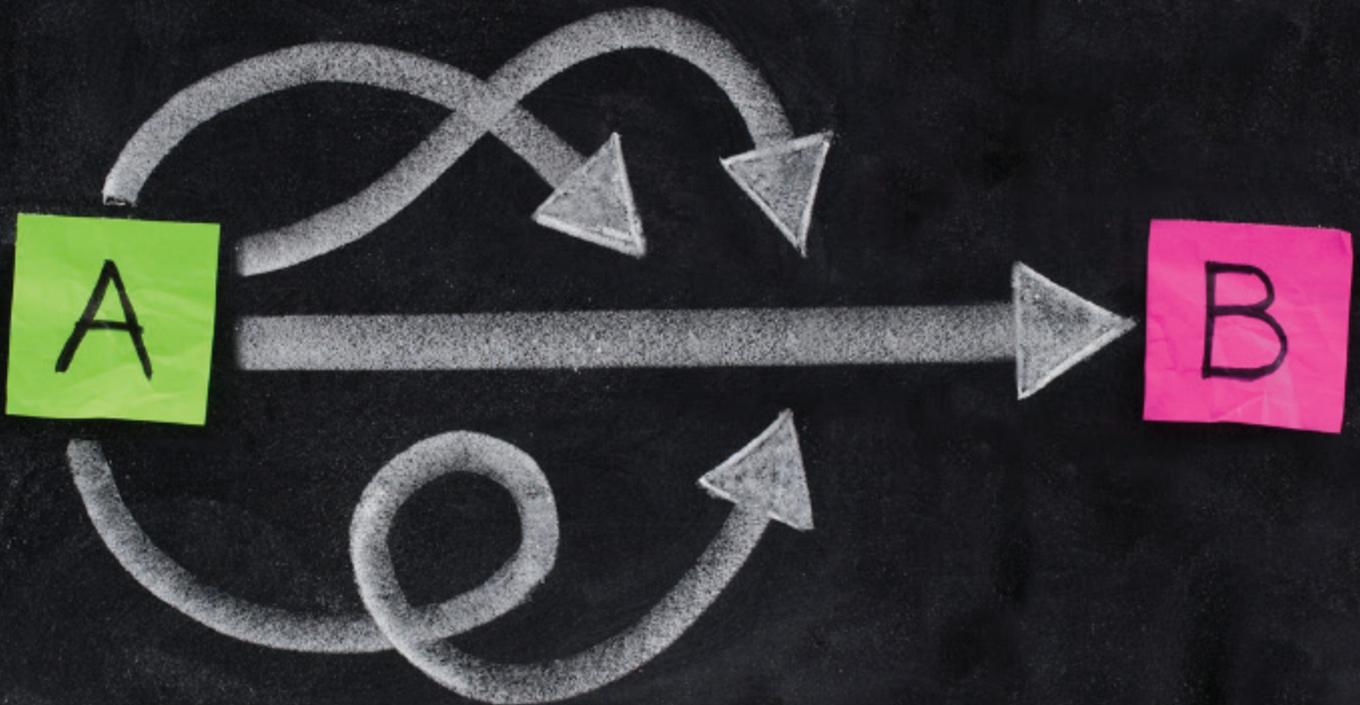# The Top 3 Reasons Why ERP Transformations Fail—And How You Can Avoid Them

The Top 3 Reasons Why ERP Transformations Fail—And How You Can Avoid Them

By Tim Buckley

All too many businesses have implemented new ERP systems expecting business benefits to magically fall into place, only to be disappointed. They expect that new technology suites will somehow simply transform previous economic inefficiencies into a streamlined operation with smoothly flowing processes across multiple time zones and countries.

If only it were that easy. Typically companies that have tried and failed to tackle this kind of project can lay the blame on any of these three issues:

1. **Lack of a sponsor at all levels:** Any project without support from its top management will fail—and an ERP project absolutely requires the CEO to lead the initiative and continue to be actively involved with other directors as the program progresses.

2. **No business buy-in from the start or subsequent ownership:** Whether the initiative comes from Finance, HR, IT, or elsewhere, if the stakeholders fail to understand and appreciate the new ERP business objectives, you'll get push back instead of engagement. If the only decision maker is an external project manager, you'll kill internal support for change.

3. **No clear strategic vision or agreement on the scope of the ERP project:** If your organization fails to fully develop the scope of the program or understand how long it may take to realize its benefits, and if there's no detailed plan with resources for each step or business requirements validation, conflicting or muddled process design will inevitably be built into the system.

What Does a Successful ERP Transformation Look Like?

