PANORAMA
CONSULTING SOLUTIONS

2013 ERP REPORT:
ORGANIZATIONAL CHANGE
AND BUSINESS PROCESS MANAGEMENT

A Panorama Consulting Solutions Research Report

3773 Cherry Creek Drive North - Suite 720 - Denver, CO 80209
30 South Wacker Drive - Suite 2200 - Chicago, IL 60606
1.720.515.1ERP (1377)   Panorama-Consulting.com

Introduction

Panorama Consulting Solutions developed the *2013 ERP Report: Organizational Change and Business Process Management* to investigate the impact of these improvement initiatives on trends in enterprise resource planning (ERP) implementation and outcomes across industries, company sizes and geographic locations. The report summarizes Panorama's independent research into the experiences of ERP software customers and implementation teams with regards to these specific components of an ERP project.

To ensure that our findings reflect the current conditions as accurately as possible, polling for the *2013 ERP Report: Organizational Change and Business Process Management* was conducted on Panorama's website (**Panorama-Consulting.com**) during a recent four-month period (September 2012 to January 2013). One hundred seventy-two respondents completed the surveys upon which this data is based.

The Role of Business Process Improvement

Organizations implementing enterprise solutions must rather quickly decide which route they are going to take regarding business processes. At the start of an implementation, many organizations believe that they will adopt "best practice" processes as recommended by the software or vendor. Indeed, and as shown in the graph below, 38-percent of respondents indicated that their organization took this route:

Focus on Business Processes
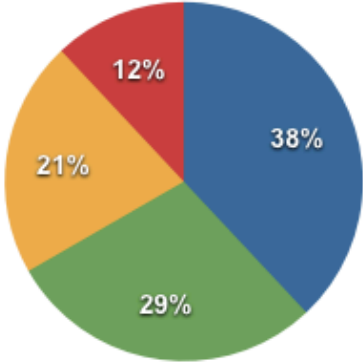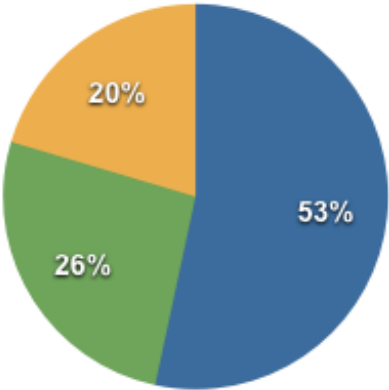

Source: Panorama Consulting's 2013 ERP Report
Copyright © 2013 Panorama Consulting Solutions

- ● Changed business processes to accommodate ERP functionality
- ● Changed or customized ERP functionality to accommodate current business processes
- ● Very little or no focus on business processes
- ● Changed business processes and then selected / configured software to align with new processes

Slightly more respondents (41-percent) let their processes drive their choice or usage of ERP software, which is the course Panorama typically recommends for our clients. More than one out of five (21-percent) of respondents indicated that their organization had "very little or no focus on business processes."

As is shown below, the majority of those respondents that focused on business process improvement (53-percent) indicated that they had only improved *key* business processes while 26-percent indicated that they had improved all business processes.

Business Process Activities

Source: Panorama Consulting's 2013 ERP Report
Copyright © 2013 Panorama Consulting Solutions

- Improved key business processes
- Improved all business processes
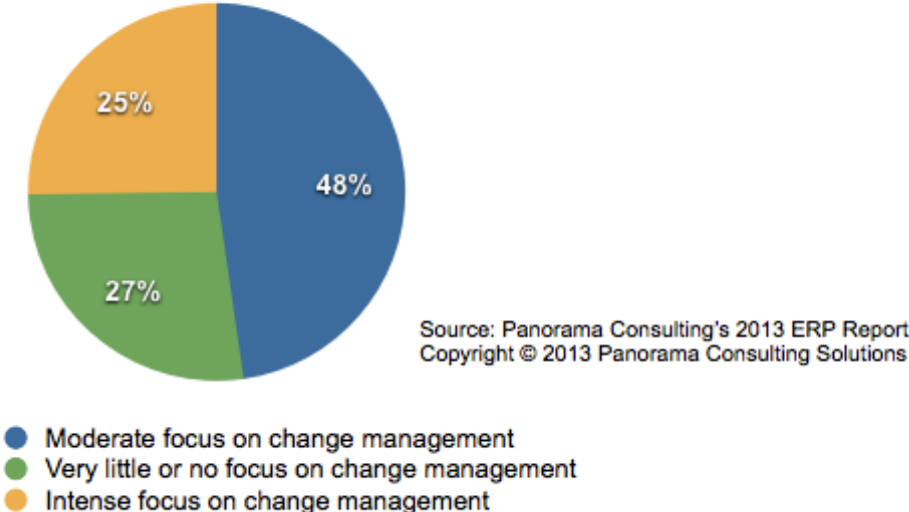- Did not improve any business processes

