THE 2016 ERP REPORT: ORGANIZATIONAL CHANGE MANAGEMENT

A Panorama Consulting Solutions Research Report

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Introduction

Many organizations are familiar with organizational change management, yet it is one of the most overlooked success factors in an ERP project. Panorama Consulting Solutions developed the ***2016 ERP Report: Organizational Change Management*** to investigate the impact of change management activities on   project outcomes. The report summarizes Panorama's independent research into the experiences of organizations, each with varying levels of focus on organizational change management.

To ensure that our findings reflect the current conditions as accurately as possible, data for this report was collected from Panorama's website (Panorama-Consulting.com) during a recent 11-month period (March 2015 – February 2016). Six hundred seventy-nine respondents completed the surveys upon which this data is based.

The Role of Organizational Change Management

Organizational change management (OCM) is the structured approach to transitioning project stakeholders from their current state to a desired future state. OCM activities are designed to empower stakeholders to embrace organizational and process changes required by new ERP software. By identifying the human impacts of a change, the OCM team supports the project management team that is primarily focused on the technical side of implementation.

"Sustainable transformational change starts with a commitment to change management strategies and tools."
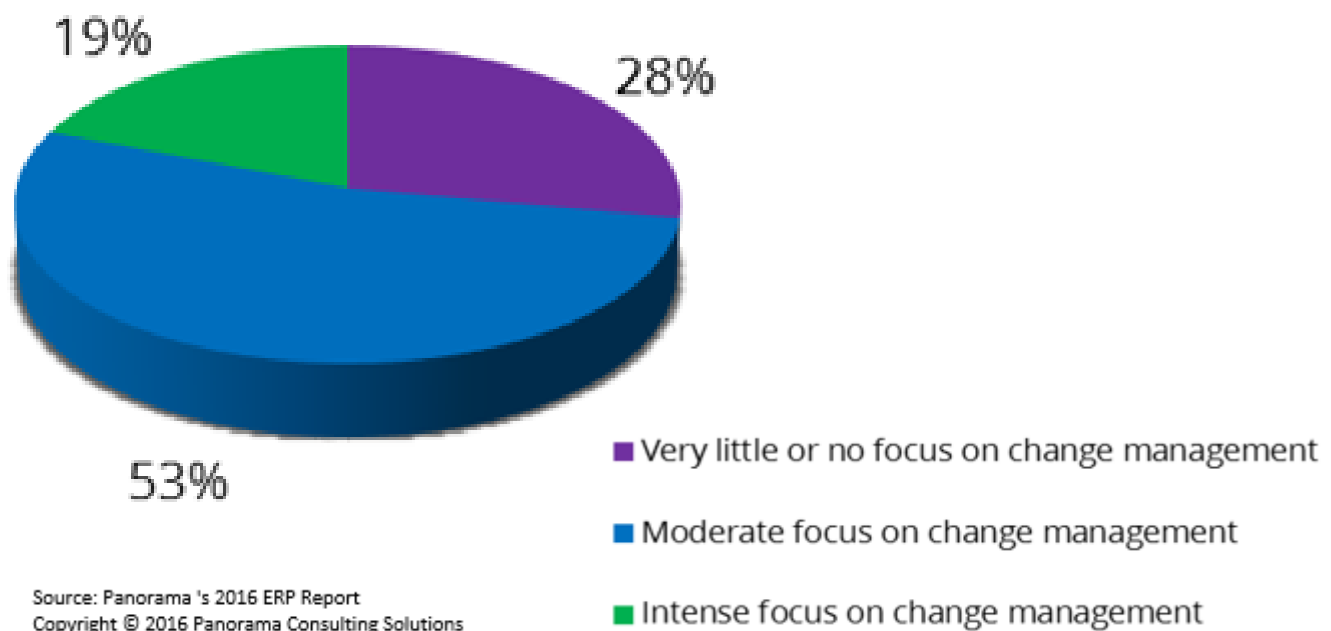
A.K.A.

Not investing in OCM could lead to a failure of your entire ERP project. Your people who will determine your success

If you don't invest in your employees to learn their new roles and understand the need for change, how can you expect them to know how to work the new software?

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Focus on OCM is Growing

As shown in the graph below, there is a growing focus on organizational change management among organizations in this study. In fact, 72-percent of respondents employed some level of change management during their ERP projects.

Organizational Change Management Focus

19%
28%
53%

- Very little or no focus on change management
- Moderate focus on change management
- Intense focus on change management

Source: Panorama 's 2016 ERP Report
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While 28-percent of respondents reported little to no focus on change management, there is a 4-percent decrease from our last OCM Report in which 32-percent of respondents reported little to no focus.

In addition, there has been a corresponding increase in organizations reporting intense focus on change management
(from 11-percent to 19-percent).

However, what constitutes change management focus and investment relative to total project costs remains low, especially given the impact OCM has on the project success.

