

**pak elektron limited:  
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## Introduction

This is the case of Pak Electron Ltd (PEL), an international manufacturing company based in Pakistan, which is undertaking a drastic overhaul of their information systems. Their two main operating divisions are Power and Appliances, where equipment is delivered to companies in both the public and private sectors. As a result of the two divisions, many of the business processes were developed independently. Previously PEL was using various legacy information systems, such as Visual FoxPro and Visual Studio 2003/2005, for their various business processing (i. e. manufacturing process) and planned to transition to Oracle EBS, an enterprise resource planning (ERP) system. While implementing Oracle EBS, it is evident that PEL has had a very difficult transitioning period. Issues including high staff turnover, cash flow deficiencies, inaccurate financial reporting and being a company with a global presence made it more difficult to implement and integrate the new ERP system with the company's existing Legacy applications.

## Key Stakeholders and Motives

Both the CFO and CIO of PEL understands that data entry is a huge component of the business and hopes to see it become more streamlined with the implementation of Oracle EBS. Once business operations are streamlined, the added efficiency and reduction of errors may provide a boost to company performance and help PEL with competing against rival companies. The new chief financial controller also wants to see the quality and timeliness of data entry and overall business operations to improve through the use of Oracle EBS. The financial controller is understanding of

the fact that with a new ERP system comes a new set of skill requirements and as a result, he wishes to focus on team development and training for both current and new employees in the use of the Oracle EBS software.

Shareholders of PEL wish to see the company prosper and most likely support the reasoning for implementing the new ERP system. They will be looking at the financial statements to determine the impact of the new Oracle BBS on revenue and relevant ratios. If PEL is seeking a loan from a bank to finance this transition, then they must prove to the banks that this new system is in fact worth the risk for potential rewards in order to secure funds. Banks will be interested in the timeline of the project as well as the financial reports for PEL to ensure the company transition to Oracle EBS is smooth, accurate, and beneficial. Moreover, they will be analyzing the potential consequences of the software transition.

#### Constraints and Risks

As mentioned previously, with the implementation of Oracle EBS a new skill set is required for all employees and thus training will be required. The mental capabilities and capacities of the employees is a potential constraint when implementing the new system. There is a running risk that some employees will not have sufficient knowledge to work under the new Oracle EBS. During the transitional period, the costs of the project is another constraint because the timeline for the transition is not clearly defined. Delays with the project are always a possibility, which could make the implementation of Oracle EBS go over budget. Once the new software is completely operational, employees with the new skill set will demand a higher wage or salary.

This is a great motivator for those employees to work hard, but on the other hand, current staff members trained only on the Legacy applications will not be as motivated. Retaining the remaining current employees throughout the transition is another challenge. The overall scattered and segregated structure of PEL poses a problem when developing and implementing the Oracle EBS. It is nearly impossible for one version of any given Oracle EBS module to satisfy the needs of all the different areas of operation within PEL. Modernizing the information systems can cause gaps with regards to old and new information. Certain functions, from either the new or old systems, may not be available as a result of this mixed use of software.

#### Criteria for Successful Implementation

Due to the variety of operations within PEL, the new Oracle EBS system must be tailored to fit the specific needs of each “ silo” of operations. In order to improve the structure that was originally in place at the company, the new Oracle EBS must be customizable for any given area of operations so that any information inputs thereafter can be used company-wide. Any legacy modules that are held over should have a middleware developed for it until a suitable module from the new Oracle EBS becomes available for use. The implementation plan must be actively reviewed throughout the process in order to avoid and/or troubleshoot any unsuspecting problems that may arise. The review process will ensure that the plan is moving along at the intended pace. A review of all legacy modules should be completed to determine and shut down any unused modules as a result of economic developments. This could in turn reduce the amount of work needed to develop and tailor new Oracle EBS modules from the Legacy applications.

