

PROCESS-ORIENTED ORGANIZATIONS IN THE CONTEXT OF THE NEW ECONOMIC REALITY: A CASE STUDY

Katarina Božić

University of East Sarajevo, Faculty of Business Economics, Bosnia and Herzegovina, Republic of Srpska
katarina.bozic@fpe.ues.rs.ba
ORCID: 0000-0003-1274-3402

Biljana Kovačević

University of East Sarajevo, Faculty of Business Economics, Bosnia and Herzegovina, Republic of Srpska
biljana.kovacevic@fpe.ues.rs.ba
ORCID: 0000-0001-5253-3763

Abstract: *A process approach has gained great popularity in the business of companies around the world. Given that the topic of business processes and process-oriented organization attracts the attention of numerous scientists and practitioners, this confirms its relevance. The paper presents an empirical study from the perspective of a case study of a company in the wood industry. The research aims to determine the maturity level of the process-oriented organization over nine years of the company's operation. Additionally, it analyzes selected profitability indicators, namely: Return on Assets (ROA), Return on Equity (ROE), net profit margin ratio, and EBITDA. Data were collected using both primary sources (interviews with the management of the process-oriented company) and secondary sources (financial reports and business process documentation from 2014 to 2022). Based on the analysis of the collected data, it was observed that the company has a high degree of maturity in applying the process approach. Interviews with the organization's management and documentation indicate that the progression from the initial level to a high level of maturity in business process management has positively impacted profitability indicators.*

Key words: *process-oriented organization, profitability, process maturity, performance.*

JEL classification: *M10, L25*

1. INTRODUCTION

Business processes are a very important management paradigm in the 21st century, and so the process approach has gained large popularity in company operations all over the world. Many companies call themselves process-based systems,

but most of them are functionally based on just a few elements of the process approach. Accepting a process approach in business represents a revolutionary change, which actually represents an organization's recomposition. The organization's process orientation implies changes, not only in an organization's structure, but also in the organization's focus, the changes in the business success measurement system, as well as the changes in the relationships with customers.

The author Kordovan explains the transition from a functional into a process-based organization, and calls such an approach a strategy of transformation, which consists of nine steps divided into three levels. Actually, such steps make up the levels of transition from a functional into a process-based organization, and that is why the abovementioned strategy is not simple, and a certain time is needed for achieving process maturity (Kordovan, 2011). The three key levels of the transition from a functional into a process-based organization are managing the transition program, process management and improvement management (Kordovan, 2011).

In process-based organizations, the focus is on customers in relation to function-based organizations, whose focus is on the managers. There are various characteristics in which process-based organizations differ from classic or function-based companies, and some of them are business focus, organizational unit, defining work tasks, the role of management, the key person, the reimbursement and business culture (Bosilj Vukšić & Kovačić, 2004). Regarding organizational units, in function-based organizations, there are departments, while in process-based organizations, there are process teams which comprise team members and the

process owner who provides mentoring support to the rest of the team. The work tasks in a function-based organization are narrowly defined, while they are flexible in a process-based organization. Organizational culture in classic companies is based on hierarchical levels, where the focus is on superiority, thus there are often conflicts between managers and employees. However, in process-based organizations, the organizational culture is based on the cooperation of process teams. In process-based organizations, the reimbursement is based solely on the attained results, and so in these companies, there is an established reward system, while in classic or function-based companies, rewards are based on the implementation of activities. Based on everything abovementioned, it is stated that the main characteristics of a process-based organization are: fewer hierarchical levels, interfunctionality, the existence of the process owner, process teams, continuous training and professional enhancement, employee reward system, customer focus, the application of information technologies for more efficient business process management, and the organizational culture based on the cooperation between employees and employers.

