

ORGANIZATIONAL CHANGE MANAGEMENT REPORT



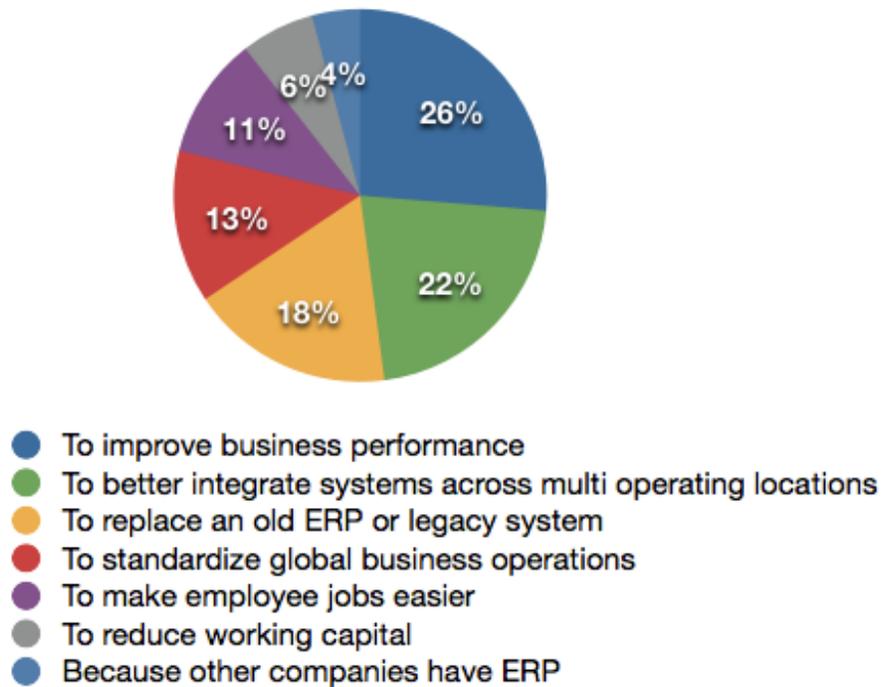
Introduction

Panorama Consulting Solutions has been conducting enterprise resource planning (ERP) industry research since 2005. In each of our benchmark reports, which have been published annually since 2008, we have collected critical information about the role of organizational change management (OCM) in ERP software selection, implementation and recovery projects.

The purpose of this report is to share the insights on OCM that we have collected from end-users, executives, project team members and subject matter experts related to their experiences with ERP initiatives in general as well as OCM. It also identifies several opportunity areas for further research into the role of OCM in successful ERP implementations.

To provide some context for this report, enterprise systems are designed to integrate key operations across an organization, from planning through execution, management and control. ERP is intended to improve and streamline internal business processes. Panorama's **2010 ERP Report** lists seven major reasons why companies implement ERP systems (Figure 1).

Figure 1: Reason for Implementing ERP



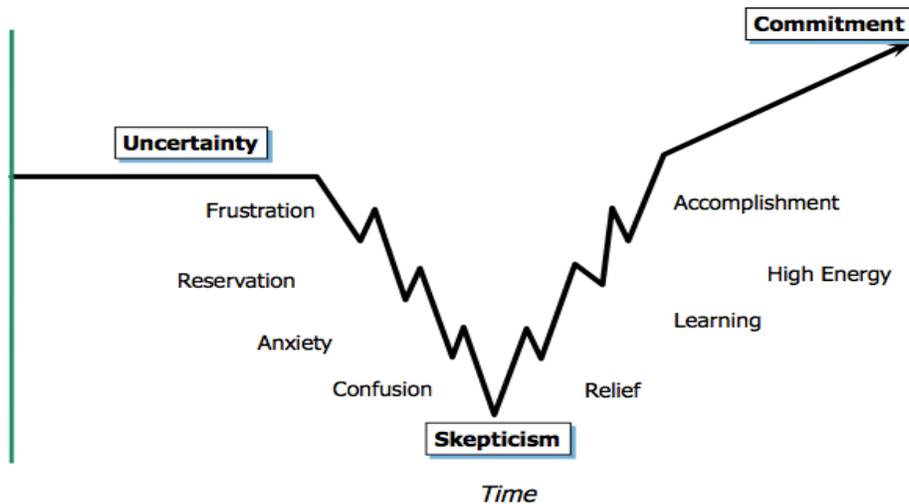
The top reason cited by 26-percent of survey participants for implementing ERP is to

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improve business performance. More than one out of five respondents (22-percent) implemented enterprise software to better integrate systems across multi-operating locations and nearly the same amount (18-percent) implemented it to replace an old system.

