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MAJOR CHALLENGES IN APPLICATION OF PROJECTS MANAGEMENT PRACTICES IN UKRAINIAN BANKS

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Abstract. *The article analyzes theoretical and practical aspects of project management, its application in the domestic banking; systematizes approaches to applying of project management in banking institutions and gives practical recommendations for improving the project management activity in banks.*

Анотація. *У статті досліджено теоретичні та практичні засади проектного менеджменту, його використання у вітчизняному банківництві; систематизовано підходи до його застосування в банківських установах та обґрунтовано практичні рекомендації щодо вдосконалення системи управління проектами в банках.*

Аннотация. *В статье исследованы теоретические и практические основы проектного менеджмента, его использование в отечественной банковской системе; систематизированы подходы к его применению в банковских учреждениях и обоснованно практические рекомендации по совершенствованию системы управления проектами в банках.*

Keywords: *project, project management, portfolio management, Project Management Office (hereafter – PMO), project manager, bank.*

Ключові слова. *Проект, управління проектами, портфель проектів, проектний офіс, управління проектами, проектний менеджер, банк.*

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Problem Statement. Under the influence of sharp changes in economic conditions, especially a full-scale digitalization, increased competition with new rapidly growing companies and under pressure of regulatory enforcement on combatting corruption, money-laundering and financing of terrorism, Ukrainian companies focus on enhancing efficiency of available resources (e.g. IT, finance, HR and etc.), as well as on building internal capacities of changes implementation. For this reason, the C-suite (CEO and Board) promotes development and implementation of project management practices in their companies to drive companies' strategy execution.

For the last few years, the economic instability has influenced the domestic banking system and led to monetary and financial crisis. Moreover, the

National bank of Ukraine has pressured the banking sector with reforms (implementation of new rules and procedures) and required strict compliance with anti-money laundering, combating financial terrorism and anti-corruption policies. In this severe environment, banks should be capable to realize transformational projects and enhance their innovation capacity to ensure their sustainability and competitiveness on the Ukrainian market. Project management is an approach that can help with achievement of all the above and transformation of the bank's vision into tangible results.

Research analysis and publications on the topic. Application of the project management practices in companies is the subject of the scientific research in Ukraine. In particular, the following authors studied the topic: Babaev V.M., Batenko L.P., Blank I.O.,

Vovchak O.D., Zagorodnikh O.A., Lishchynska V.V., Mayorova T.V., Morozov V., Pan L.V., Peresada A.A., Savchuk V.P., Chorna M.V.

Nevertheless, approaches to application of project management practices in the domestic banking system have not been analyzed thoroughly in the national scientific literature.

The article aims at researching theoretical and practical aspects of project management, analyzing its application in the domestic banking system, defining major challenges of its implementation and functioning in banks, and development of practical recommendations for improvement of project management practices in banks.

The main material of the research. The intensive transition to the project management practices was launched in the Ukrainian banks in the last decade, which had resulted from a number of factors, common to all developing countries. Firstly, the main factors were: increased level of transparency of the Ukrainian economy, entering of domestic banks into international financial markets and inflowing of foreign investments to the Ukrainian market.

Secondly, the acceleration of globalization and the pace of changes, which had taken place on the market, forced executives of banks to look for new ways of both for maintaining of operating activities at the high-quality level and realization of strategic objectives.

Furthermore, transition to project management was accompanied by introduction of “western” principles and management methods into Ukrainian banking environment that consequently led to competition escalation and increased requirements to quality. Modern open markets require not only cheaper goods and services, but also goods and services of the highest quality. Quality management and necessity for its continuous improvement requires using new management techniques such as project management.

Growing competition demands reducing cost and time necessary to introduce new products and services (from concept to launch) on the market. Moreover, the fight for the customer results in substantial differentiation of banking products and, sometimes, in creation products for a “particular client”. This is one more reason why the Top-management is building capabilities in banks for delivering of strategic initiatives fast and with minimum costs through introduction of project management approaches.

Project management is a powerful tool for managing the bank’s innovative potential and

achieving higher efficiency and productivity, implementation of innovative changes and developments in all domains of bank activities. Thus, the usage of modern project management methodology saves time and cost (resources).

Nowadays, to implement one project a year (for example, to develop a new banking service) means not to be competitive on the market, which is constantly in need for changes and innovations. To realize the bank’s strategic agenda and to ensure alignment of all new projects with the bank’s goals and priorities, all strategic projects of bank’s business and back-office units should be defined and organized in a portfolio of strategic projects. Such strategic projects can be: expanding through M&A, entering a new market, development of new banking products and services, rebranding, implementation of new IT or Information security systems, building or refurbishment of new premises, optimization of internal processes, introduction of legal and regulatory requirements, delivery of remediation plans, etc.