Today every organization that wants to endure and be competitive in the market ought to represent the concept of business process management. Process orientation places its focus on achieving desired business performance, and that is why process orientation is shown as one of the conditions for providing high organizational performance (Devane, 2004). Accordingly, special attention in the paper is given to the examination whether a greater level of maturity of a process-based organization influences financial performance positively. Hamer (2007) adopts a phased approach to process management, emphasising that all the previous phases need to be entirely completed before it is proceeded to the next phase (i.e. greater maturity). Hamer model clearly highlights the difference between process maturity and enterprise maturity (process management). In accordance with this, Hamer differentiates between five levels of process management maturity (Hammer, 2007): initial, managed, defined, prediction and optimized.

The level of enterprise maturity was assessed in the case study based on the BPO (Business Process Orientation) process maturity model. In this model, organizations are ranked on a scale from 0 to 5, where level 0 indicates an organization that is not process-oriented, while level 5 indicates a fully process-oriented organization.

2. LITERATURE REVIEW

The appearance of the work “Total quality management” by the authors Hammer and Champy (1993), is considered to be the key moment for the process orientation development. Since then, there has been a great number of papers witnessing that business process management is a key task of an enterprise in modern conditions of business operations (Radosavljević, 2016).

A business process is a series of logically related activities which use the enterprise's resources, and whose ultimate goal is satisfying customer needs for products or services of appropriate quality and prices, in the adequate period, with the concurrent realisation of values (Bosilj Vukšić & Kovačić, 2004). Business processes need to be detailed, stable, adjustable to the needs of every client, in a word, they need to be efficient. In every organization, it is necessary to recognise the business process and its internal rules, and then describe those processes with the help of theoretical knowledge of the process. Only then can a clear understanding of business processes in an organization be acquired (Radosavljević, 2016). The author Zairi emphasised that “the best organizations recognised the need for shifting focus from a traditional, function-based approach to managing via a set of clearly defined, customer-guided processes” (Zairi, 1997) in his paper “Business process management: A boundary-less approach to modern competitiveness to modern competitiveness”. Process mining is of vital importance in business process management. Information technology experts believe that business process management is a common language through which we can communicate with business stakeholders (Božić, 2021). Process mining can contribute to business process management and perceiving bottlenecks. Their elimination concerns preventing unnecessary states, redoing the same activities and perceiving those which require too much time to be completed (Božić, 2021).

Davenport defined a business process as a structured, measurable set of activities designed to produce specific results for a certain market or a customer, and it also includes a strong emphasis on how the business develops within an organization (Davenport & Short, 1990). The efficient implementation of all the processes in an organization requires adequately trained performers who will follow all the possible changes in the process with the help of their knowledge and skills, as well as an appropriate reward system (Radojević et al., 2009). In a process-oriented organization, employees play a

crucial role. Therefore, employees in a process-oriented organization should undergo continuous improvement and training to acquire new knowledge and skills. The study of emotional factors plays an important role in the fields of psychology and management. Company leaders must be aware that emotions play a crucial role within the organization. To acknowledge this, leaders should possess a certain level of emotional intelligence to recognize and comprehend the emotions of their employees. Emotional intelligence is equally important for the company's employees, especially when engaging in tasks that involve teamwork. Enhanced emotional skills instigate improved interpersonal relationships. A high level of emotional intelligence can also assist employees in establishing and maintaining positive relationships with external partners (Mura, Machova & Zsigmond, 2021).

Business process management (BPM) is known as a concept which implies modelling, performing (including automatization) and evaluation of a process, which has been stated and explained in the works of numerous authors (zur Muehlen & Indulska, 2010; Antunes & Mourao, 2011; Pyon et al., 2011). Today, most process-based organizations use business process management software, which increases business operations efficiency. The use of business process management software means that the employees in an organization spend less time on repetitive manual processes, and thus have more time to focus on doing their jobs and increasing productivity. The software enables enterprises to document and standardise business processes and enable quick responses to changes by introducing new processes in an organization.

Organizations have to face the fact that the environment is constantly changing, and that process management has become a very important way for organizations to adapt to new changes (Burlton, 2001). Therefore, being process-based implies a more pronounced aspect of processes, but also a greater orientation towards the organization (Smith & Fingar, 2003). The most important characteristic of process orientation is identifying the process owner, because it helps to overcome the greatest limitation of a classic enterprise organization, and that is the issue of responsibility (Đuričin & Janošević, 2006).

