations were conducted to furnish management with conclusive findings relating to possible fraud, negligence, and/or irregularity and to determine which employees were responsible or contributed for these losses. The results revealed that from the 93 investigations conducted 31 (33%) were related to process non-adherence.

Figure 2: The total number of investigations conducted.



The 33% percent is a very high figure and the possible explanation for these high non-adherences could have resulted from the following:

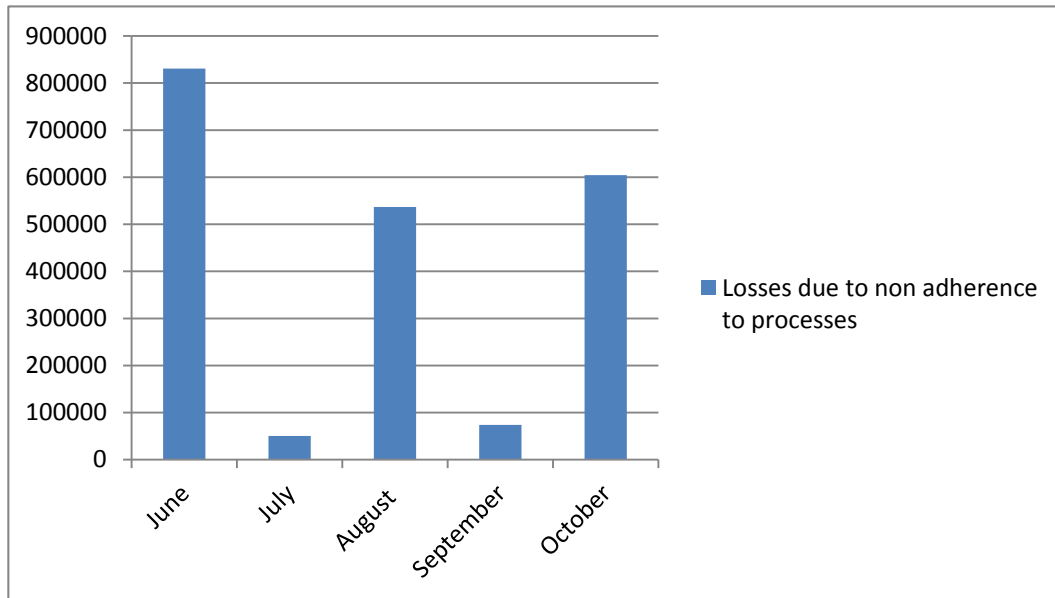
- Supervisors authorising transactions without verifying if the information is correct.
- Staff not identifying customers according to laid down procedures.
- Staff not verifying customer ID documents and signatures against the images held on the system
- Staff not cancelling customer cards when they are reported lost or stolen
- Staff not verifying that the names on cheques matches the name of the account
- Staff not referring withdrawals in excess of R50 000 to a supervisor for authorisation

- Divulging personal information to unauthorised persons
- Allowing unsupervised access to the Hogan system, violating the password protection policy
- Providing bank statements to unauthorised persons
- Accessing accounts without a valid business reason.

It is therefore evident that most of the issues lie with the identification and verification of customers and their documents. A possible remedy to this would be the introduction of electronic identification process by using biometrics (finger verification) as an additional control to help identify customers. In addition management should enforce and make sure that staffs are held accountable for their actions by taking the necessary disciplinary action when they do not comply with these basic requirements. These mistakes are unnecessary and very costly to the bank from both a financial and reputational perspective.

Figure 3 below depicts the monetary losses incurred as a result of staff not adhering to processes. A total figure of two million ninety-six thousand two hundred and twenty two Rand was recorded (R 2, 096, 224) as a lost for the period June 2014 to October 2014. These Losses impact negatively on the banks business as it hampers profit growth and strategic success.