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MINIMAL FOCUS ON CRITICAL OCM ACTIVITIES

33% Employed email communication

17% Conducted Readiness Surveys

1% Discussed changes with employees

Organizational Change Management Activities

Activity	Percentage
E-mails	33%
Status update meetings w/ employees	31%
Customized training	30%
Focus groups with key individuals	22%
Newsletters	20%
Organizational change impact analysis	18%
Surveys	17%
Organizational risk assessment	16%
Benefits realization plan	16%
Redesigned roles and responsibilities	2%
Change discussions w/ employees	1%

*Respondents could select more than one option

Source: Panorama 's 2016 ERP Report
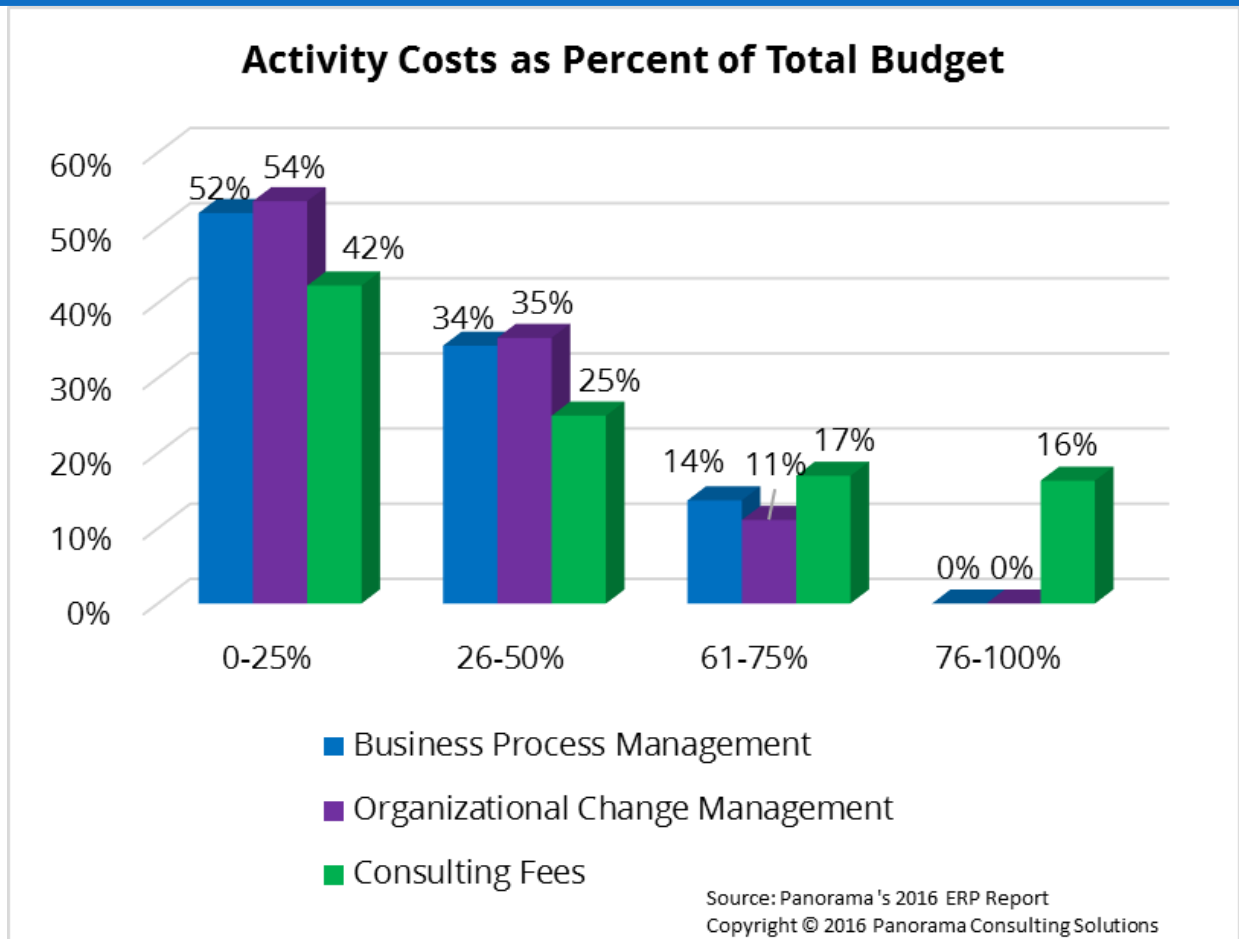Copyright © 2016 Panorama Consulting Solutions

These numbers are low given the fact that survey respondents were free to select more than one option.

Other important change management and employee engagement activities were used even more sparingly – focus groups, newsletters, change impact analyses, surveys and risk assessments were each employed by less than a quarter of respondents.

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Low Investment in OCM

A successful ERP project will be measured by user adoption and acceptance of the new system and business processes.

Project managers/teams, project sponsors and steering committees that commit to an OCM strategy and activities will greatly enhance their opportunity for success by investing in their people.

Activity Costs as Percent of Total Budget

Category	0-25%	26-50%	61-75%	76-100%
Business Process Management	52%	34%	14%	0%
Organizational Change Management	54%	35%	11%	0%
Consulting Fees	42%	25%	17%	16%

■ Business Process Management
■ Organizational Change Management
■ Consulting Fees

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Few organizations invest in sufficient change management. In fact, *54-percent of respondents allocated 25-percent or less of their budget to change management, and less than half allocated 26-percent or more.*

Budget cuts that look good on paper can have disastrous consequences in the long-term. Organizations need to understand where it makes sense to pragmatically minimize costs without minimizing results.