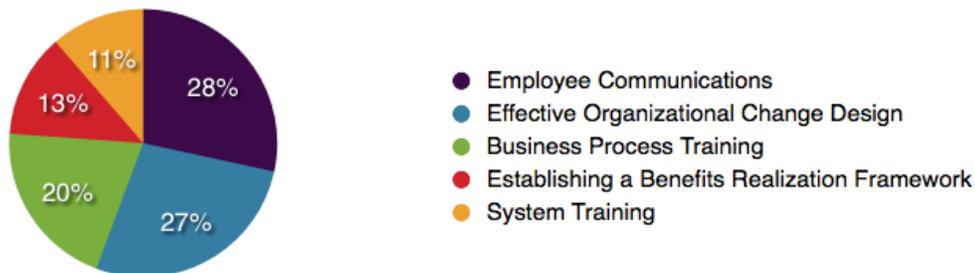
It is important to note that an ERP implementation profoundly impacts overall business performance as well as the daily jobs of individual employees. Said another way, changes to technology deeply affect both processes and people. Regardless of the reason a company chooses to implement enterprise software, Panorama's OCM methodology focuses on ensuring that the "people side" of the implementation is addressed appropriately. Although change of just about any sort inevitably results in an initial decline in productivity and motivation (as seen in the change curve illustration below), effective OCM is proven to minimize this risk.



Organizational Change Management Focus

When survey participants were asked to identify the most important OCM activity, 28-percent responded that “employee communications” is the most important activity and 27-percent chose “effective organizational change design.” One out of five respondents (20-percent) chose “business process training.”

Figure 2: The Most Important OCM Activity



These results clearly show that communication, organizational change design and business process training are considerably more valued than establishing a benefits realization framework (13-percent) or even system training (11-percent). These results are encouraging as it is evident that respondents realize that the efforts required to truly manage organizational change must extend well beyond training.

For further edification on these three key OCM activities, please see the following:

- **Employee communications** mirror the level of commitment that leadership has towards partnering and supporting their employees. The execution of a quality communications plan engages and prepares end-users and results in project buy-in and engagement from employees, customers and other key stakeholders.
- **Organizational change design** involves a methodical assessment of how the change impacts are analyzed, allowing expectations to be managed and major decisions to align with business objectives.
- **Business process training** is focused on ensuring every employee understands how his or her individual job (and related processes) will change once the system is implemented. For optimal system usage, it is critical that organizations understand the difference between process training and transactional training and provide the resources and materials to serve both.

One somewhat troubling result of the survey is the lack of importance placed on the establishment of a benefits realization plan or framework. Clearly defining this

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architecture helps organizations know exactly why the system is being implemented, what will be gained from the implementation and how those gains will be measured. Not focusing on benefits realization, however, greatly undermines the foundational strength of an ERP project. Without a business case to define which processes will deliver the most value, it is nearly impossible to align business decisions with best outcomes.

Panorama's proprietary PERFECT Change™ OCM methodology includes seven key elements: project planning, communication and alignment, change impact analysis, organizational design, organizational readiness, training and benefits realization. Activities within this scope typically include evaluation, development, reporting and recommendations to achieve any performance or organizational goals stated by the organization. Each element is selected after careful evaluation of the client and collaboration with the client project team to evaluate each element's validity with regards to the project scope, corporate culture and overall objectives.

In order to effectively manage an OCM campaign, Panorama evaluates the efficacy of the campaign's communications, messaging and training. These assessments are critical to project success as they provide both qualitative and quantitative data points about the state of mind of the executives, core team and end-users with regards to the ERP project and the organization on a whole. When appropriate messaging and delivery are adjusted to reflect the feedback collected in the assessment.

Assessing the Amount and Type of Change

Successful organizations are continuously evolving. Organizations are well aware that change must be constant in order to maintain and extend competitive advantage.