Organizations make decisions about which processes and competencies need to be focused on, and the basis for process management is performance measurements. Organizations develop strategies in order to improve processes and thus enhance customer satisfaction

(Dobrosavljević & Urošević, 2019). Therefore, the main purpose of the process is satisfying customer needs. In that sense, a business process can be interpreted as a structured set of activities, with a well-defined beginning and ending, in which enterprise resources are used to create value for customers, satisfy their requirements regarding quality, price, time and flexibility. In defining the process itself, the fact that each process comprises five key elements is especially emphasised: customers, a set of activities, inputs (resources) and outputs (products and services), people and technologies (Sikavica & Hernaus, 2011).

It is very important for process-oriented organizations to monitor company performance. Process performance is a measure of achieving the desired results of the business process. The main purpose of measuring process performance results is to identify the procedures necessary to generate objective information about business processes. Performance measurement involves assigning numerical values to indicators and helps identify problems and improve operations. When measuring process performance, choosing a method for evaluating objective results is crucial. This represents a chance for the company to identify where improvement is needed in the processes and to quantify the values of the performance indicators. Improving process performance contributes to increasing quality and productivity in the enterprise (Kicová, 2019).

Profitability is one of the most important indicators for any company, including process-oriented companies. The authors Marković and Savović (2022) used three indicators in their paper to measure the impact of acquisitions on profitability: return on assets (ROA), return on equity (ROE) and return on sales (ROS).

Contemporary research in the field of accounting and finance emphasizes the importance of financial reports and indicators in assessing the value of a company and the quality of its financial operations (Lehenchuk et al., 2023). Financial statements are a crucial source of information for the economic and financial analysis of companies over time. They provide insights into the operations and financial capabilities of these entities, as well as their relative position in relation to the environment and global economic trends. Financial statement analysis enables research into the relationships between various items in the statements, facilitating an accurate assessment of the financial position, liquidity, and business performance of companies (Janačković et al., 2022). The primary business goal of every

company is profit growth; however, the strategic goals of the company are strengthening the market position through the improvement of business digitalization, increasing revenue with innovative business opportunities as well as increasing efficiency (Aleksić et al., 2022). A developed financial system encourages competition, expands the market and increases the efficiency of financial institutions. The depth and the breadth of financial markets are growing, which is transferred to the performance and structure of the economy (Cvetković et al., 2021). Countries in transition are the best example of the impact of market changes on the economy. Competition law has a significant role in the legal regulation of the market and market changes (Damjanović, 2016).

The process management maturity, which implies the level of process orientation that the enterprise has reached, has attracted the attention of a number of authors (Humphrei, 1988; Zairi & Ahmed, 1999; Maull et al., 2003; Fisher, 2004; Rosemann, De Bruin & Hueffner, 2004; Hamer, 2007; Lee et al., 2007; Curtis & Alden, 2007; McCormack et al., 2009; Van Looy et al., 2011; Roeglinger et al., 2012; Wendler, 2012). Depending on how successful it can be in process management, according to the business excellence models, the enterprise can be at one of the three levels (Robinson, et al., 2006): Start up, On the way, Mature.

At the Start up level, the enterprise is at a low maturity level, which means that such enterprise is characterised by few identified business processes, ad hoc measurement of the process performance, manual process guidance, inefficient resource management, the lack of applied methodology, reactive action. On the other hand, an enterprise that is at a high maturity level applies structured methodology, has precisely defined processes as well, identified process owners, constantly measures process performance, acts proactively and uses information and communication technology (Radosavljević, 2016). Therefore, the aim of the research in the paper is to prove if a higher level of maturity of a process-based organization positively affects its business performance.