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Difficult Adjustment to Change

Process and organizational changes naturally pose a challenge when your organization gets new ERP software. When compared to our 2014 OCM *Report,*

Fewer organizations are experiencing challenges. However, 58-percent view the adjustment challenges to be "very difficult" or "difficult. "

Process and Organizational Change Adjustment

6%

8%

34%

28%

24%

■ Very Difficult ■ Difficult ■ Neutral ■ Easy ■ Very Easy
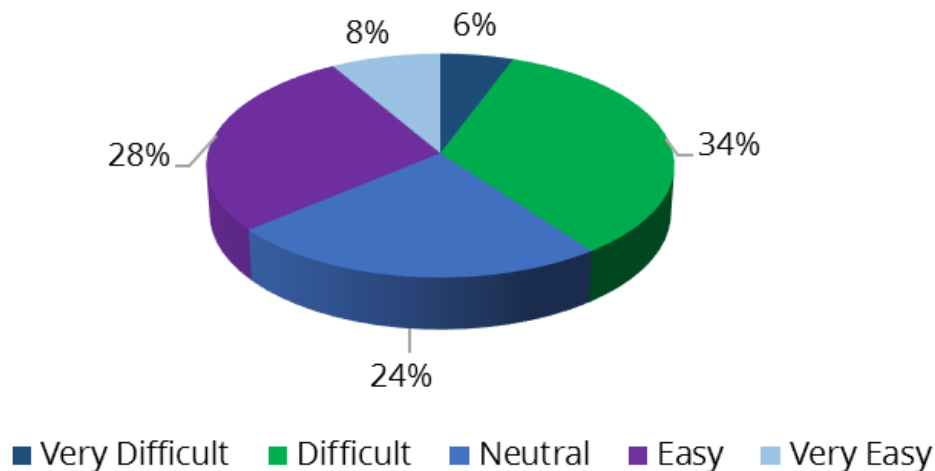
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Many of the change management challenges posed by an ERP implementation can be mitigated by building a cross-functional change management team. This team should include a variety of technical, operational, HR, communication and outside experts.

IDEA: Many organizations create a group of "Change Champions" whose role is to facilitate communications regarding the ERP project to employees and conversely serve as a voice for employees back to the project team. These "Change Champions" help lead training strategy and in some cases become trainers for the new ERP system.
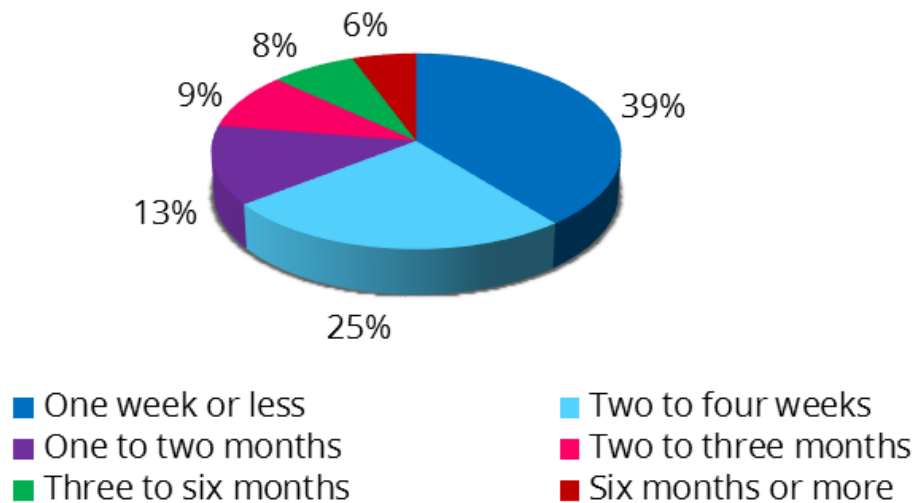
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Mitigating Operational Disruptions

"Organizations should expect some form of operational disruption at go-live."

WHAT TO EXPECT:

This disruption could last anywhere from a week to more than six months. In Panorama's experience, **the likelihood of experiencing operational disruption tends to go hand-in-hand with an organization's level of focus on change management and change readiness.**

Length of Disruption

8%   6%
9%   39%
13%
25%

- One week or less
- One to two months
- Three to six months
- Two to four weeks
- Two to three months
- Six months or more