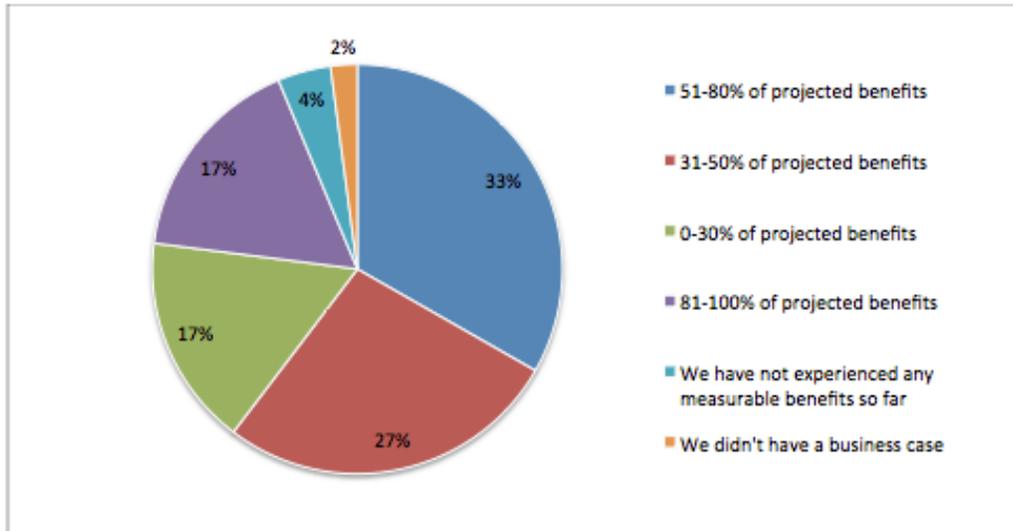
Panorama's survey results reflect that 67-percent of respondents had experienced an ERP or large IT implementation in the last three years. The frequency of changing office locations, reductions in workforce, new executive leadership and mergers/acquisitions, all add a significant amount of change to the workplace and need to be quantified and qualified. Understanding the capacity for any company to absorb the amount of change involved in an ERP implementation requires the ability to assess the current level of "fatigue" and to forecast the amount of change to come.

Panorama's **2012 ERP Report** revealed that nearly half of companies (41-percent) changed their business processes during an ERP implementation to accommodate the new system and functionality. As stands to reason, such a scenario would require more learning and training for users than one in which systems were customized to match current processes. OCM analysis focuses on recommending the right strategy for the amount of and types of change. The more emotionally charged changes (such as impending layoffs, organizational restructuring, retiring systems or processes which have been built and maintained by the employees, etc.) clearly require more formal and informal involvement from leadership. Less emotionally charged changes (such as new systems, new documentation or new training requirements) can be addressed through more traditional communications and education.

Realized Business Benefits

Panorama’s study shows that 48-percent of companies realized less than 50-percent of the business benefits they expected to achieve through their ERP implementations:

Figure 3: Percent of Benefits Realized



ERP software is traditionally implemented by the strongest, smartest and most well-managed companies in the world. Why, then, do nearly half of ERP projects achieve such a low level of benefits realization?

One reason we have seen time and again is that leadership implements ERP systems that deliver improvements in business performances, but they often underestimate how much the ensuing changes in business processes will affect their employees and the way they do business. It is these changes – big and small – that can derail system usage, breed resentment within the organization and undermine the project and its benefits.

A smart organizational change management strategy analyzes specific change impacts and delivers the tactical plan necessary to engage and inform every user from every functional area. ERP benefits realization is strongly tied to the effectiveness of this process. Software does not deliver benefits or performance improvements, people do.

Well-defined Business Case

A solid business case is essential to the success of an ERP implementation. ERP is about optimizing business processes to reap benefits and thus should never be considered solely an IT project. What really matters is what an organization plans to achieve by implementing the software, how it will reach those goals and how it will measure the results. In order to achieve maximum business benefits, organizations must invest in the creation of a well-defined and validated business case prior to proceeding with the ERP implementation.

ERP software vendors may claim that implementing their product will result in a short payback period with a healthy return on investment (ROI). But, in truth, ROI can only be truly measured (and thus achieved) by developing a realistic business case. However, developing a business case is only half the battle; tracking and realizing business benefits is the other half. Efficient organizational change management can help organizations optimize benefits realization by ensuring the goals of the project are well-defined and agreed upon and that the action steps and accountability measures are in place.

Executive Commitment and Support

One of the major causes of ERP failure is a lack of executive and management commitment, alignment and support. It is imperative for an ERP project to be overseen by an ERP executive steering committee composed of leaders who are key decision-makers for the project. Furthermore, the steering committee should take a proactive role in the identification and resolution of any outstanding issues before, during and even after the ERP software implementation. There is no denying the fact that the implementation of a new ERP system (or the upgrade of an existing one) affects the entire organization, but its success or failure starts (and ends) in the boardroom. Therefore, organizational change management is critical to ensure a successful human interface during and after the ERP project at the executive *and* end-user levels.

