Top three risk factors affecting the success of your ERP investment

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Many organisations have placed tremendous efforts in implementing a new ERP system or improving their current system. They correctly believed that the ERP system would bring lots of advantages to their organisation, such as process efficiency improvements, benefits of a single database, and data analytics capabilities for corporate strategy. However, many of these organisations failed to successfully implement their ERP system by underestimating the risks involved in each phase of the system development life cycle (SDLC), from software selection, planning, implementation, project closure, transition to operation, and operation to retirement.

Relative importance of various ERP investment risk factors

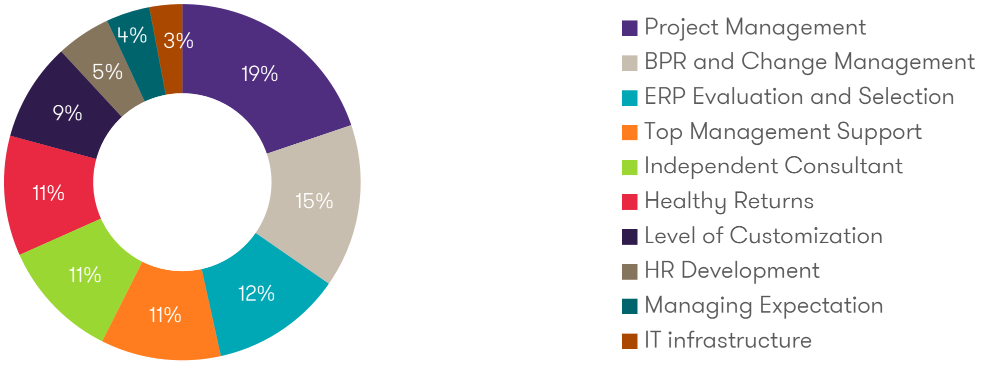

Figure 1: The graph illustrates the relative importance of each risk factor involved in an ERP investment (ISACA, 2013)

It may be evaluated from the graph above that although there are several factors affecting your success in implementing an ERP system, there are three key elements that are most often identified as causes of an unsuccessful investment. These three crucial aspects discussed here are Project Management, Business Process Reengineering and Change Management, and thirdly, ERP Evaluation and Selection. Thus, it is key that organisations put more focus and effort on these three aspects in order to mitigate the risk of an unsuccessful ERP investment.

The first and upmost important factor affecting your ERP implementation success is having improper Project Management. ERP implementation projects have a defined timeline with a beginning and an end, which usually ranges between four to eighteen months. It is of key importance that businesses have a fulltime project manager during this period, since the implementation process requires significant contribution from users and decision making by the project manager in protecting the firm's interests. Although ERP vendors usually assign a fulltime Project Management Officer (PMO) to manage the project, it is equally important for companies to have a PMO at their end to provide any needed support and act as a single point of contact as well.

However, despite its importance, many businesses fail to assign a fulltime PMO for the required duration. It must be valued that your PMO plays a significant role in delivering the project on time, within the budget, and to the expected quality and performance. The individual is to ensure that the project is efficiently resourced and manages fundamental relationships with a variety of groups, including the management, users, implementers, and other third parties involved. The project manager on behalf of the company may be an employee with substantial knowledge and experience or a professional project manager with direct experience in ERP implementation and project management.

The second key factor that often affects the success of an ERP investment is related to Business Process Reengineering (BPR) and Change Management. An ERP investment almost always requires reengineering of existing processes. Therefore, companies must consider visualising their 'Future' or 'To-Be' business processes post-implementation. However, many organisations lack the experience and knowledge in designing new business processes because they are not fully aware of how to utilise their selected ERP's functionalities, how to streamline their business processes, and how to improve their operational efficiency through innovation and modern technology.

Moreover, companies also need to prepare for the changes that occur during and post-implementation. Change management is not just a tool for managing employee resistance towards a new system, but it is most effective when utilised as a tool in engaging all employees in the changes happening. By performing change management and managing it appropriately, employees will understand their new role and new business processes, which then enable them to perform optimally once the new system has been implemented, eliminating any bottlenecks and delays in the timeline.

The third important risk element that can cause an unsuccessful implementation is improper ERP Evaluation and Selection. Since ERP licenses and implementation generally involves a lot of expenses relative to acquiring other systems, most companies over-emphasise each system's acquisition cost as a deciding factor. In doing this, they fail to compare other vital issues such as, system functionality in correspondence with the business requirements, the implementer's experience and other aspects. As a result, often times, the selected ERP does not match the business requirements, is not flexible enough for customisation, and ultimately causes the company to reinvest in another ERP system.

The ERP investment risk factors from above and their corresponding elements of concern can be summarised in the following table:

ERP investment risk factor and their corresponding elements of concern

Project management	BPR and change management	ERP evaluation and selection
• Implementation plan	• Business requirements evaluation	• Business requirements definition
• Budget estimates	• Strategic alignment	• Vendor evaluation
• Schedule estimates	• Business process mapping	• ERP software's suitability for its purpose
• Project manager's capability	• Business process standardisation	• Performance measures for the system
• Team responsibility and commitment	• Fitness of the ERP system and its processes	• Defining deadline and milestones
• Quality testing	• Proper organisational change management	• Timely implementation
• Project monitoring and control	• User involvement in BPR (design, testing and training)	• Detailed project plan

In order to ensure that your ERP investment is worth your time, capital, and achieves your target of optimising enterprise performance, your company could reduce or eliminate these risk factors by choosing qualified and experienced consultants to help manage your ERP implementation. Our capable and experienced consultants at Grant Thornton can assist you in all phases of SDLC from BPR, software selection, and project management to change management. You can explore more about us at www.grantthornton.co.th

References
ISACA. (2013). Creating the Business Case for ERP System Acquisitions using GEIT. Governance and Management of Enterprise IT, 33-38.

Contact us

To explore how your business could improve ERP investment, please contact one of our specialists.

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