## Issues Related to System Implementation at PEL

The implementation of Oracle EBS experienced many delays, which most likely wouldn't have occurred if not for PEL's cash flow problems. Due to the company needing to make a large investment for consultant support, new hardware, and new technical staff, it was decided that implementing the complete Oracle modules would be postponed. However, this led to the problem of transitioning from the Legacy applications to Oracle EBS as the primary system. A temporary solution, the Material Management System (MMS), was developed to bridge both information systems. Although MMS helped to eliminate the Legacy application, there were a few Oracle functions that were unavailable. This delayed the shutdown process of some of the Legacy applications because PEL relied on the Material Requirement Costing System (MRCS) bridged by MMS for at least the first quarter of 2012. Furthermore, the termination of Legacy applications was reliant on Phase II of the project, but it is unclear as to when exactly Phase II will begin to be implemented.

At the end of Phase I, 30 Legacy applications were supposed to be replaced into 8 Oracle EBS modules, however, 26 out of the 33 Legacy applications are currently in use, making the completion timeframe of the Oracle EBS project questionable. Another uncertainty for PEL with regards to cash flow is revenue. According to the PEL Divisional and Consolidated Performance Summary, revenue in the Power department was 50% lower at the 2011 half year mark in comparison to other years and both the power and appliance department are experiencing huge net losses. PEL has never had net losses in the previous years, thus there is concern that the new software

implementation is doing more bad than good for the company. Implementing Oracle EBS has also caused concerns with the effectiveness in hiring new staff and retraining old staff. PEL wanted to hire new employees who were familiar with the Oracle EBS yet still needed employees who had experience with Visual FoxPro. Since Visual FoxPro was last updated in 2007, PEL has had difficulty in finding potential employees who were both knowledgeable with Visual FoxPro and Oracle, especially due to the money constraint.

Due to all the confusion and uncertainty related to the transition, experienced members of the staff quit their jobs. In addition, those experienced members were not happy with the higher salary structure commanded by new employees and had a tough time grasping the functionality of Oracle EBS. PEL most likely contributed money towards the training and development of these employees for Oracle EBS, which was not a wise investment due to the increasing employee turnover. The lack of understanding of Oracle EBS could have been a contributing factor towards the need for extending the period of parallel runs. Getting the systems in place is half the work; the other half being to have employees who are capable of using these systems. Until the official rollout of Oracle EBS occurs, employees would not make an effort to adopt the new software.

Having a high employee turnover rate with employees potentially feeling confused, disgruntled, and insecure about their position at the company along with weak senior management support does not help with the changes being implemented. The overall company structure of PEL contributed to the slow roll out of Oracle EBS. First and foremost, various staff members were responsible for various modules. Either responsibilities were overlapping or

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the amount of support given towards specific modules was spread too thinly, as evidenced in exhibit 10. PEL's business has distinct of production lines and mentions that they each have different cost structures. As a result modules must be specifically tailored to each sector of the business in order to accommodate the special requirements. This will end up being more costly for PEL to roll out the modules and further delay the implementation plan. Furthermore, the workforce of PEL is widespread and it becomes difficult to collectively train all employees at the same pace.

#### Available Alternatives

One alternative is to revert back to the Legacy applications. In the Phase I process of over a year and a half, at least 21 Legacy applications were supposed to be converted into the Oracle EBS modules and only 7 were actually converted. Hence, to save time and money, PEL would be better off with their original business process. Things cannot completely go back to the way they were due to the lower number of staff and change in staff, but if PEL wants to have net profits again, they will find a way to motivate and strengthen their workforce. On the other hand, PEL could keep their current information systems, but take a look into other ERP software that have been released. Since the time when the Oracle BBS software was chosen at the end of 2009, newer and more affordable ERP options have become available and could possibly be a better fit for PEL. When choosing one of these recently available software options, PEL must take the costs and timeframe of the implementation, compatibility with the Legacy applications and Oracle modules, customization of the software, and training and/or hiring of staff into consideration.

As the CFO had already analyzed ERP software solutions in 2007, PEL should hire an information systems consultant to review the current state of the company's ERP system and determine the best solution to help move the company forward. If PEL still believes that the Oracle EBS software is the best solution for the company, they could also hire the information systems consultant to work with Iftikhar Ahmed to analyze the past months of implementation and suggest where improvements can be made. Although this will be another cost for PEL, the savings from the consultant's suggestions would outweigh that cost. The consultant could help PEL figure out how to conclude the implementation of Oracle EBS by their deadline, the first quarter of 2012.