Organizational Commitment to ERP Implementation								
Level Of Commitment*	CEO or Gen. Mgr.	CFO	CIO	BOD	Mid-level Mgrs	Employees	Consultants / Contractors	Overall
★★★★★	24%	23%	33%	15%	13%	9%	28%	21%
★★★★	23%	22%	23%	30%	23%	18%	26%	24%
★★★	16%	18%	15%	21%	26%	29%	17%	20%
★★	15%	22%	14%	13%	20%	24%	9%	17%
★	22%	15%	15%	21%	18%	20%	20%	19%
Total	100 %	100 %	100 %	100%	100%	100%	100%	100%

- *★★★★★ Excellent buy-in and support
- ★★★★ Strong buy-in and support
- ★★★ Fairly strong buy-in and support
- ★★ Some buy-in and support
- ★ Very little buy-in and support

As seen in the table above (referenced in the **2010 ERP Report**), the level of commitment to an ERP implementation varies by different job functions.

Overall, 45-percent of companies have strong to excellent levels of organizational commitment, and 37-percent indicate fairly strong or some support. Nearly one out of five respondents (19-percent) indicate that they have very low support for their ERP initiative. CEOs, CFOs and CIOs demonstrate strong to excellent buy-in and support (47-percent, 45-percent and 56-percent, respectively).

Executive buy-in is not the only game in town, however. Employee commitment is also critical to ERP success. In this study, only 9-percent of organizations indicate excellent commitment from their general employees. A further 18-percent indicate strong commitment from this group. Employees are the end-users of an ERP system and are often overwhelmed with changes to their jobs. Organizational change management programs provide a structured approach to addressing barriers to success, capitalizing on employee “evangelists” and/or advocates, and supporting all functional areas through the very real – and very specific – challenges of transition.

In order to have a successful ERP project, executives must be willing to be flexible with their employees and responsive to their wants and needs. An organizational change management initiative helps to enforce management’s commitment to new technology by improving communication, transferring knowledge and driving in the key messages supporting the project. The continued application of change management techniques ensures all levels of the organization are united and working towards the same end result: ERP success.

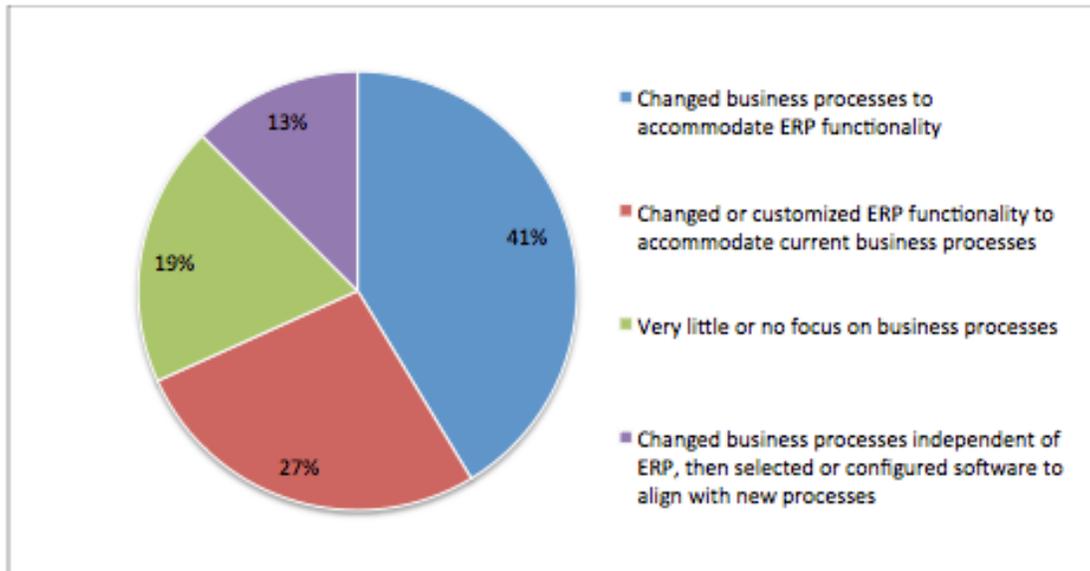
Business Process Reengineering

Whether or not organizations realize it, reengineering business processes is the ultimate goal of implementing an enterprise solution. But no improvement will ever be recognized unless employees understand and accept the new processes. Panorama understands this and has woven our business process management and organizational change management practice areas specifically to address this challenge. Panorama's dual approach helps to optimize processes and then explain and teach the new processes to end-users.