Source: Panorama's 2016 ERP Report
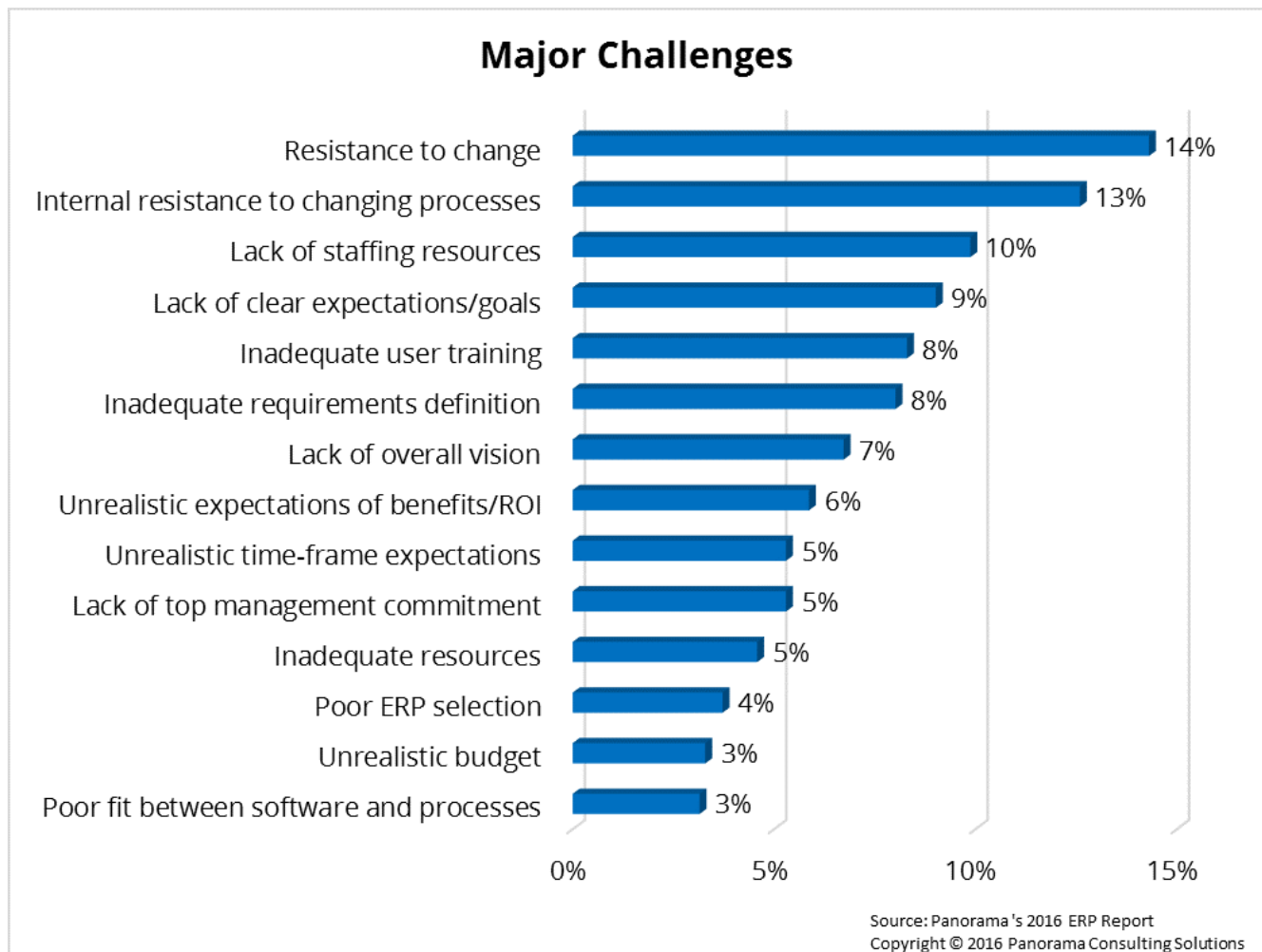Copyright © 2016 Panorama Consulting Solutions

As noted above , 36-percent of respondents indicate that they experienced an operational disruption lasting one month or longer. This data suggests that many organizations are not taking the time to mitigate risks before go-live. It also points to a lack of due diligence during the critical 60-day post go-live timeframe where further issues can be prevented.

ERP implementations are not just about technology; they are about people. As people adjust to change, operational disruptions can occur. While technical issues can cause disruptions as well, they tend to be more short-term and easier to resolve.

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Persistent Resistance

End-users who don't understand the need for the new ERP system, may resort to workarounds and develop an attitude that undermines benefits realization, return on investment and, ultimately, the customer experience. Messages and goals must be repeated often from leadership, project team members and "Change Champions."

Major Challenges

Challenge	Percentage
Resistance to change	14%
Internal resistance to changing processes	13%
Lack of staffing resources	10%
Lack of clear expectations/goals	9%
Inadequate user training	8%
Inadequate requirements definition	8%
Lack of overall vision	7%
Unrealistic expectations of benefits/ROI	6%
Unrealistic time-frame expectations	5%
Lack of top management commitment	5%
Inadequate resources	5%
Poor ERP selection	4%
Unrealistic budget	3%
Poor fit between software and processes	3%

