Success and failure of erp implementation assignment

Business, Management

Success and Failures of ERP Implementation Abstract – this paper will discuss will discuss how to be successful and avoid failure when implementing an ERP system. I will define ERP, present the significant benefits of implementation, and identify the missteps (which may lead to failure)/steps to success in implementing an ERP system. The ERP System Defined Enterprise resource planning (ERP) is an enterprise-wide information system that integrates and controls all the business processes in the entire organization.

According to Muscatello and Chen, " a typical ERP system integrates all of a company's functions by allowing the modules to share and transfer information freely. " The information is centralized in a single relational database accessible by all modules, eliminating the need for multiple entries of the same data. An ERP system allows management to understand what is happening with customers, suppliers, and employees. There are four components to an ERP system: ERP software, business processes, the users, and hardware/operating systems.

The ERP software is the first component and core of the ERP system. The ERP software consists of modules and each module provides unique functionality for a specific business process. Some of the modules are accounts payable, asset accounting, financial accounting, general ledger, human resources, material management, plant maintenance, project systems, and travel management. Business processes is the next component to an ERP system. There are three levels to business processes: management control, operational control, and strategic planning.

ERP streamlines and supports business processes at all three levels. The users are an important component because they input data into the ERP and use the information to make decisions. Hardware/operating systems are another vital within an ERP system. The appropriate and sufficient operating systems and hardware are necessary to support and run the ERP software efficiently; without it the ERP software would not be able to support the expected workload. SIGNIFICANT BENEFITS OF ERP

ERP systems provide significant benefits, and companies adopt them with the goal of replacing inefficient stand-alone legacy systems, increasing information processing efficiencies, improving customer relations, and improving overall decision making. " Owens Corning claims ERP software helped it save $50 million in logistics, materials management, and sourcing. " (Umble and Umble, 2002) Some of the significant benefits are access to real-time data, an audit trail, online availability, and integrated modules. Real-time is where information is updated immediately in the system as the data is saved.

Operations costs are reduced and improved access to real-time, integrated information. Transactions can be tracked to the person entering or changing data by their User ID. Online access displays information and reports as needed, reduces the need for off-line spreadsheets, and enables faster monthly and year-end financial closings. Integrated modules allow information input into them to be communicated to other modules. They also eliminate the duplication of data and increases data accuracy. Integrated

modules increase the coordination between offices and supply standard of data for all users.

IMPLEMENTING AN ERP SYSTEM Implementation of an ERP does not come without significant technical and managerial challenges, huge financial investments, and a great deal of organizational change. " The cost of a modest ERP implementation can range from $2 million to $4 million, depending on the size of the organization and the specific products and services purchased from vendors. The cost of a full blown implementation in a large organization can easily exceed $100 million. " (Umble and Umble, 2002) Corey Eaves states, "…more than 40% of ERP implementations fail to achieve even half the planned business benefits. ERP systems take a lot of time and money to implement; even successful implementations can disrupt a company's culture, create extensive training requirements, and lead to productivity dips and mishandled customer orders that can temporarily damage the bottom line. Operational problems at Hershey Foods, Whirlpool, and FoxMeyer Drugs have been blamed on poor implementation. ERP projects fail for a number of reasons: poor strategic planning, no review of current business processes, inaccurate data collection, inadequate education/training, and insufficient testing.

Management may also fail to assess risk associated with implementing an ERP system. There are many risk factors associated with ERP projects: inadequate ERP selection, poor project team skills, low top management team involvement, and inadequate training to name a few. (Iskanius, 2009) All projects begin with a plan; but sometimes the plan is not realistic,

detailed or specific enough. Management may have high-level plans with broad assumptions or underestimate the actual change involved. A good plan will identify all the requirements, be detailed including a logical sequence of tasks.

A risk management plan should be adopted at different ERP implementation stages; selection, implementation, and usage. (Iskanius, 2009) Managers may not be prepared for the scope, size or complexity of an ERP implementation; so they may not maintain the necessary level of detailed project management planning and control. Managers should be fully dedicated to the project. Existing business processes should be reengineered; this aids in identifying and improving the efficiency of critical operations, on restructuring the important non-value-adding operations, and elimination of inefficient processes. (Muscatello and Chen, 2008)

Current data has to be analyzed to identify errors and what should be converted in the new ERP system. Inaccurate and erroneous data may have a negative effect on the enterprise and can also lead to errors in market planning, production planning, procurement, etc. If a company does not clean up their old data, the ERP loses credibility and is useless. Inadequate education/training is a significant component for failure. There is a shortage of people with ERP skills and a good understanding of business and ERP systems. Assessing the needs for training usually uncovers several training and skills deficiencies.