Your goal with an ERP transformation is to create a centralized reporting model. At the heart of the project is a strong mix of technology and business processes that promote efficiency and consistency. Centers of excellence provide an overall view of the system and ensure it adheres to the design principles agreed to at the beginning of the design cycle. Centers of excellence also act as gatekeepers for any changes requested by the business. They house subject matter experts who can respond to all queries, even those that are not covered by existing policy.

Once ERP has successfully been established, the business can be left to do what it does best, with transactional processing (i.e., back office and support functions) brought

into a shared services environment. Similarly, centers of excellence for group procurement, treasury, and HR functions can also be created.

We have been working with an EMEA telecommunications provider with operations in 21 countries on two continents. Their existing business processes and systems didn't facilitate a clear understanding of the true operations costs in each country, and the company wanted to maximize efficiency in their back-office processes.

Their vision of standardizing processes and having all of the operating companies in each country on the same end-to-end set of business processes, enterprise performance management and application platforms would help make the comparisons between operating companies simpler, especially as they grow.

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The company wisely gave itself the time to benchmark against their peers, and then spent a year comparing successful projects against failures—essentially giving them a "last mover advantage." They also incentivized support among senior managers by tying bonuses to the achievement of key project milestones and of cashable savings.

In the transformation, 11.5% of the total business case was attributable to savings in Finance people costs, which meant 8% of the total back office process expense was removed. Based on the results, key team members were rewarded accordingly.

For Finance groups, ERP transformations will improve the organization's ability to manage itself, with timelier reporting, improved and more accurate transactional processes, and improved controls and delegations of authority. But for an ERP project to truly pay for itself it must go beyond finance and extend to the larger organization, including procurement and manufacturing.

Launching the Project

As you begin your project it's essential to have a fully developed business case in place to identify and crystalize the benefits that you aim to achieve. The business case will give the team a focus, including setting a timeline for achieving the anticipated benefits. Additionally, it will:

- Identify the key individuals needed to make the project succeed (and plan back-fills where appropriate).

- Obtain buy-in from the key executives, functions, and department heads so they take ownership right from the start and become part of the process. This will ensure existing pain points are taken into account.

- Set clear expectations of all parties and establish what each party needs to deliver to achieve success. If the parties make that commitment, buy-in on the ground becomes more assured.

Be sure to include a baseline of your pre-project costs so that you can effectively monitor savings achieved by the project.

With that settled, more granular, detailed project planning can take place. Your key steps include:

- Identify the functions the proposed ERP will cover—which then address the areas and processes to be affected.

- Determine what ERP will be used. Will you use the existing one, upgrade it, or implement a new one?

- Identify what you intend to achieve—for example, procurement centralization. This will focus your process redesign work. Your aim is to implement standard processes across the entire organization to maximize efficiency and align processes with the standard ERP process flow to minimize customization.

- Design and validate the processes.

- Identify a small part of the business within the organization where you can pilot the new system. The goal is to identify an operation where you can test whether the processes work and make corrections so the plan can gradually be rolled out to the rest of the organization.

While the time it takes to complete an ERP project depends on the size of the organization, a majority of ERP projects we've worked on have taken two to three years to complete. Usually it takes only one pilot project involving a medium-size business that will cover the range of processes being rolled out. At that point, you can begin a phased roll out to the rest of the organization.

Pre-planning for reorganizing the transaction processes for the new service delivery and splitting out the centers of excellence is vital. A finance transformation has the potential to re-shape the future of the company, and the level of change management that's required cannot be overstated.

A Measure of Success

How do you know if the new project is working? We believe the best indication is that you have experienced a smooth transition to the new processes without detriment to customer service; that you achieved the efficiencies and benefits your business case called for; and that you met your budget.

No matter how well your project goes, inevitably there will be some push back. One issue that can arise is that when you bring the various parts of the business onto a common platform there's going to be significant process change. Some people in the organization will challenge why they now have to do things differently. With a strong business case and strong C-suite support, you should be able to manage that, especially with good communications.

Another very real issue is that ERP implementation is likely to bring shared services and work centralization into play. This could result in some job loss, as the process transfers to the shared services. The key message to counter this is that the new ERP strategy will free up local staff to focus on the business and value-added work, not repetitive tasks, which are now done by shared services.

Technology, as critical as it is, is by no account the sole means of transforming a business into a streamlined organization. Companies that implement new ERP systems can enjoy tremendous benefits if they take the right steps to plan the project and secure buy-in before tackling the job. In these competitive times, the smoother and more accurate your processes, the more confident you can be in your success.

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