No ERP system will fit an organization's processes exactly, regardless of whether they are improved or not. Many companies try to avoid customization by adopting "out of the box" functionality and/or completely avoiding any process work prior to or during implementation. This seldom works: our research shows that 90-percent of survey respondents indicated that their organization partook in some level of ERP software customization. A truly "vanilla" ERP implementation (i.e., one in which every process is dictated by the software chosen) not only requires an incredibly intense organizational change management campaign, but also serves to strip a company of its key differentiators. Organizations that look to cut costs by allowing ERP vendors to dictate the way they do business are doing themselves, their employees and their customers a great disservice. As the data verifies, this plan seldom works.
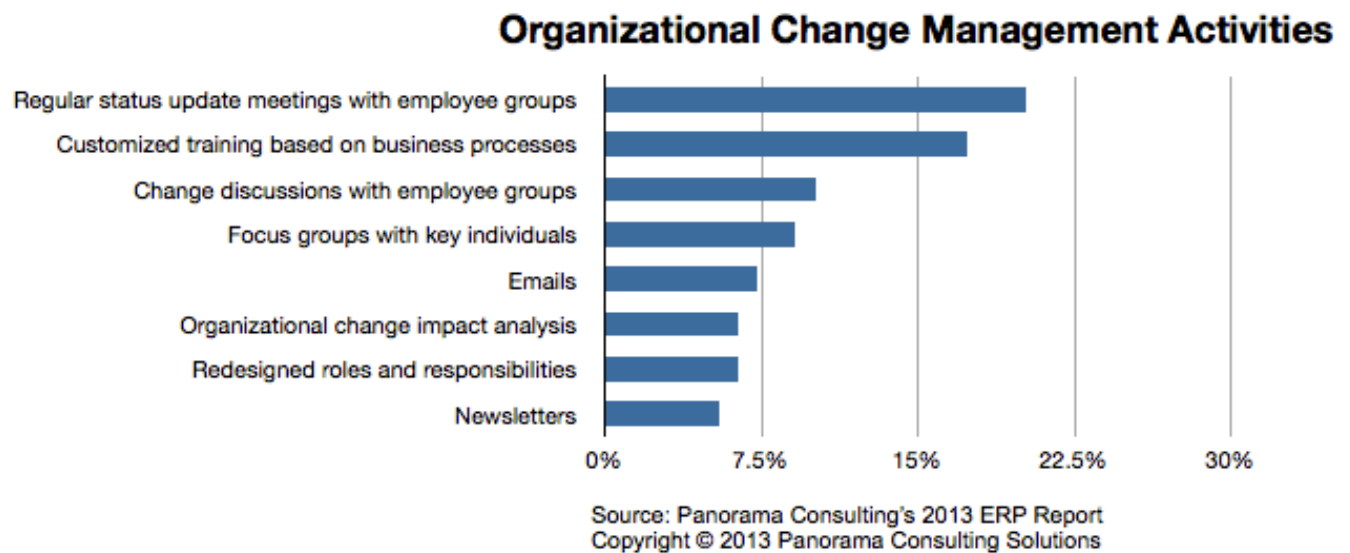
The Role of Organizational Change Management

The majority of organizations undertaking an ERP initiative know that they must clearly and effectively communicate the changes occurring to their staff, key stakeholders, third-party vendors and even external customers. It is important to note that organizational change management is a necessary component of a successful implementation regardless of whether or not there is a focus on customization or business process improvement. Any new software will invariably result in a change to business processes and thus a need for communication, support and training. Indeed Panorama always advises that it is critical to invest in a comprehensive organizational change management initiative not just to explain the role of the new software but also to explain what the new processes are, how they will affect the individual and the company, and what the benefits are to everyone involved. The peril of not investing in this work is great and typically the root cause of ERP implementation failures and/or poor benefits realization.