3. CASE STUDY

The aim of the research is to determine the level of maturity of a process-oriented organization within the context of a nine-year business operation in the wood industry. Additionally, the goal is to analyze selected profitability indicators, including ROA, ROE, net profit margin ratio, and EBITDA. A specific company from the wood industry was selected for the purpose of the case

study. This company was chosen based on previous market research in the Bijeljina area, which identified it as representative for the analysis of the case study regarding the identification of the maturity level of a process-oriented organization. Since the company met all initial criteria for analysis, such as following a process-oriented approach and being focused on business processes for several years, further research was conducted. Data were collected using primary sources (interviews) and secondary sources (financial reports, business process documentation), providing a broader picture of the company's operations and enabling a more detailed analysis. The collected data underwent analysis to determine the maturity level of the process-oriented organization over the nine-year business period. Additionally, selected profitability indicators were analyzed to examine the trend of these indicators during the observed period.

The research was conducted on a sample of an enterprise in the Republic of Srpska, which is situated in the region of the city of Bijeljina. The enterprise has over 250 employees, which places it in the group of large enterprises within the processing sector, whose main business activity is the processing and production of wood products for the construction industry. Furthermore, the enterprise has a long, successful business tradition, and has its own maintenance workshop and its own vehicle fleet at its disposal, and modern technical-technological equipment of high productivity. The greatest focus is placed on the production of massive laminated plates, construction carpentry, the production of furniture and briquettes, and other carpentry products characterised by a high level of quality. The company management plans and develops the processes necessary for product realisation. The planning of these processes is consistent with the requirements of other quality management system processes. In planning product realisation, the requirements of product quality determined during contracting are planned. A manager of technical preparation and development produces operational plans for the realisation of the production process based on specified orders of buyers, a monthly production plan and based on the previous month's production realisation, so that the production is harmonised with the annual business plan.

3.1. IDENTIFICATION OF THE LEVEL OF MATURITY IN A PROCESS-ORIENTED COMPANY

The company from the case study has been basing its business on a process approach for many years,

and has managed to reach a high level of maturity in business process management, which is confirmed in the following work. Specifically, the research will focus on:

1. Measuring the level of maturity of a process-oriented organization;
2. Collection and analysis of financial data in order to evaluate the profitability performance of the organization: net profit margin ratio, ROE, ROA and EBITDA.

Numerous world scientists and experts have written about process maturity, different maturity models of process orientation as well as their impact on company performance (Ivančić, 2018; Milanović Glavan, 2019; Skender, 2020; Vasiljević, 2020; Gudelj, 2021). From all mentioned, the work of the author Lucija Ivančić “Models of process maturity in the improvement of process orientation: a case study” (2018) stands out, which is aimed at testing tools for determining maturity according to the BPO model, which is the inspiration for the application of the methodology in this work. Given that a small number of authors have researched and evaluated the maturity of companies in the Republic of Srpska, the subject of this paper is precisely based on the analysis and evaluation of the process maturity in the company that was selected in a targeted manner. The selection of the company for this case study was based on three facts:

1. the company uses concepts from the field of business process management to improve operations,
2. the company has a long tradition of operating on the market,
3. the company belongs to the group of large companies (according to the number of employees), which means that it could have a fully developed business process management system and benefit from it, which makes it suitable for analysis.

The BPO (Business Process Orientation) process maturity model is one of the models used to assess the maturity of a process-oriented organization. In this model, organizations are ranked on a scale from 0 to 5, where level 0 indicates an organization that is not process-oriented, while level 5 indicates an organization that is completely process-oriented. Three categories of questions were constructed by giving a rating on a Likert scale with values from 1 to 5, making up the questionnaire. According to the BPO model, there are several main determinants of process orientation (McCormack et al, 2009; Ivančić, 2018): process view, business processes, and process management and measurement.