Senior management will have to be much more involved with the ERP project, especially since this has now become a serious business priority. They will have to find additional ways to raise the capital needed for the complete transition of Oracle EBS. One possibility is a larger bank loan with higher interest to mitigate the risk. PEL can convince the bank that with their new manufacturing facility and company restructuring, revenue will increase in the future. Another possibility is raising more capital, but PEL will have to take their major shareholder Saigol Group of companies into consideration.

### Recommendations

With all the issues regarding cash flows, PEL should do one of two things to alleviate their problems. Their first choice is to take a step back from the implementation plan, pick and choose specific modules they wish to roll out right away, and focus most, if not all, of their attention into successfully rolling out the desired modules. A concentrated amount of work and effort



can lead to quicker implementations of a limited amount of modules, which is an improvement in comparison to the semi-complete module implementations PEL is currently struggling to implement. The second, better alternative is to forego the implementation of Oracle EBS and seek a new ERP system. It is noted that PEL performed research two years prior to selecting Oracle EBS. It is possible that by the time they decided to implement Oracle EBS, there could have been a new ERP system on the market that was more compatible for their business as a whole. Based on our review, it is recommended that PEL take the latter option since a fresh start can essentially resolve all of the current implementation issues.

The recommendation does require another large investment into a new ERP system, but chances are the other solution will be an overall better fit for the company and will not likely experience as many delays during the implementation when compared to the situation at hand with Oracle EBS. The recommendation is made based on trying to eliminate the issues PEL faces as mentioned above. Based on recent financial statements, PEL has never experienced any financial losses until they took on the Oracle EBS project, currently sitting at a net loss of over \$5 million. This project is clearly a detriment to PEL financially and at the rate they're progressing with the project there seems to be no relief or end in sight. Microsoft Dynamics GP is a promising ERP alternative that shares similar data language with the legacy applications currently still in use at PEL.

Sharing a common data language, Visual Studio and core functionality may ease the learning process for new employees as they train to use Microsoft Dynamics GP. Using this software will allow PEL to retain their experienced

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staff as well as retain their new, recently hired employees because the company will be going back to their original goals and values, yet maintaining a modern outlook with their information systems. The commonality will ease the transferring of old data from legacy applications over towards Microsoft Dynamics GP thereby eliminating the need for bridging software, which has caused headaches for PEL during their current transition. It is clear that Microsoft Dynamics GP will unlikely face the same implementation issues as Oracle EBS and this is critical for a company with such a vast and complex company structure.

Microsoft Dynamics also offers their RapidStart Services to help with the transition from legacy programs to their new system, taking less time and less risk. Microsoft Dynamics has a starter version offering core financial and distribution functionality; it is a great way for PEL to experiment with the ERP at a low cost to evaluate its effectiveness and ease of accessibility. As a large corporation, Microsoft offers a lot of support with its software, such as unlimited online training, constant updates to the software and competitive pricing versus other competing ERPs. This is sure to ease the transitioning process as well as ensuring the smooth operation of the business going forward. If Microsoft Dynamics is deemed unsuitable, then PEL could choose among various other ERP systems that could cost the company anywhere from \$150k to \$750k to implement.

#### Impact on PEL of Change from Microsoft to Oracle

Net losses began to occur in 2011, with revenue being noticeably lower compared to 2009 and 2010. Differences in the Legacy applications and the Oracle EBS software caused achievements and challenges in the transition.

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PEL managed to successfully increase the storage capacity, making it heavy duty and fast to meet the Oracle EBS requirements. However, information for the 25 sales offices and warehouses across Pakistan need to be linked under a Wide Area Network (WAN) and staff need to be trained. With the delay in implementation and being outside of the ERP processing, some of the information in these remote locations was not up to date. For the in-house developed MRCS software, the switchover to Oracle EBS cannot take place until the 2011 year end.

This led to the temporary bridging software MMS, in which some Oracle EBS functions would not be available. So far senior management has not been directly engaged with the Oracle EBS project and staff shrunk by 20% because of the change and its implications. The old employees felt uncertain about their future with the company because they were not familiar with the Oracle software and were concerned about PEL's cash flow problems.

Training was not very effective because employees are still having trouble using the Oracle EBS software. In addition to the information systems troubles, PEL's agreement with LG for distribution was discontinued and their dealership of Carrier air conditioning expired, which has a negative impact on cash flow.