Of the organizations polled, nearly three-quarters (73-percent) indicated that they had "moderate" or "intense" focus on organizational change management activities. More than one-quarter of respondents (27-percent) indicated that they had "very little" or "no" focus on change management.

Organizational Change Management Focus

48%

25%

27%

Source: Panorama Consulting's 2013 ERP Report
Copyright © 2013 Panorama Consulting Solutions

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

It is clear that engagement strategies were varied across those organizations that did invest in organizational change management:

Organizational Change Management Activities

Activity	Percentage
Regular status update meetings with employee groups	~20%
Customized training based on business processes	~17%
Change discussions with employee groups	~10%
Focus groups with key individuals	~9%
Emails	~7%
Organizational change impact analysis	~6.5%
Redesigned roles and responsibilities	~6.5%
Newsletters	~6%

Source: Panorama Consulting's 2013 ERP Report
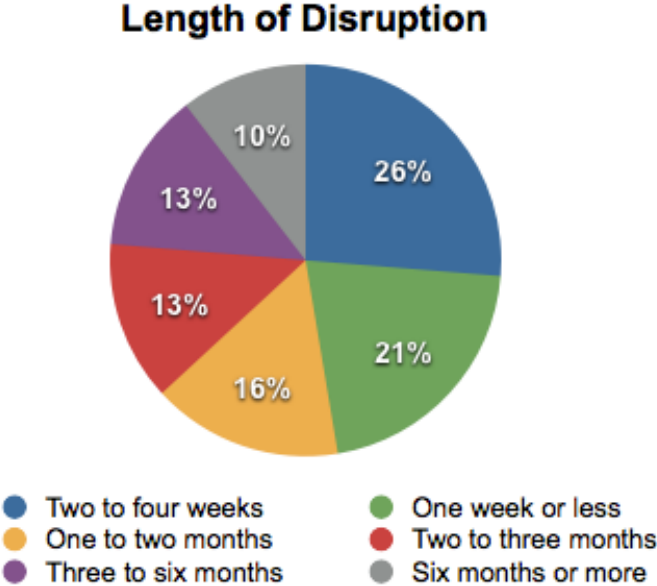Copyright © 2013 Panorama Consulting Solutions

Organizations relied on meetings (20-percent), e-mails (7-percent) and newsletters (6-percent) to communicate with employee groups. In terms of business processes and the associated changes, less than one out of five respondents (17-percent) indicated that his or her organization had customized training based on business processes and only 10-percent indicated that his or her organization had conducted change discussions with employee groups.

The strong delta between the respondents' evaluation of their organization's focus on change management versus what tactics the organization *actually* undertook to manage change perhaps points to a lack of awareness of what a successful change management campaign should encompass. At the very least, leadership must work to effectively understand, target and engage various internal and external audience segments through coordinated information and education campaigns. End-users and other key stakeholders must understand and believe the answers to "What's in it for me?" and "What's in it for my company?" before they can ever achieve true buy-in. Further still, they must have confidence in their leadership, assurance of the organization's commitment to the project, understanding of the goals and vision of the project, and the training and supervision necessary to truly "switch over" to the system without reliance on old processes or workarounds.

Project Challenges

ERP projects are notorious for their length and expense. As discussed in the first iteration of the *2013 ERP Report* (available at **Panorama-Consulting.com**), 53-percent of projects cost more than expected, 61-percent take longer than expected and three out of five organizations (60-percent) fail to realize at least half of the business benefits that they anticipated from their ERP implementations. In the face of metrics such as these, it is not surprising that nearly half of respondents (41-percent) experienced operational disruption at go-live.

Of those that experienced disruption, nearly half of the issues were short-lived: 26-percent had problems for two to four weeks and 21-percent had problems for one week or less. Of note is that 10-percent of respondents had issues for six months or more.