Reassignment, outsourcing, replacement of staff, hiring new personnel with substantial ERP knowledge, or training of managers and key employees are solutions to training deficiencies. (Muscatello and Chen, 2008) Project team members should be assigned to run in-house training prior to and during implementation as well as follow-up training after implementation. A failure to educate and train all relevant personnel will guarantee implementation problems. Testing of ERP is one of the first areas to get cut when implementation is running behind schedule, the number and depth of test cycles is reduced. Eaves, 2010) Testing of the system is necessary to see whether business needs are met and the necessary output is produced. Reduced testing may lead to undetected defects and an increased risk of the ERP system missing important functions. CONCLUSION The implementation of an ERP system should provide a company with an enterprise-wide information system that enhances operational efficiency and effectiveness. A successful implementation requires people, departments, processes, and organizations to change and be totally committed. The implementation should be viewed as an ongoing process instead of a one time thing.

Old systems and processes need to be reviewed and either eliminated or reengineered. Education and training should continue to evolve over time. Firms should believe the use of outside consultants to supplement internal staff is an acceptable and desirable practice. Testing of the new system is critical. All modules must be tested to identify bugs in the software and whether the system can handle large amounts of data. The bottom line is proper planning in the early phase of implementation can avoid failure. ERP

FAILURE EXAMPLES (provided by ComputerWorld UK) Hershey's In November 1999, Hershey's reported a 19% drop in third quarter net earnings, and placed part of the blame on " computer problems". The chocolate bar maker was having problems with its new order-taking and distribution computer system, a $112 million combination of software from ERP maker SAP, customer relationship management (CRM) provider Siebel and supply chain software from Manugistics. The problems meant Hershey was unable to deliver $100 million worth of Kisses and Jolly Ranchers for Halloween that year, and also impacted performance through the high margin seasons of Christmas and Easter.

SAP has since worked with Hershey's to fix the problems. • Whirlpool In early November 1999, Whirlpool blamed a shipment delay in part to its SAP implementation which went live two months prior. Apparently, orders for quantities smaller than one truckload had faced snags in the areas of order processing, tracking and invoicing. SAP reportedly said Whirlpool went live with the software before adequately testing it, and preparing their supply chain. • Invacare Medical care company Invacare lost $30m as a result of a bungled Oracle ERP implementation. Invacare said the fault lay with its specific set-up rather than faults with the software.

When the implementation went live in October there were problems with the order-to-cash process, despite it having been tested prior to the system going live. • W. L. Gore and Associates W. L. Gore and Associates filed a lawsuit against consulting firm Deloitte & Touche and PeopleSoft over an allegedly botched attempt to install PeopleSoft's HR module. The makers of

Gore-Tex, a waterproof fibre used in outdoor wear, claimed it ended up paying the consultancy twice Deloitte & Touche's original estimate, and in the end had to bring in another firm to " re-implement" the system.

Gore also sued PeopleSoft suit, alleging the vendor sent in unqualified consultants to do the job, by recommending Deloitte & Touche. The report stated: " Gore seeks compensation in the millions of dollars for damages it suffered because of PeopleSoft's and Deloitte & Touche's scheme to defraud and failure to perform as promised". REFERENCES Chapman, S. (2007). Computer World UK. Retrieved July 17, 2010 from: http://www. computerworlduk. com/management/it-business/supplier-relations/news - analysis/index. cfm? articleid= 564 Eaves, C. 2010). General Atlantic. Retrieved July 16, 2010 from: http://www. generalatlantic. com/en/news/article/1223 Iskanius, P. (2009). World Congress on Engineering. Retrieved July 15, 2010 from: http://www. iaeng. org/publication/WCE2009/WCE2009_pp752-756. pdf Muscatello, J. , & Chen, I. (2008). Enterprise resource planning (ERP) implementations: theory and practice. International Journal of Enterprise Information Systems, 4(1), 63-78. Umble, E. , & Umble, M. (2002). Avoiding ERP implementation failure. Industrial Management, 44(1), 25-33.