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MOST PREVELENT CHALLENGES

14% Resistance to [general] change

13% Resistance to changing processes
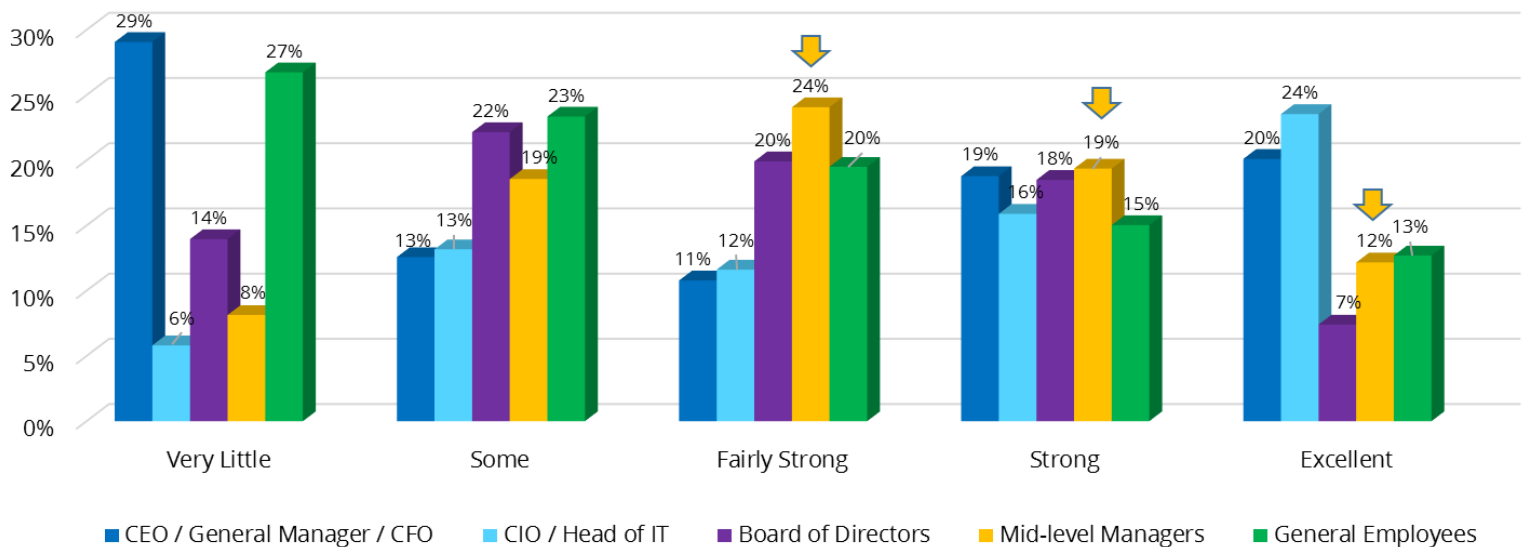
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Low Buy-In and Support

Similar to previous years, CIO's show a relatively high level of support for their organizations' ERP initiatives. This makes sense given that most organizations view ERP projects as IT initiatives as opposed to business transformation initiatives.

Respondents indicated that levels of support and buy-in among various stakeholders were generally quite low. Less than 60-percent of any stakeholder group showed fairly strong, strong or excellent buy-in. A relatively large percentage of respondents indicated that mid-level managers had at least fairly strong buy-in, when compared to other stakeholders.

A.K.A. STAKEHOLDERS NOT BUYING IT

Levels of Support & Buy-in

	Very Little	Some	Fairly Strong	Strong	Excellent
CEO / General Manager / CFO	29%	13%	11%	19%	20%
CIO / Head of IT	6%	13%	12%	16%	24%
Board of Directors	14%	22%	20%	18%	7%
Mid-level Managers	8%	19%	24%	19%	12%
General Employees	27%	23%	20%	15%	13%