Length of Disruption

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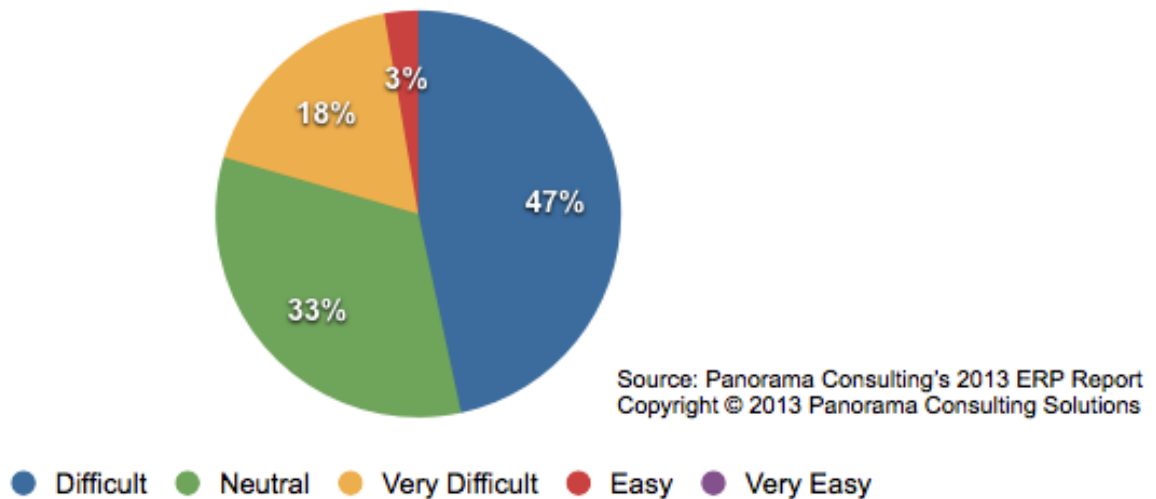- Two to three months
- Six months or more

Source: Panorama Consulting's 2013 ERP Report
Copyright © 2013 Panorama Consulting Solutions

ERP implementations are all too often plagued by technical, process and organizational issues – all or any of which can cause operational disruption. According to Panorama's research and experience, it is the process and organizational issues that pose the most risk. Technical issues certainly can and do exist, and are likely responsible for many of the short-term disruptions, but they are typically more quickly and more easily resolved than their operational counterparts. An improperly trained or ill-motivated department will do more damage in the long run than supply chain or shipping hiccups.

Since respondent organizations had a relatively poor showing in terms of deploying organizational change management tactics, it should come as little surprise that when asked about process and organizational change adjustment, nearly two-thirds of respondents (65-percent) indicated it was "difficult" or "very difficult" and only three-percent indicated that it was "easy." Zero-percent indicated it was "very easy."

Process and Organizational Change Adjustment

Source: Panorama Consulting's 2013 ERP Report
Copyright © 2013 Panorama Consulting Solutions

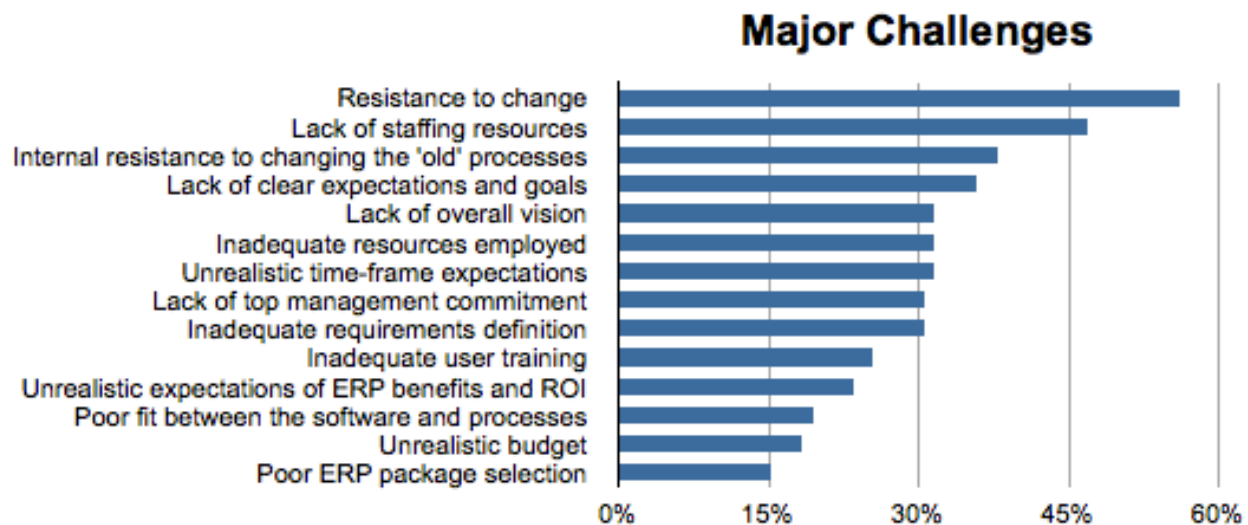● Difficult ● Neutral ● Very Difficult ● Easy ● Very Easy

Conversely, less than half of respondent organizations (45-percent) indicated that the technical aspects of implementation were "difficult" or "very difficult" and 15-percent of respondents indicated that they were "easy" or "very easy."