Accordingly, the questionnaire on organizational process maturity consists of three categories:

1. Process view;
2. Business processes;
3. Business process management and performance measurement.

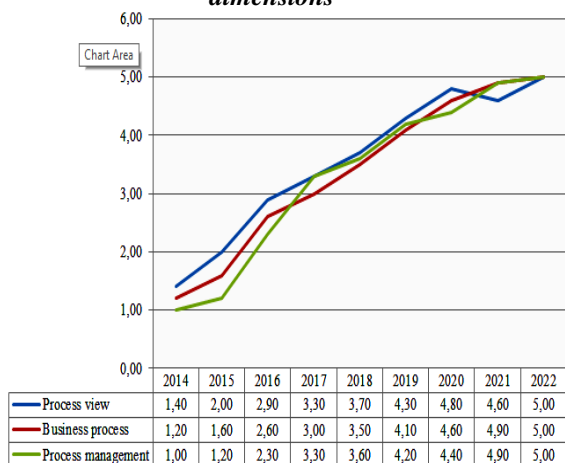
Interviews represented the primary technique for gathering data from the company's management. The interview questions were both general about the company's operations and specific about its business processes and management. After the general questions, specific questions were posed in the form of statements, where members of the management, participating in the interview, expressed their degree of agreement or disagreement with the statement along with detailed explanations. Each category of questions consisted of a total of five statements, distributed across the aforementioned question categories. For easier presentation of the results, each category of (dis)agreement was assigned a corresponding number. Accordingly, complete disagreement was indicated by the number 1, while complete agreement with the given statement was represented by the number 5. Through conducting interviews with the company's management, responses were obtained regarding questions related to the process-oriented approach across three dimensions: process view, business processes, and process management and measurement. The interview questions were carefully selected in order to obtain as much data as possible necessary for analysis. Interviewing the management of the company lasted a long period of time, during which some time was also spent talking with the management of the organization about their business. After the interviews, there was a joint review of documentation on business processes and the course of business processes, as well as parts of financial reports required for research. After presenting the results within the previously mentioned three dimensions of the process approach, the determination of the maturity level of the process-oriented organization, which is the subject of the case study, was also determined.

The process view refers to understanding an organization's business through processes that are interconnected and form a unified whole. Instead of the traditional functional view that focuses on different departments in an organization, the process view focuses on the movement of activities through the organization to create value for customers and other stakeholders. In addition, employees in the enterprise are familiar with the concept of processes and apply it in their daily business operations (Ivančić, 2018). Business

processes are activities performed within a process to achieve the process goal. Employees are fully involved in the functioning of business processes, and all employees, especially members of a process team, understand the process as a whole. Process management involves understanding and documenting processes, identifying opportunities for improvement, optimizing processes to improve organizational performance, and continuously monitoring processes. Process measurement is the practice of measuring process performance to determine if processes are being performed in accordance with desired organizational standards and goals. Enterprise leadership is continuously focused on improving the monitoring and measurement of business processes, supported by information technology.

Each of these dimensions was evaluated with a corresponding rating by each member of the company's management (Figure 1).

Figure 1. Presentation of the maturity level of a process-oriented organization from three dimensions



Source: The authors

McCormack and Johnson (2001) conducted an important empirical study that analyzed the relationship between process orientation and business performance. The results of the study showed that the presence of process orientation in an organization positively impacts the reduction of conflicts within the organization, as well as improving the connectivity among employees. Additionally, the research indicated that the presence of process orientation leads to improvements in the business performance of the organization. This research highlights the importance of process orientation in achieving better performance and success for the organization.

McCormack and Johnson set definitions and numerical ranks (from 0 to 5) for the four stages that an organization must go through to reach the highest level of process maturity (McCormack & Johnson, 2001):

1. Ad hoc processes (first phase);
2. Defined processes (second phase);
3. Related processes and process management (third phase);
4. Integrated processes (fourth stage).

Table 1. The phase of the maturity model BPO (Business Process Orientation)

THE PHASE	PHASE NAME	PHASE DEFINITION
1	Ad hoc processes	The ad hoc stage, the initial phase in the process maturity model, lacks a structured organizational approach, with processes often being unclear and informal. At this stage, the organization typically lacks a clear strategy for managing processes, relying on individual employee efforts rather than formalized procedures, and process performance measurement is often subjective, ranking from 0 to 2 in the Business Process Orientation (BPO) scale.
2	Defined processes	It is the second stage in the BPO process maturity model, which represents a step further in organizational maturity compared to the ad hoc stage. In this phase, the organization defines its key processes and establishes documented procedures and standards for their execution. Organizations reach this maturity level with a BPO rank between 2 and 3.
3	Related processes and process management	In this phase, process owners are established, and process management is introduced to align with strategic goals, enhancing efficiency. Organizations aiming for process orientation achieve this level, typically with a BPO rank between 3 and 4.
4	Integrated processes	In this phase, the organization achieves high process automation, continuous improvement, and integration of all processes into a cohesive system. Real-time monitoring ensures optimal functionality, while advanced technologies drive efficiency. This maturity level, typically ranked between 4 and 5 on the BPO scale, focuses on sustained growth and innovation.