DIRECT CORRELATION

Support and buy-in at any level is directly correlated with stakeholders' level of knowledge and understanding for the purpose and goals.
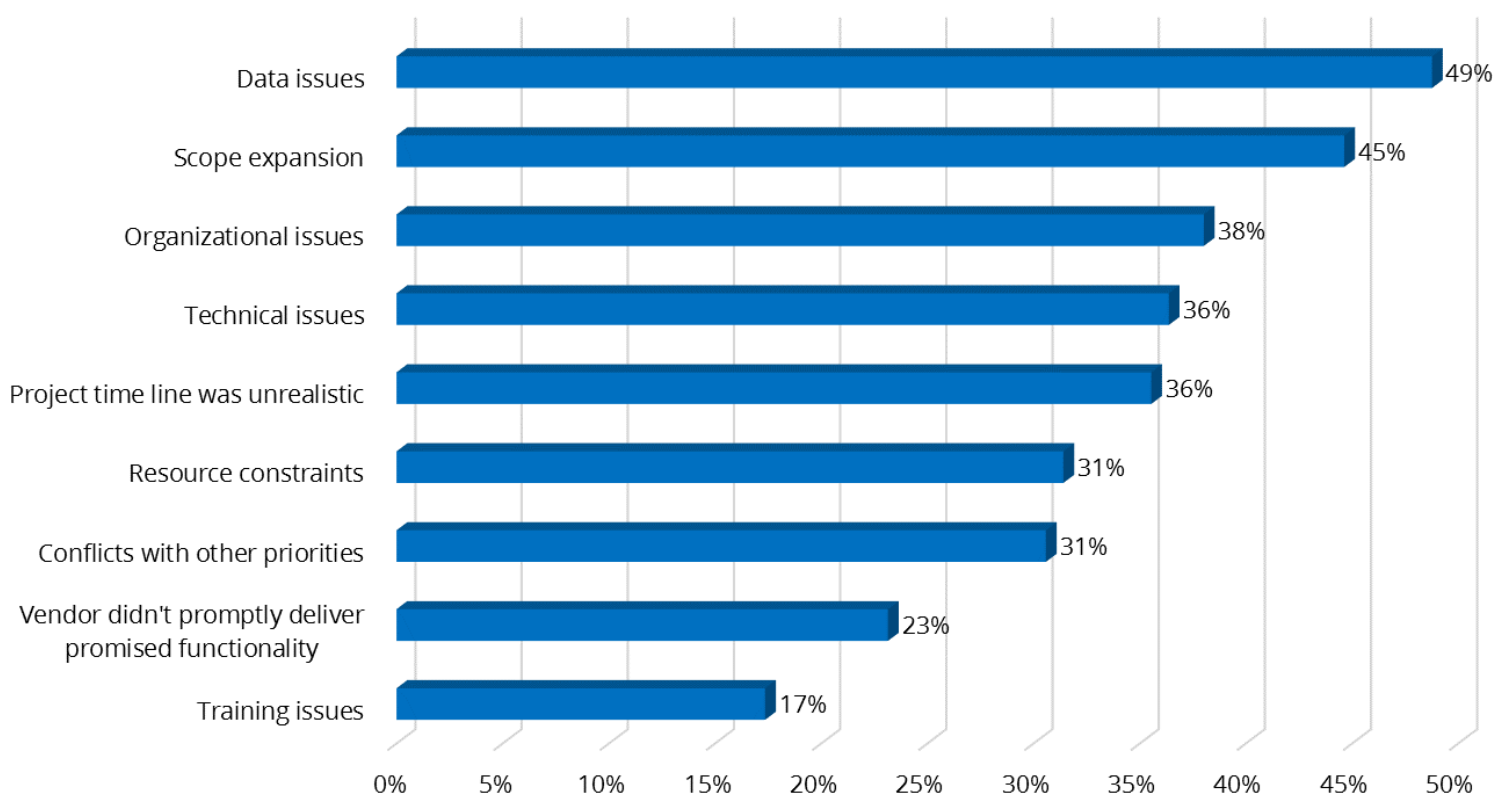
GET EVERYONE ON THE SAME PAGE

Organizations need to ensure that every member of the organization understands the system's benefits and the upcoming process changes.

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Organizational Issues Contribute to Timeline Overages

"You have to set a timeline that is both aggressive, yet realistic. We all know that is easier said than done."

38% of respondents indicated that organizational issues—such as change resistance—**were responsible for timeline overages**.

Reasons for Timeline Overages

Reason	Percentage
Data issues	49%
Scope expansion	45%
Organizational issues	38%
Technical issues	36%
Project time line was unrealistic	36%
Resource constraints	31%
Conflicts with other priorities	31%
Vendor didn't promptly deliver promised functionality	23%
Training issues	17%

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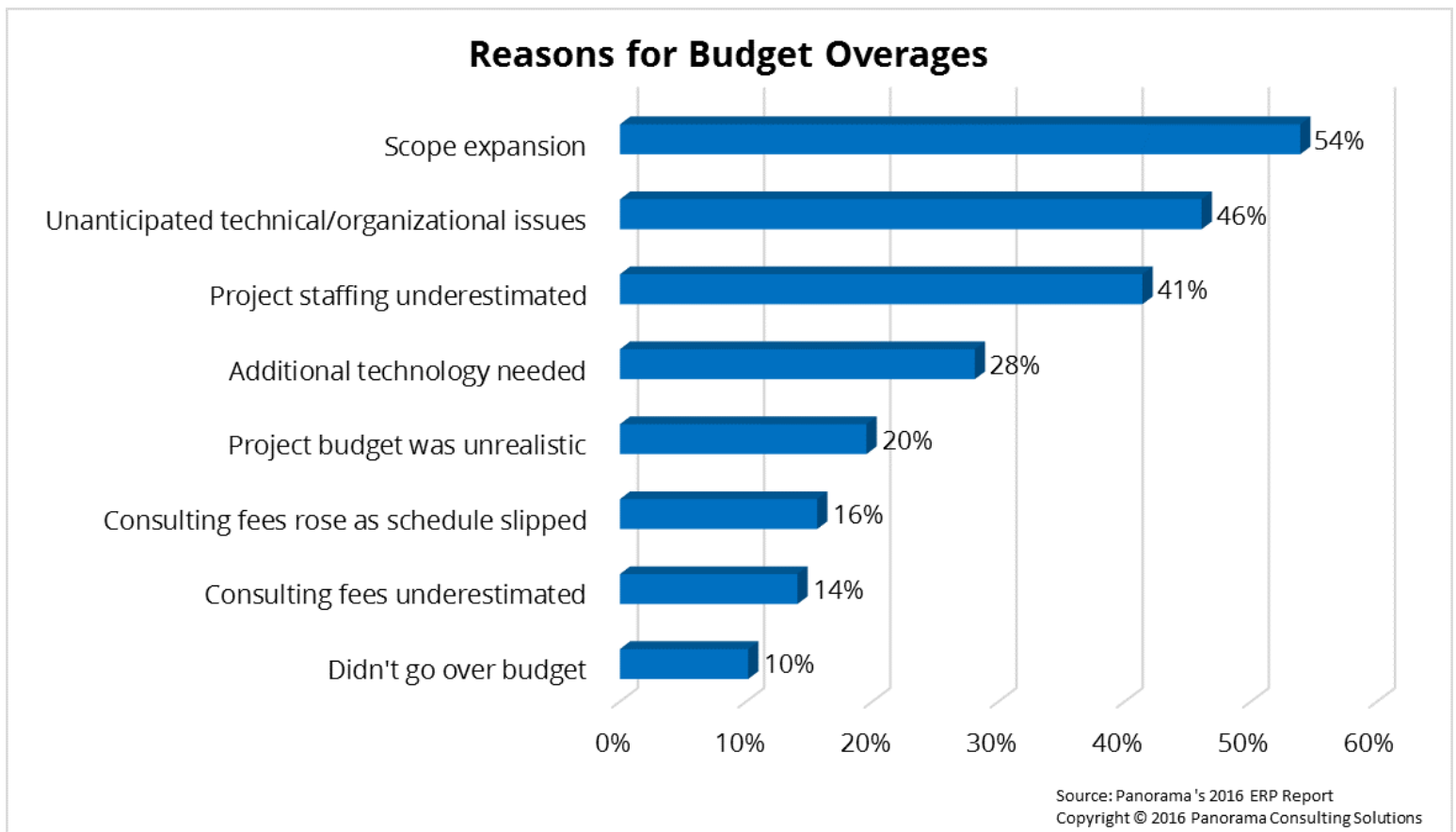
Q: What causes timeline issues?