Some of the organizational adjustment challenges posed by an ERP implementation can be mitigated by ensuring that the project team is cross-functional and brings different outlooks and expertise to the project. An organization that staffs its project teams only with IT subject matter experts and fails to include operational and communications experts, is an organization that will struggle to adjust to change.

When asked about the specific challenges of implementation, responses were varied (and shown in the graph on the following page). On the end-user side, respondents did call out "resistance to change" (56-percent) and "internal resistance to changing the 'old' processes" (38-percent). Also of note was the paucity of adequate communication from leadership, with 36-percent indicating that their projects were plagued by a "lack of clear expectations and goals" and 32-percent indicating there was a "lack of overall vision." Leadership was also taken to task for a number of reasons, including "lack of staffing resources" (47-percent), "inadequate resources employed" (32-percent),

"unrealistic time-frame expectations" (32-percent) and "lack of top management commitment" (31-percent).

Major Challenges

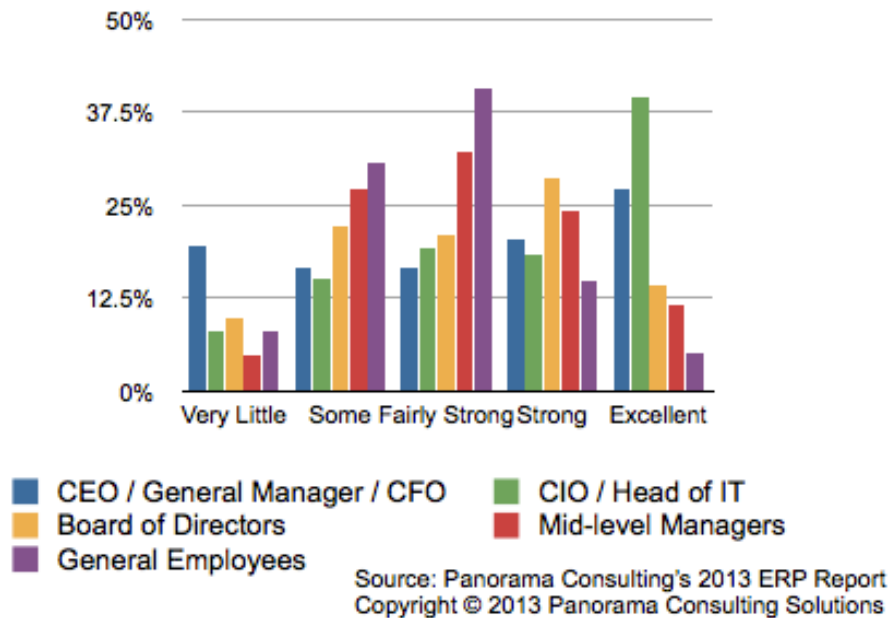| Challenge	
Resistance to change	
Lack of staffing resources	
Internal resistance to changing the 'old' processes	
Lack of clear expectations and goals	
Lack of overall vision	
Inadequate resources employed	
Unrealistic time-frame expectations	
Lack of top management commitment	
Inadequate requirements definition	
Inadequate user training	
Unrealistic expectations of ERP benefits and ROI	
Poor fit between the software and processes	
Unrealistic budget	
Poor ERP package selection	

0%   15%   30%   45%   60%

Source: Panorama Consulting's 2013 ERP Report
Copyright © 2013 Panorama Consulting Solutions

Project challenges, weak organizational change management and lack of executive alignment all can lead to poor buy-in across the organization. Poor buy-in shows itself in a number of different ways. End-users who don't understand the need for the ERP system or the benefits it can and should bring to the organization may fail to pay attention during training, continue to use workarounds (such as Excel spreadsheets), and participate in other subversive activity to undermine system and management efficacy. Organizations often don't realize the incredibly negative impact a poorly motivated staff can have on attrition rates, ERP system usage, benefits realization from the system, return on investment and, ultimately, the customer experience.

