

SEVEN HABITS FOR SUCCESSFUL ERP

The trick to getting integrated ERP systems is integrating people. Richard Watkins, Gordon Hammond and Chris Edson of the Delos Partnership report.



Richard Watkins: underlying cultural issues

A recent article described the implementation of an ERP system as the equivalent of dental root canal treatment: it's very painful, very expensive and something you'd rather not have – but the experts tell you it will make you better. ERP is tough, and over the years there have been a number of unsuccessful ERP implementations. Many of these can be attributed to a failure to properly address some or all of the seven habits for a successful implementation.

They are 'habits' because many of the underlying problems relate to difficulties tackling the cultural issues within the organisation. People are used to working in old ways, and want to continue to do so. They are used to working with back orders, inaccurate data and invalid dates in the system. They prefer informality to formality. They are used to outdated performance measures like overhead recovery, and purchase price variance. Why change the habits of a lifetime? How can they have been doing so wrong for so many years?

The implementation of integrated ERP systems brings with it the need to adopt more formal ways of working and adherence to procedure than many people are used to.

There is an underlying requirement to have one set of numbers, which means getting away from spreadsheets and all that implies.

The truth is that the world is becoming more global, more competitive and changing at an ever faster pace, and companies need to integrate across businesses, countries, industries and cultures to survive. Integration of systems is essential. However, integration of people is the far bigger challenge. The seven habits are:

1. Implement integrated enterprise leadership.

Back in the 1980s companies recognised the value of sales and operations planning. Fundamentally it meant getting a balance between the demand and the operational capacity plan. Integrated enterprise leadership describes the way a CEO delivers the strategy through 'top down' leadership, and 'bottom up' replanning, based on realistic, accurate and honest information. This requires the involvement of everyone, not just sales and operations. The challenge is to get everyone to be honest – and work to one set of numbers. That does not mean one set of numbers for the financial projections, one set of numbers for operations, and one set for sales and marketing. All companies need 'one version of the truth'.

An even bigger challenge is to get people to move away from silo structures, towards process ownership. Without this, it is very difficult for the organisation to be other than dysfunctional. A dysfunctional organisation will not be improved by an integrated system, however functionally rich.

2. Ensure the senior executive team provide uniform enthusiasm and commitment for the project.

Some senior executives believe an IT system implementation can be sub-contracted to consultants. But sub-contracting the implementation is sub-contracting responsibility. System implementations are a lot less sexy and exciting than a business acquisition or product launch. When one of these more interesting opportunities comes along, people can use it to abandon the IT project. It is for this reason that the senior management (often technophobes) do not want to get involved with bits and bytes.

It is crucial that the senior executives are seen to actively support the project and drive the process forward. The best implementations are where the general manager gets actively involved in understanding the system and is actively

trying to gain the commitment and enthusiasm of the people for the project.

3. Ensure that all data throughout the company is accurate.

A very frequent cause of failure in ERP projects is a lack of accurate data. Inventory data, bills of material and routings are often three key culprits. However, in an integrated ERP system, everything needs to be accurate. The issue here is to clean up the processes that gave rise to the bad data in the first place, and ensure the disciplines are in place after go-live to maintain data quality. This often means dedicating staff time to keeping data clean. This does not mean extra staff in total, though. Ensuring high-quality data is now a very large part of everyone's job. This is often one of the most significant changes overlooked in implementations.

However, people have to be educated and trained in how to follow the formal requirements for data accuracy. When something is taken out of inventory or put into inventory, a corresponding transaction has to take place at the same time. People do or don't carry that out, but the system gets the blame!

4. Make sure there is clear-line accountability in the business for the success of the project.

Business managers – heads of marketing, operations, finance and so on – are accountable for the successful delivery of the project. The project team will be responsible for delivering the project by working with the business. The key is to avoid the scenario of the project team working away in an Ivory Tower developing the processes and systems, then training the people to use the system. When it goes wrong, the project team wrongly get blamed for the failure of the project.

The right approach can best be achieved through a project steering committee structure, where the business managers chair functional/process task teams and the general manager chairs the steering group.

5. Ensure that 100% of the people within the business have been educated – not just trained – in the new systems and ways of working.

The difference between education and training is critical. Education is changing hearts and minds to accept the need for the new system, and the formal ways of working that are implied. It means getting people away from poor practice such as operating with two sets of numbers – eg, one for the budget and one for operational purposes. Training involves learning to do the new job – people need to understand how to do something. To be educated, people need to understand why they need to do something. This education process should be led by the heads of departments and functional managers.

For example, the warehouse operator needs to understand from their manager why they should take care on inventory transactions. The marketing manager will need to understand from the sales and marketing director why they should provide realistic forecasts. The most successful projects are where the education process has been delivered by the project team to the senior executive, and then cascaded back through the organisation.

6. Use a simulator as a key method for piloting and validating the system before the system is rolled out at key stages.

The classic way of ensuring the acceptance of a business system is to run a carefully scripted pilot which tests that the expected outcome from a series of transactions produces the expected result. However, this does not test whether the potent combination of systems, processes and people all work together simultaneously. It does not test whether people are ready to do their jobs in the brave new world.

To achieve this understanding, a simulator should be used. Typically the simulator tests all business processes to provide the confidence that the organisation will survive in the new environment. It also builds confidence. Fundamentally it confirms that the new business model will meet the business needs, without unacceptable levels of risk.

The simulator is based on representative low volumes of data, in order to imitate the business in the way that it will operate some months post-implementation. This is not the same as integration testing. It is designed to allow each new role/job to see how its responsibilities will interact with others. We believe three business simulations should be held during the life of a project:

- A project team pilot at the end of high-level design phase.
- A managers' pilot at the end of the detailed design and build stage.
- A users' pilot immediately prior to cut-over.

7. Ensure that the system is based on standard functionality.

Clearly, modern ERP systems have a huge amount of functionality built into them. And there is always a temptation for people to build ever more complex functionality into the new application.

However, in many software systems there are occasions where the systems do not 'do it right' for whatever reason. For example, there needs to be a way to carry out forecast consumption – how the system replaces forecasts by orders and recognises unforecast demand. Very little software does this right. Even fewer users understand how to get it right in their systems. Yet this area can cause more turbulence and instability in the organisation than anything else, causing the system to take the blame. The other classic area is where people implement advanced planning systems (APS) in the belief that complex algorithms will do better than the common-sense knowledge of people.

The temptation is to modify the core ERP system to deliver special requirements. However as soon as you modify the core system you have thrown away one of you most important assets – the standard integrated solution. If you change the core system, the cost of ownership increases dramatically.

No doubt you are thinking that all of this is pure common-sense. Of course it is. However, the issue is that it takes time to tackle some of the behavioural issues implied by the points above. If you are only interested in implementing the software, then taking time is not an option. If you are interested in getting business benefits, you need to take the time.

After all when you need root canal treatment, you want it to be as painless as possible and not to be repeated. That will only happen if you get into the habit of brushing and flossing your teeth! How hard is that?

● *Richard Watkins and Gordon Hammond are founding partners and Chris Edson is an associate of international supply chain education and consulting firm, the Delos Partnership. Tel: +44 (0)1962 878905. Email: richardwatkins@delospartnership.com. Website: www.delospartnership.com.*

● *If you would like more information about this article or any of the products or companies mentioned in the article, please contact us at info@evaluationcentre.com.*