A: Lack of communication and training regarding process changes and adequate user acceptance training/pilot training.

IDEALLY, the execution of communication and training should begin well before implementation. Establishing a readiness assessment and communications strategy is essential.

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Scope Expansion Causes Budget Overruns

IT'S A BALANCE...

Underestimating the role of change management and not committing the resources to support OCM will negatively impact the success of an ERP project. Eventually, organizations realize that they need to expand their project scope, but by that time, it's difficult to gain incremental funding.

Reasons for Budget Overages

Reason	Percentage
Scope expansion	54%
Unanticipated technical/organizational issues	46%
Project staffing underestimated	41%
Additional technology needed	28%
Project budget was unrealistic	20%
Consulting fees rose as schedule slipped	16%
Consulting fees underestimated	14%
Didn't go over budget	10%

Source: Panorama 's 2016 ERP Report
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54% of respondents indicated that scope expansion inflated their original project budget.

46% of respondents assigned responsibility to unanticipated technical or organizational issues.

WORD OF ADVICE: Set realistic expectations upfront. It helps to anticipate resource allocation and total project budget. Don't short change your people by not having sufficient OCM included.

(Especially pertinent to managers whose jobs depend on project success)

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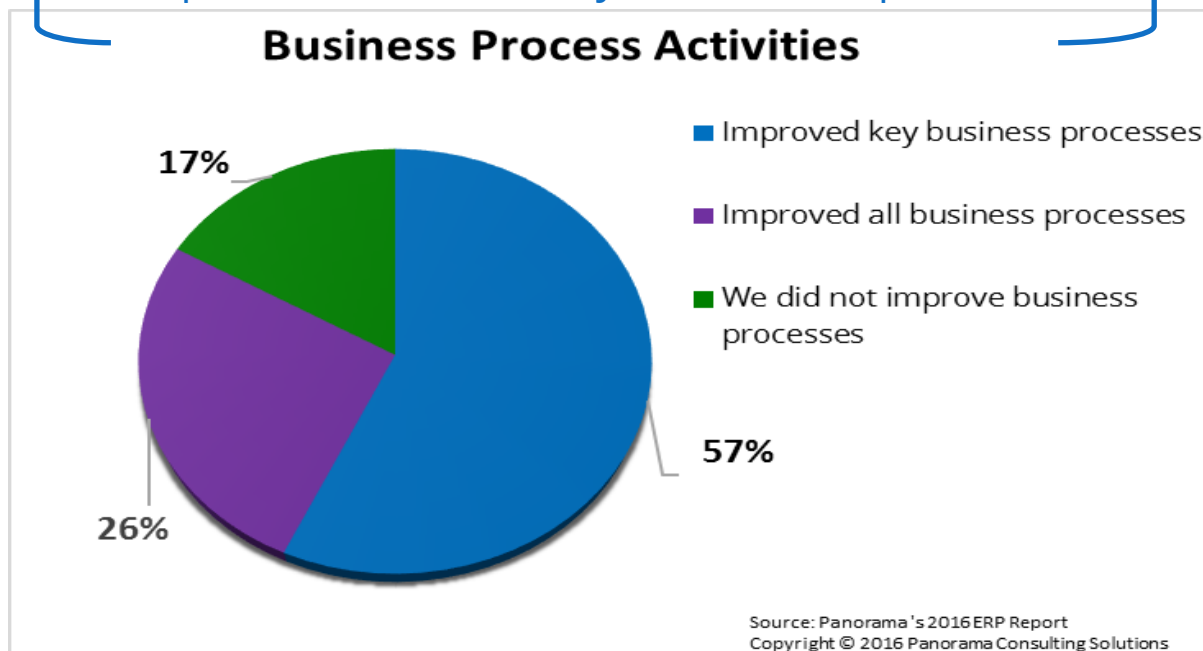CONSULTING SOLUTIONS

Business Process Management

BPM enables successful organizational change management and sets the stage for continuous process improvement and benefits realization.