As shown in the graph on the following page, survey respondents indicated that levels of support and buy-in among various stakeholders (including C-suite executives, the board of directors, mid-level managers and general employees) in their organizations were generally quite low, with no reported percentage exceeding 40-percent.

Within this relatively poor showing, results indicate that among the upper level management, the CIO or Head of IT had the strongest level of "excellent buy-in and support" and the CEO / General Manager had the highest level of "very little buy-in and support." General employees had the highest level of "fairly strong buy-in and support" but the lowest level of "excellent buy-in and support."

Levels of Support and Buy-in

Source: Panorama Consulting's 2013 ERP Report
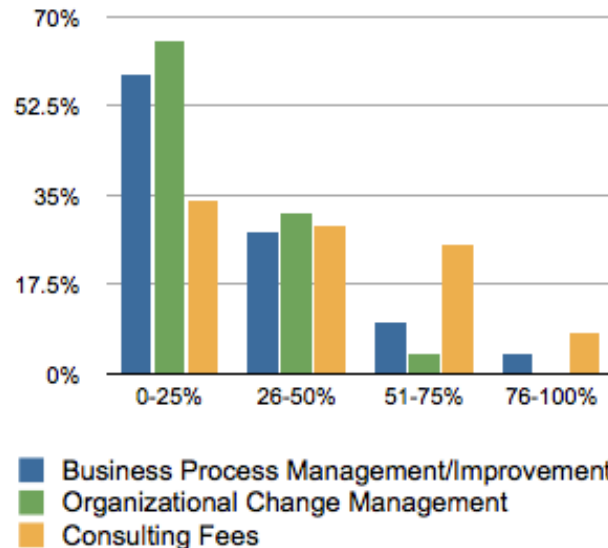Copyright © 2013 Panorama Consulting Solutions

Support and buy-in at any level is directly attributable to knowledge about the benefits the system should and will bring to the organization and the true reasons behind the organization's investment in the project. As stands to reason, the CIO or Head of IT would have a significant amount of information about the project, and thus the highest level of support and buy-in, but even with that information, the overall level of this group's buy-in is still below 50-percent. These results indicate that organizations need to focus more on organizational change management in general, and communication about project expectations and experiences in specific, and work to ensure that every member of the organization understands the whys, hows and whens of the initiative and all the ensuing changes to business processes.

Support and buy-in is directly tied to benefits realization, as an organization with low levels of commitment will struggle to truly utilize the system in the best way possible. A system that is not used well often indicates business processes that are not being adequately communicated or followed and a workforce that is not being adequately trained or supervised. Poorly used ERP systems and poorly managed business processes reduce benefits realization and create vulnerabilities in terms of data errors, omissions and duplications, redundant efforts and inefficient processes, and/or workarounds. As previously mentioned, 60-percent of respondent organizations suffered from poor benefits realization; a finding that underscores the difficulty companies and individuals have first in changing and second in adapting to those changes.

The Effects of Poor Process and Change Management

Organizations often underestimate the effects that poor business process and change management can have on an implementation. It is evident from the responses collected that companies still struggle to devote enough resources to these two integral components of ERP success.
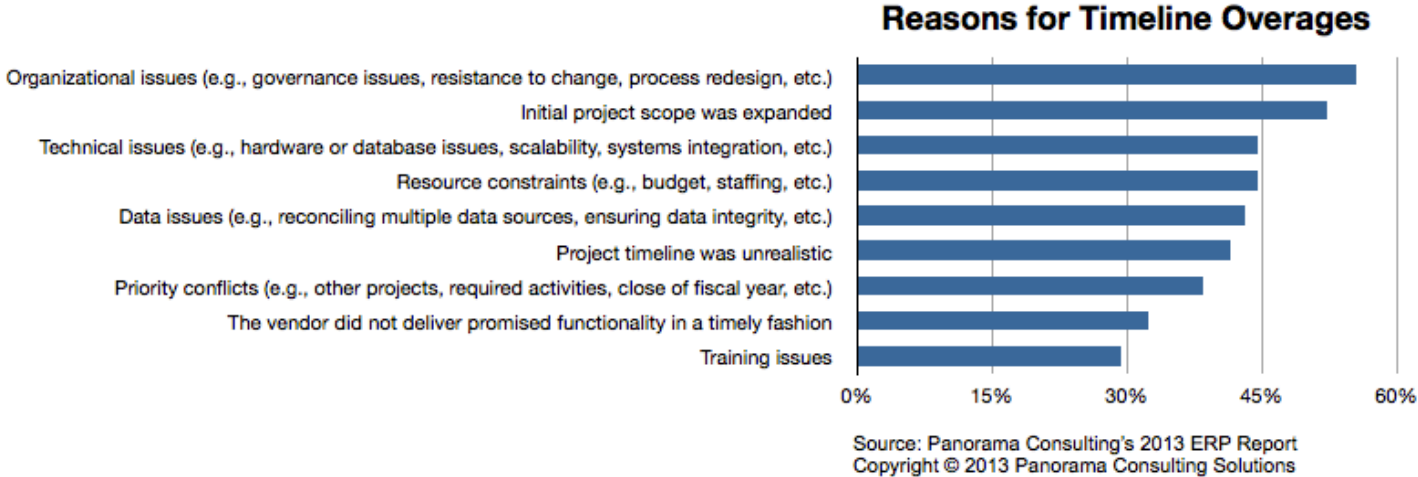
Activity Costs as Percentage of Total Budget