It should be noted that the domestic banking sector has become a leader in terms of the implementation pace and usage of the project management practices in Ukraine. This is testified by the fact that among the TOP 10 finalists of the “Project Management Rating”, hold in 2015 in Ukraine, which determined the most efficient and progressive companies in this domain, 40% were banks: Raiffeisen Bank Aval, UkrSibbank, Alfa Group and First Ukrainian International Bank (“PUMB”). [1]

Banks using project management are the most successful and competitive. Apart from the above-mentioned, project management practices are used by many other leaders of the Ukrainian banking system, such as Credit Agricole, OTP Bank, state-banks: Privatbank and Oshadbank.

The last trends shows that in Ukraine the use of project-based approach is inherent not only to the banks with foreign capital, which have been tailoring their approaches to the standards of the “mother companies”, but also project management practices are used by state banks and by the bank with 100% of Ukrainian capital (First Ukrainian International Bank, which takes the 10th place in the rating above).

At the same time, some domestic banks have just realized the necessity to use and optimize corporate project management systems, while many of them use only some of its elements.

First of all, this happens due to the fact that it is very difficult to draw a clear boundary between the project and operational activities in the banking sector. For example, on the one hand, financing of a

particular company is a project, since the process has time and budget limits, has a unique outcome (certain amount of income, depending on the terms of the financing of this particular company). On the other hand, Department of corporate business financing manages such projects on the daily basis and such activity can be called operational within the entire bank. Nevertheless, Top-management of the majority of domestic banks believes that all their activities are operational, and there is no need to apply the project management approach. Therefore, they often lose their positions in favor of foreign competitors, who have been using project management for a long time.

Another challenge in implementing of project management in financial institutions is associated with a high level of banking processes automation. Efficient project management cannot be performed without special software for planning of the project, communication and collaboration of the project team, calculation of the project budget and necessary resources and for other matters. Frequently banks face the problem of integration between the core software of banks (e.g. accounting, Human Resources (HR), document flow systems, etc.) and special software used for project management purposes. Integration and interaction (data exchange) of these systems are usually at the low level; their adaptation is very costly and it becomes the obstacle for the bank's Top-management on the way to project management implementation.

In addition, lack of qualified staff can become a real obstacle to project management implementation. Especially it applies to the banking sector. Higher educational institutions and subject-matter experts in banking pay little attention to project management and its practical application, providing only basic theoretical knowledge in this area, or even do not have special courses regarding project management approaches. Various certification programs, provided by Project Management Institute [2] or International Project Management Association [3] are too expensive for students or young graduates. Therefore, banks have to invest additional costs and time in training of qualified project managers and education of other staff on project management principles.

What is more, banks' staff can be not interested in implementation of the project management approach as it increases transparency of all banking processes, as well as change old principals of financing of new initiatives. Therefore, the Top-management of banks should organize appropriate corporate trainings for banks' employees in order to educate them on project management practices and

benefits of its implementation. Also, it is important to deliver proper communications to all banks' staff as lack of information can lead to low motivation and resistance from employees to changes associated with implementation of project management.

In order to apply the project management approach in the bank, it is necessary to develop a set of procedures that should define: major principals of project management in the particular bank, key stakeholders, decision-making authorities and responsibilities (e.g. project committee, etc.), milestones (initiation, validation, closure and post-implementation review), templates (e.g. project passport, project charter, business case, final report etc.) and other matters [4].

The speed of changes in the internal and external environment of the bank creates such organizational climate, where hundreds of projects should be implemented all together at the same time. That's why, currently, the main challenge for the bank's leadership is the need to share resources (financial and human) between a number of different projects and allocate, primarily, resources to the projects with the highest priority (based on possible benefits that can be achieved or losses that the bank will incur, in case of failure to complete the project) [5].

Therefore, it is important to organize all projects in the strategic projects' portfolio, in order to oversee the bank's strategy execution and to effectively manage and control of all projects.

To govern strategic projects' portfolio, we offer the following typical portfolio and project management structure in the bank (figure 1).

Apart from the project sponsor, customer, project manager, business analyst and project team members, the structure above also has the one more project stakeholder: Project Management Office (PMO).