By optimizing current state processes and developing future state processes, organizations can ensure that their new ERP software meets their business needs and supports the enterprise goals.

Q: What do the most successful ERP implementations all have in common?

A: They focus on improving business processes, especially inefficient processes that are costing your organization money.

Mapping key business processes helps your organization identify exactly how processes should be improved to measurably streamline operations.

Business Process Activities

17%

Improved key business processes

Improved all business processes

We did not improve business processes

57%

26%

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More than half (57-percent) of respondents improved key business processes during their ERP project, and an additional 26-percent improved *all* of their organization's business processes. This leaves 17-percent that overlooked business process management – most likely in favor of the technical aspects of implementation.

An ERP project is an opportunity to improve business processes. If resources are being used to implement a new ERP system, they also should be leveraged to redesign business processes before and during implementation.

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The Technology-Focused ERP Project
vs.
The Business-Focused ERP Project

Five reasons why business-focused ERP implementations always produce better results than technology-focused ERP implementations:

1. Executive support focused on getting the job done right: We often work with executives simply wanting to get their new ERP system up and running as quickly as possible. They focus on minimizing time and money without considering the long-term implications. Business-focused implementations focus on getting the job done right the first time and are able to find the right balance between short-term implementation costs and long-term business benefits.

2. Business processes are well-defined up front: It can be tempting to throw out your old, inefficient business processes and look to your new ERP system to define your future state. This is usually a big mistake – even though ERP vendors tout their product's capabilities. Organizations without a clear vision of their future state can fall into the trap of automating inefficient processes. Successful organizations define exactly how they want their future business processes to work and how they want to preserve their sources of competitive advantage.

3. Organizational change management entails much more than basic end-user training: If you haven't started any meaningful organizational change management until end-user training comes along, then your project may be in trouble. While end-user training is important, it is just one component of what is ultimately required to ensure your employees adapt to the new software. Business-focused implementations tend to include organizational readiness assessments, change impact assessments, change discussions, communications plans and a number of other people-focused activities to help ensure your project achieves business benefits.

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The Technology-Focused ERP Project
vs.
The Business-Focused ERP Project

Five reasons why business-focused ERP implementations always produce better results than technology-focused ERP implementations:

4. Testing focuses on business usage instead of technical stability:
Simply getting technical configurations, customizations and integrations working can be a challenge in itself. But if that's all you do, you will be left with a product that is technically sound, but can't be used by the business. Keep in mind that most ERP consultants are functional or technical experts in their software, but they are not experts in how your organization runs or how the software can improve your organization. Organizations need to focus on user acceptance testing, conference room pilots and other forms of testing the software against desired business processes and requirements.

5. Benefits realization is focused on real business results:
Technology-focused implementation teams tend to set the bar relatively low. Their goal is a technically sound product that is implemented on-time and on-budget. On the other hand, business-focused teams have a vision for tangible, measurable results. To achieve their vision, they set baselines and targets for achieving expected performance improvements. They tweak their business processes or systems as needed when they fall short on any business benefits. As the old saying goes, "You can't achieve it if you don't measure it."

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Conclusion

Most organizations don't fully understand organizational change management, and few have the necessary skill set to implement a successful change management plan. This is a key reason why many organizations struggle to obtain project buy-in.

While organizations report a relatively strong focus on change management, they do not appear to be focusing on the activities we recommend. Few organizations use email communication, status meetings, customized training or risk assessments. Also troubling is the fact that organizations report allocating very little of their project budget to change management. All of this translates to low project buy-in among executives, directors, managers and end-users.

Too often, organizations approach change with the mindset that people will either use the new system or they will get left behind. While this approach may sound effective, it often leads to low buy-in and low benefits realization.

Project teams – led by the IT or finance department – often don't have the time to devote to change management strategy and execution. That is why we strongly encourage organizations to create "Change Champions" and include team members from outside the project team. Organizations should also ensure that their ERP project is not just another IT initiative, but rather an enterprise-wide transformation designed to help the organization grow and achieve their goals.

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About Panorama Consulting Solutions

Panorama Consulting Solutions specializes in the enterprise consulting, enterprise resource planning (ERP) and IT market for mid- to large-sized, private and public sector organizations across the globe. One-hundred percent independent of affiliation, Panorama helps firms evaluate and select ERP software, manages the implementation of the software and facilitates all related organizational changes to ensure that each of its clients realize the full benefits of their ERP implementation.

We also offer our clients IT strategy, business process reengineering, ERP staffing, sales assessments, energy fueling assessments, emergency/disaster fund management, independent verification and validation, project management oversight and expert witness testimony.

Panorama maintains a global presence with current offices in Denver, Chicago, Boston, San Francisco, Lima, Dubai, Houston and New York.

More information can be found on its website, Panorama-Consulting.com and Twitter feed, Twitter.com/PanoramaERP.