One of the controversial discussions in the ERP world is whether an organization should change its processes to fit its new ERP software or the software to fit its old processes.

Figure 4, below, shows that nearly half (41-percent) of respondents surveyed for the **2012 ERP Report** indicate that their organizations changed business processes to accommodate ERP functionality.

Figure 4: Business Process Improvement Focus during ERP Implementation



As a result, these companies will need to make numerous changes to the ways they do business – all of which will directly impact the organization's employees and their daily tasks. A solid organizational change management initiative will inform users of the reasons behind the changes, work to make them understand the importance of using the new processes and ensure they are properly trained in both ERP technology and the processes that they must use moving forward.

Roughly one in four respondents (27-percent) indicate that their organizations changed or customized ERP functionality to accommodate current business processes. This road

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typically requires arduous and costly customizations to the system and at least a reasonable amount of attention devoted to the definition of current business processes. In such a situation, it is important to get alignment and understanding among various business units and geographies on how their businesses currently operate, especially in very large organizations. In this case, organizational change management activities would be critical to track how employees are doing their work and help determine the key operational pain points in order to prioritize customization, integration and reporting needs after the software is selected. While it can behoove a company to change non-differentiating processes, Panorama methodology shows that the *software* should be changed to protect any process that provides competitive advantage or differentiation.

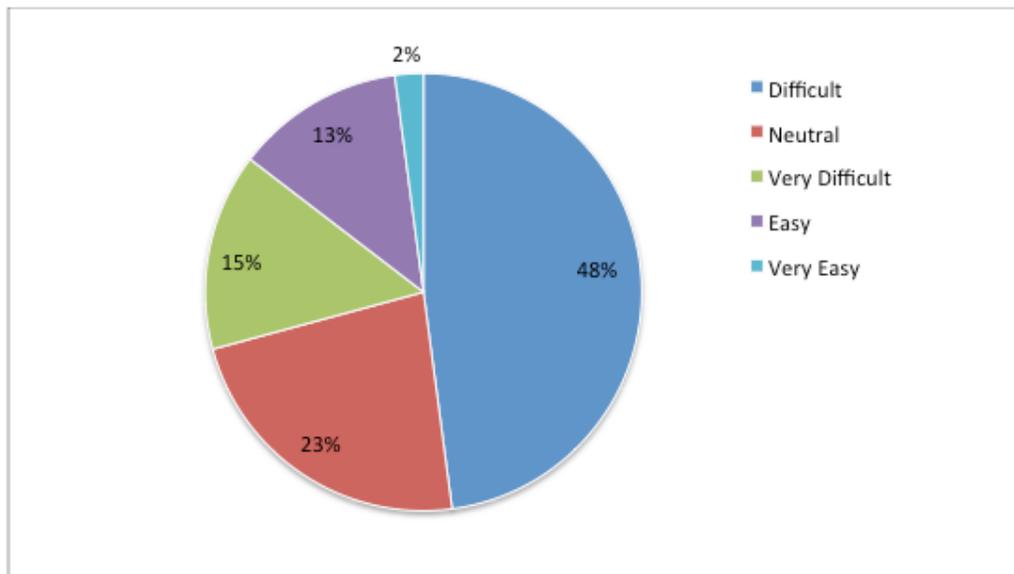
Only 13-percent of respondents changed business processes independent of ERP, then selected or configured software to align with the new processes. To some extent, it is beneficial for companies to define future operational models and business processes independent of software, so they can think “outside of the box” and look for creative opportunities to enable measurable business improvements. At this point, organizational change management professionals would be essential to help define the most favorable business processes for the company and work with project managers to align the “people changes” with the “technology changes.”

Nearly one in five respondents (19-percent) had very little or no focus on business processes. This is not indicative of a thriving organization that leads through innovation and continuous improvement.

The Pains of Adjustment

Respondents analyzed in Panorama's *2012 ERP Report* were asked to rate the adjustment to process and organizational changes in their companies. Figure 5, below, summarizes the results:

Figure 5: Process and Organizational Change Adjustment



Only two-percent of respondents ranked the adjustment as “very easy.” An additional 13-percent of respondents ranked it as “easy” and 23-percent ranked it “neutral” (i.e., neither hard nor easy). On the flipside, nearly half of respondents (48-percent) ranked the adjustment as difficult and 15-percent ranked it as “very difficult.”