Source: The authors according to McCormack, K.P. & Johnson, W.C. (2001). *Business Process Orientation — Gaining the E-Business Competitive Advantage*, St. Lucie Press, Florida, p. 51-53.

From the attached, it can be seen that the company in the period from 2014 to 2022 went through all the stages of the BPO maturity model previously explained in Table 1, so that we can finally conclude that the company is currently at the highest level of process maturity.

3.2. ANALYSIS OF PROFITABILITY INDICATORS IN A PROCESS-ORIENTED ORGANIZATION

In this section of the case study, a detailed analysis of selected profitability indicators of the company has been conducted. The primary focus of the analysis will be on the following key profitability indicators:

- ROA (Return on Assets): This indicator allows us to assess the efficiency of the company's asset utilization in generating profit. A high ROA suggests efficient asset utilization for profit generation. The formula for calculating ROA is:

$$ROA = \frac{\text{Net Income}}{\text{Average total Assets}}$$

- ROE (Return on Equity): ROE provides insight into the efficiency of the company's use of owner's equity capital. A high ROE indicates high profitability relative to the invested equity capital. The formula for ROE is:

$$ROE = \frac{\text{Net Income}}{\text{Average Equity}}$$

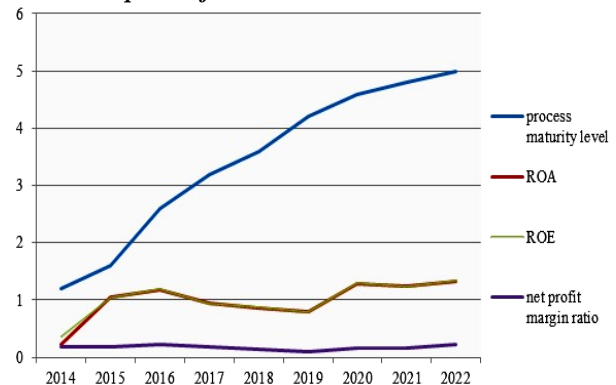
- Net Profit Margin Ratio: This indicator provides insight into the efficiency of managing operational costs and the overall profitability of the company. A high net profit margin indicates high profitability after subtracting all operational costs. The formula for the net profit margin ratio is:

$$\text{Net Profit Margin} = \frac{\text{Net profit}}{\text{Total Revenue}}$$

- EBITDA (Earnings Before Interest, Taxes, Depreciation, and Amortization): We will analyze EBITDA to understand the operational profitability of the company, excluding the impact of interest, taxes, depreciation, and amortization. This indicator provides insight into operational efficiency and the ability to generate profit from the company's core operations.

Through the analysis of these profitability indicators, we will have a comprehensive insight into the profitability performance of a process-oriented organization from the wood industry during the nine-year operating period.

Figure 2. Analysis of trends in profitability indicators and the level of process maturity in the period from 2014 to 2022.