Source: Panorama Consulting's 2013 ERP Report
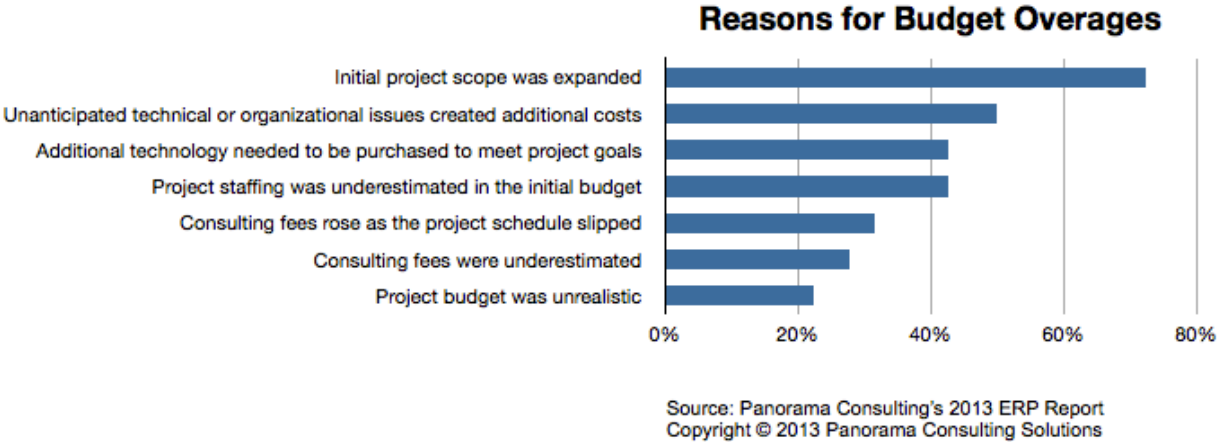Copyright © 2013 Panorama Consulting Solutions

The overall spend on these two segments (as a percentage of total cost of implementation) was recorded as 27-percent for organizational change management and 10-percent for business process management. While that is strong for change management, it is safe to presume (given the findings on page five) that the budget was devoted primarily to training. There is no question that training is fundamental, but it does not *alone* make for true employee buy-in, proper system usage and/or benefits realization. In terms of business process spend, it is troubling to see that so few companies devote the resources necessary to truly optimize their processes.

The correlation between these findings and the amount of implementations that exceeded budget, exceeded expected duration and failed to deliver anticipated business benefits is arguably significant. In fact, the most significant correlation we discovered was between change management spend and benefits realized. In layman's terms, the more an organization spends supporting its people and their transition, the more it receives; the less it spends, the less it receives. It really is that simple.

To add further clarity to the point, more than half of respondents (55-percent) identified "organizational issues (e.g., governance issues, resistance to change, process redesign, etc.)" as the key problems bedeviling the implementation timeline. Technical, data and/or functionality issues were all ranked lower, although those are frequently the project components to which implementing organizations devote the most resources.