It is clear from both these findings and our own years of ERP implementation experience that companies frequently underestimate the importance of organizational change management and do not understand how its effective use can ease what can be a very painful, organization-wide adjustment to change. Common organizational change challenges are reduction in staff, changes in roles, resistance to moving to a new tool, and training concerns. However, a variety of organizational change management techniques can help a company identify challenges and develop plans to manage changes effectively, including how and when communication will occur. Taking a proactive approach can avoid reactionary actions during an ERP implementation, which can result in extended project timelines and additional costs.

The fact that nearly two out of three organizations (63-percent) reported difficulty adjusting to change indicates with great certainty that companies need to get better at addressing these concerns early in the project to avoid increased costs, timelines and failed implementations.

Tips for Effective Organizational Change Management

Panorama helps clients develop, actualize and sustain long-term organizational changes to best realize the measurable business improvements enabled by their new technology. Organizational change activities have tangible and quantifiable impacts on the success of an ERP implementation. That being said, some aspects of change are more important than others and have a more immediate impact. Panorama OCM consultants provide five tips that should be considered when planning for a successful project:

- 1. Standardizing Business Processes** – Organizations with global offices, particularly if those locations were acquired from another entity, often have incredibly non-standardized business processes. A global enterprise software implementation provides the unparalleled opportunity to standardize processes across locations, but it can be very challenging to make that change happen. Enterprise-wide organizational change management is crucial to overcoming such challenges.
- 2. Balancing Local Needs With Standardization** – Standardization is important to optimize ERP benefits and achieve a positive return on investment. On the other hand, it is also important to understand local needs to ensure that the standardized operational model of the new system will accommodate specific outposts.
- 3. Delivering Localized Employee Communication and Training** – Global operations likely speak many different languages, so it is important to communicate and train in the language most appropriate for each location. New ERP software takes enough time to learn without language barriers, so translation of key messages, communications and training materials will typically pay dividends in the long run.
- 4. Relying on Change Agents / OCM Leads.** Each major office should have a local representative that acts as a change agent or OCM lead for the project team. These advocates typically represent the local interests of their offices, validate how standardized business processes will work with their location, and communicate key process and organizational changes to their respective stakeholders. This employee representation is key to a successful implementation.
- 5. Leveraging Performance Measures.** Performance measures should be used to quantify the results that the organization expects to achieve from its ERP software investment and how each local office is expected to contribute to the improvements. These measures become important in the identification of opportunities to improve results after go-live.

Conclusion

Organizational change management is a broad topic and its definitions vary from company to company. Panorama's proprietary PERFECT Change™ methodology includes project planning, communication and alignment, change impact analysis, organizational design, organizational readiness, training and benefits realization activities to increase benefits realization from an ERP initiative. In order to ensure a successful ERP implementation, organizational change management must be embraced by the executive level and deployed at every organizational location (and in every organizational language) from the moment the project starts until well after go-live.

Identifying the impact that ERP will have on the organization and developing change management, communications and training programs that focus on those issues are critical success factors that enable companies to achieve ERP success. As Panorama consultants have seen time and again, ERP failures are driven not by problems with the technology but problems with employee buy-in and alignment to the "new way of doing things." While it's not the fault of the employees, blame nearly always lies in an executive or management team that failed to devote the right amount of resources to shepherd the change throughout the organization. Yes, people fear change, but with education, communication and transparency, companies can take control of the adjustment and provide the support necessary to achieve bigger and better results.

About Panorama Consulting Solutions

Headquartered in Denver, Panorama Consulting Solutions is an IT consulting firm specializing in the enterprise resource planning (ERP) market for mid- to large-sized organizations around the world. Independent of affiliation, Panorama facilitates the evaluation and selection of ERP software, manages ERP implementation, and expedites all related organizational change to ensure that each of its clients realize the full business benefits of their ERP systems. Panorama maintains a global presence with current and planned offices in Chicago, New York, Washington, D.C., San Francisco, London, Shanghai and Dubai.

Clients include many of the leading organizations in the world, including Samsonite, Nufarm, Starz Entertainment, Kodak, Coldwater Creek and Pirate's Booty. More information can be found on its website, Panorama-Consulting.com and Twitter feed, [Twitter.com/PanoramaERP](https://twitter.com/PanoramaERP).