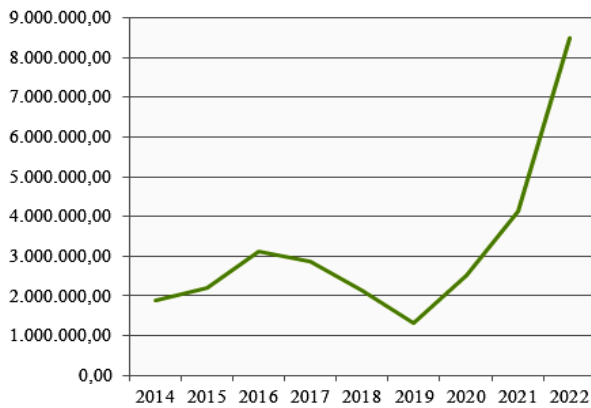


Source: The authors

The level of process maturity of the organization is continuously growing during the period from 2014 to 2022, but there are minor oscillations in the trends of profitability indicators. Although there is no clear linear trend between the level of process maturity and financial indicators, such as ROA, ROE and the net profit margin ratio, it can be noted that the highest values of these indicators are often associated with years when the level of process maturity is also high. However, it is not a consistent pattern, as there are exceptions such as 2017. Of course, there are a number of other factors that can influence the movement of ROA, ROE and the net profit margin ratio, with the company's management emphasizing that the efficient management of business processes significantly improved profitability indicators compared to the period when the traditional business concept was represented.

There is an obvious trend of EBITDA growth during the analyzed period from 2014 to 2022. This indicates that the company achieved significant growth in operating profit during that period. The sharp jump in EBITDA in 2022 is especially significant, where the value of EBITDA increased significantly to 8.495.870,00.

Figure 3. EBITDA trend for the period from 2014 to 2022.



Source: The authors

This may indicate significant changes in the business environment or company strategy, as well as an improvement in operational efficiency or an increase in revenue. A sharp increase in EBITDA in 2022 can have a significant impact on other financial indicators, such as ROA, ROE and net profit margin. This may indicate a general improvement in the company's profitability during the observed period.

CONCLUSION

Organizations that implement a process approach often adopt a systematic approach to managing business activities, identifying, analyzing and improving key business processes to achieve efficiency and improve product or service quality. This approach is often used in various industries, including manufacturing and services, to achieve competitive advantage and long-term market success.

The research aimed to analyze the level of process maturity and profitability of companies from the wood industry over a period of nine years (2014-2022), using indicators such as ROA, ROE, net profit margin ratio and EBITDA. Through a case study of a selected company from Bijeljina, a high level of maturity in the application of the process approach was established, supported by the continuous improvement of business processes and product quality.

By analyzing the level of process maturity, financial performance (ROA, ROE, net profit margin ratio) and EBITDA during the period from 2014 to 2022, we observe a general trend of growth in process maturity and operational profitability of the company, while financial

indicators vary between years. Of particular note is the significant jump in EBITDA in 2022, which indicates positive financial dynamics and a potential improvement in operational efficiency during that period. Nevertheless, the lack of a clear correlation between the level of process maturity and financial performance indicates the need for additional research to better understand the factors that influence the financial results of companies. Here it is important to emphasize that the level of process maturity does not only affect the increase of the observed indicators, but that it is certainly important to analyze, given that the goal of process orientation is precisely to satisfy the needs of consumers (customers), which is certainly reflected in the profit of such an organization. If a process-oriented organization realizes and satisfies the needs of its consumers, the demand for the products or services of such an organization grows, which brings higher business income and which is further reflected in higher profits.

Recommendations for further research refer to taking into consideration more case studies, more companies within one or more economic activities, and to carry out a quantitative analysis. Expanding the sample to more companies from the wood industry, as well as to companies from other economic activities, would allow a better understanding of general trends and differences in process maturity and financial performance among different industries. Conducting a quantitative analysis on a larger sample of companies would enable the identification of statistically significant relationships between the level of process maturity and financial indicators. This would enable a more precise quantification of the impact of process maturity on financial performance. Also, the satisfaction of employees who are directly involved in business processes can be investigated, as well as the way in which they perceive the process approach. From statistical analysis, different types of research can be performed to better understand the relationship between process maturity and the financial performance of a company. Identification and measurement of the strength of the relationship between the level of process maturity and various financial indicators such as ROA, ROE, net profit margin ratio and EBITDA. This would enable an assessment of the degree of influence of process maturity on financial performance. Comparing differences in financial performance between groups of companies of different process maturity in order to determine whether there is a statistically significant difference in financial results between those groups.

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