Reasons for Timeline Overages

Reason	
Organizational issues (e.g., governance issues, resistance to change, process redesign, etc.)	
Initial project scope was expanded	
Technical issues (e.g., hardware or database issues, scalability, systems integration, etc.)	
Resource constraints (e.g., budget, staffing, etc.)	
Data issues (e.g., reconciling multiple data sources, ensuring data integrity, etc.)	
Project timeline was unrealistic	
Priority conflicts (e.g., other projects, required activities, close of fiscal year, etc.)	
The vendor did not deliver promised functionality in a timely fashion	
Training issues	

Source: Panorama Consulting's 2013 ERP Report
Copyright © 2013 Panorama Consulting Solutions

When asked to pinpoint reasons for budget overages, the majority of respondents focused on project scope expansion (72-percent). Half of respondents (50-percent) called out unanticipated technical or organizational issues as the key reason.

Reasons for Budget Overages

Reason	
Initial project scope was expanded	
Unanticipated technical or organizational issues created additional costs	
Additional technology needed to be purchased to meet project goals	
Project staffing was underestimated in the initial budget	
Consulting fees rose as the project schedule slipped	
Consulting fees were underestimated	
Project budget was unrealistic	

Source: Panorama Consulting's 2013 ERP Report
Copyright © 2013 Panorama Consulting Solutions

Scope expansion is often due to poor governance, poor understanding of the changes being introduced and poor communication of and training on those changes. Successful organizations focus first on improving processes and second on change management to ensure those processes are understood and adopted by end-users. Understandably, they must also strive to budget properly for these activities from the beginning.

Process and Change Management Best Practices

Panorama's organizational change and business process management methodologies have been developed in concert to assure that each of our ERP software selection, implementation and benefits realization clients not only optimize their operations but also communicate the optimizations to their employees. Due to our time in the trenches of manufacturing, financial services, public sector, distribution and retail organizations (among many others), our consultants have devised a number of "best practices" for proper change and process management.

1. **Unify the two disciplines.** To be successful, any change management initiative must be driven by *the specific process changes* introduced in the optimization project. Be wary of a consulting firm offering a canned OCM methodology. If the communications and training aren't immediately applicable to your organization's specific situation, end-users will tune them out.

2. **Let the processes be your guide.** Organizations that let their choice in ERP software dictate all of their processes sacrifice competitive advantage. In areas of universal commonality (such as human resources or accounts payable), it is well worth it to utilize "best practices" but in cases when the process itself serves as a key differentiator, then the software must be customized.

3. **Convert process owners.** Every organization has process devotees: individuals who have brought value based on the processes they have developed. These individuals must be targeted in a change management campaign, as they will likely be the most negative about the changes. The earlier an organization can get their buy-in and support, the more successful the whole initiative will be.

4. **No changes will be accomplished without supervision.** In the history of the world, there has never been a workforce that has willingly and happily changed its processes without supervision and accountability. If a supervisor continues to accept reports in Excel, then an end-user will use Excel rather than the ERP system. Buy-in must come from the top down. Usage must be consistent and consistently enforced.

5. **Don't sweat the small stuff.** Contrary to belief, the technical side of implementation is "small." The process and change management? That's massive . . . and it needs to be sweated. Make sure your organization isn't mindlessly focusing on the software at the expense of the people and the processes who will drive overall organizational success. As we have seen many times, the technical issues are much easier to solve than the internal issues related to personnel and their on-the-job tasks.

Conclusion

While many ERP vendors and even implementing organizations pay lip service to the importance of business process improvement and organizational change management within the scope of an ERP implementation, Panorama's research shows that these components suffer from both a lack of focus, a lack of resources and/or a lack of true understanding of what they actually entail. The impact of not devoting sufficient effort to either business processes or change management (or both) is profound, and must not be underestimated. Indeed it should serve as a wake-up call to the industry (and its clients) at large that more than half of our respondent organizations blew their budgets, exceeded their timelines and failed to realize at least 50-percent of the business benefits anticipated.

The idea that a company can, should and will succeed in adopting an entirely out-of-the-box ERP solution is unreasonable. The idea that a company can, should and will find any value in an ERP implementation that doesn't involve business process improvement is equally illogical. And the idea that a company can, should and will realize any benefits from the system's deployment and usage without properly communicating with, educating and training their employees is almost laughable. Organizations must shift their focus away from the technical aspects of implementation and towards the things that really count: making sure the business is running in the most efficient way possible and that its end-users and stakeholders have taken personal responsibility for making the implementation a success.

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.

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