Figure 3: Losses as a result of Non-adherence to Bank processes



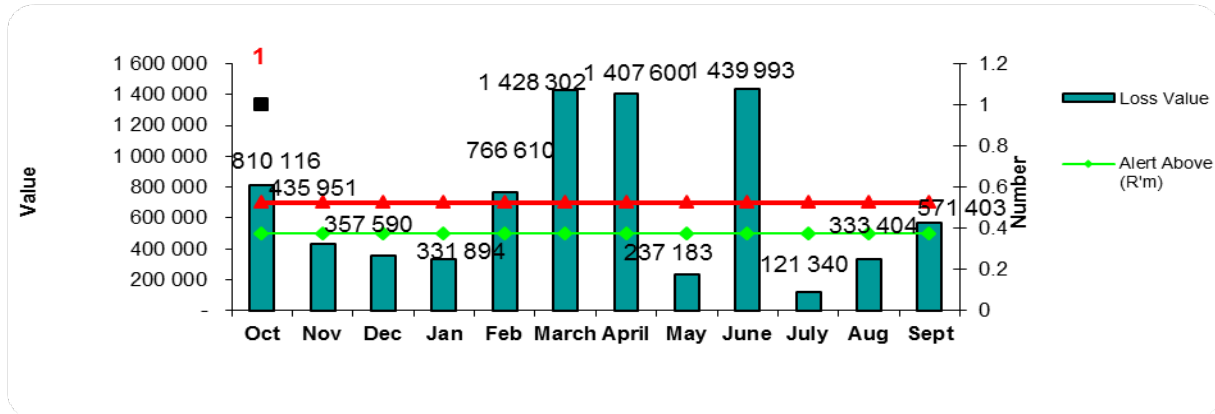
The possible causes to these losses were very similar to what has already been mentioned above. To be able to limit these losses the following remedy is suggested.

- guidelines on how to recover these losses from the non-compliant employees
- frequent reporting and increased level of monitoring of such losses
- Management commitment and buy-in on how to eliminate such losses completely.

The chart below depicts the root cause of non-adherence classified based on the audit findings for the financial year 2013/2014. It is evident that the physical misuse of assets plays a major role in the losses due to non-adherence as it constitutes 26% followed by management responsibility at 19% and human error at 13% falls almost at the same level as staff negligence which sits at 10%. As mentioned earlier most losses in banks are directly linked to the management and employees of the bank whose overall contribution is well over 50%.

The figure below shows the information on data losses that occurred from the period October 2013 to September 2014 as a result of staff not adhering to processes. The expected income of R8, 241, 385.00 was written off in a period of 12 months.

Figure 5: The total lost data due to non-adherence to processes



Information and data is very important to banks in decision making. Processes require proper co-ordination and information flow. The following cause of data loss was identified as possible causes of the data losses.

- Deposits processed as cash and not cheques
- Use of incorrect account number when completing account confirmation templates. Funds were transferred to the incorrect account resulting in the wrong customer using funds
- Customer cards not cancelled when reported lost/stolen
- Cards issued to incorrect customers as a result of the identification and verification process not being followed
- Branches not able to produce documents
- Staff capturing incorrect account numbers when linking accounts to profiles
- Staff not verifying names on cheques marked not transferable to the name of the account on the banks system.

Again verification and identification of customers is highlighted as being the major causes of these losses. In addition lack of attention to detail and pure staff negligence are revealed as the major contributors to these losses. The possible reason of these losses re-occurring is attributed to human errors and if strong action is always taken management and the consequences of these errors made very sever then the bank is likely to save a lot of money.

CONCLUSION

The purpose of this study was to understand why bank staffs are not adhering to processes and what impact non adherence to processes has on the implementation of strategy. The study has revealed that non adherence to processes not only results in financial losses but also has an impact on the reputation of the bank.

In the analysis conducted there were clear similarities in the findings highlighted by the investigation reports, audit reports and the loss data reports. The most common trend of processes not being adhered to is:

- Identification and verification of customers
- Transactions not authorised according to laid down procedures
- Customers cards not cancelled immediately when reported lost or stole

53% of the staff in 10 branches responded to the survey. 50% of staff who responded is in a multi skilled role. Multi skilled consultants perform most of the functions in the branch. This includes sales, service and

transactions. The survey shows that 44% of staff access processes 2 to 3 times per week, whether this is sufficient remains a question. 68% of staff is satisfied with the processes. However what comes through strongly in the survey is that staff feels that processes are too long and not user friendly which could be a contributing factor as to why staff do not follow them. Although the processes are too long 62% of staff feels that all activities performed have a documented process.

The research survey shows evidence that the banks incurred unnecessary losses as a result of staff negligence, common errors and out-right fraud resulting inactions detrimental to both a financial and reputational perspective. The banks must therefore consider automating their high risk processes specifically the identification & verification process and the authorisation of transactions process.

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