According to the PMBoK guide, a PMO is a management structure that standardizes the project-related governance processes and facilitates the sharing of resources, methodologies, tools, and techniques [6]. The main goals and objectives of the PMO in the bank are to:

- Ensure alignment of strategic projects' portfolio with the bank's strategy and direction;
- Manage projects' resources within strategic projects' portfolio;
- Monitor the progress and status of projects strategic projects' portfolio;
- Review the final projects' results;
- Manage projects;
- Define and introduce projects management standards and procedures;

- Monitor and control compliance with standards among all stakeholders of the project management process;
- Train and coach of project managers and other employees involved in project management.

Portfolio Management

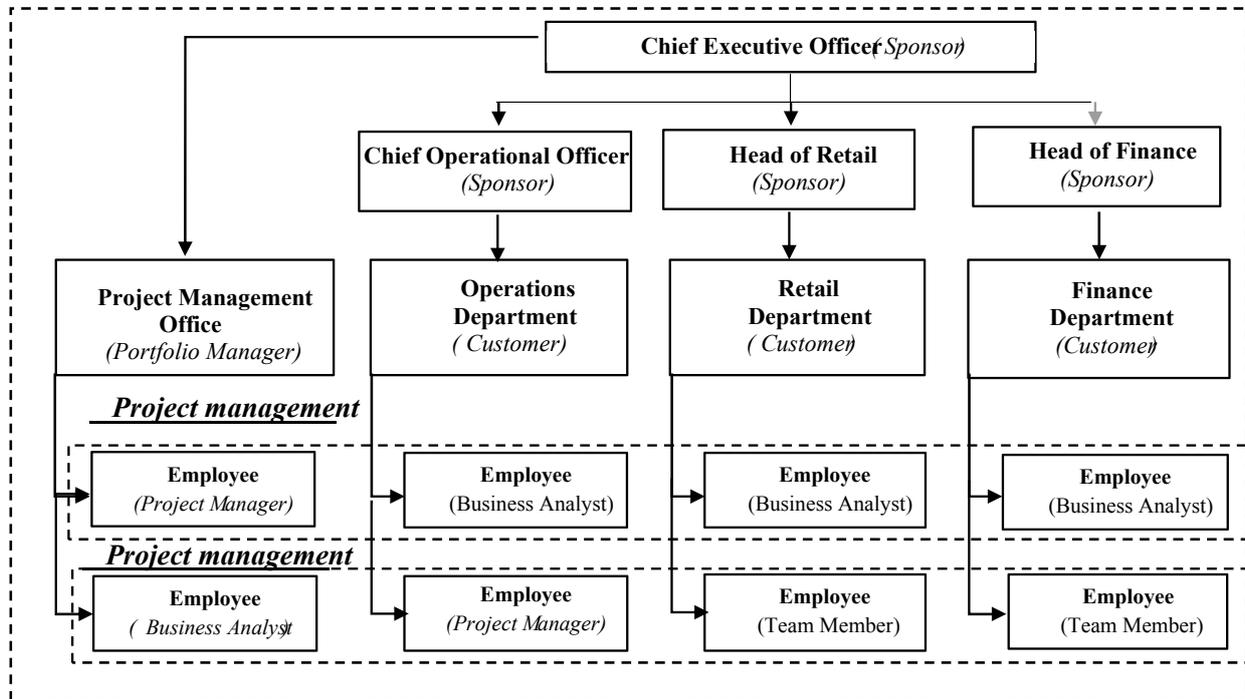


Figure 1. Project management structure in the bank

Theoretically, the PMO is primarily an analyst of the project. Analyzing the problems and risks of the project, it offers possible solutions to the problems and prevents the consequences of risks, initiates timely managerial decision-making.

If the project manager works with people, the project management office works with figures, reports, schedules, software products. In addition, it reports directly to the Chief Executive Officer (CEE). If the project manager is able to hide some information about the project, the objective of the project management office is to receive timely such information (e.g. deviations from the initial scope, duration, budget, resources, as well as potential risks).

Thus, the project management office is in the bank for watching out and timely identification of “bottlenecks” during implementation of projects and avoiding of barriers on their way, as well as for

screening of projects to choose the best ones for realization to ensure that the bank’s resources are allocated efficiently.

Conclusions and Prospects for Research. In general, the development of project management in Ukrainian banks and increase of its efficiency is impossible without:

- Increase of the number of qualified and certified professionals in project management and exchange of experience between them;
- Further systematization of knowledge and improvement of project management methodology, adaptation to the Ukrainian banking business environment;
- Favorable economic climate in Ukraine for evolution and expanding of the banking, as well as reduction of business uncertainty.

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