

## A Strategic Analytics White Paper

### CEO/CIO Best Practices ERP Implementation as a Cultural Transformation by Drs. Miles Overholt, Al Vicere, Elena Granell

#### The Unintended Consequences of Successful ERP Implementation

##### Executive Summary

ERP implementation creates severe challenges for CEOs and CIOs by unintentionally changing the organization DNA, and therefore, its culture. We discuss the problem and present a series of suggestions of how to deal with this problem and repair the organization's DNA based on our research.

The problem is simple to describe and complex to repair, particularly in cases in which it was not expected. Most organizational initiatives, especially ERP implementations, are like generic drugs, driving change with a broad brush and creating almost as many side effects as intended solutions.



What can be done to prevent and manage these side effects?

##### Anticipating the Impact

###### External Alignment

1. Know where you are going. Implementing an ERP system is more than just creating efficiency, integrating data, and centralizing control. It is an initiative that deeply changes how your company operates. It resets the mindsets of your employees, changes many basic operational processes, and requires significant behavioral changes. Your executive team must be clear about why the ERP system is needed and how it will support your strategy.

You will need to revisit your strategic direction and discuss if and why you need to spend the next 18-24 months (at a minimum) managing an implementation that is very disruptive and sometimes fails.

### **Internal Alignment**

2. Understand how the changes will help and hinder your operation as it transforms the company. The basic nature, the DNA of the company, will change. Employees who have been used to making sophisticated decisions about inventory management may now be following the “decisions” of the software. The software will create entirely new work processes for some and eliminate familiar processes for others. And everyone’s behavior will need to change, from the executive team making decisions with new metrics, to the local service delivery teams who will have more information but changed roles.

You will need to anticipate these changes by doing your due diligence, finding out how the system impacted other companies, and how they managed the change.

### **Involvement**

3. Understand that implementing an ERP system is not about the software, the IT function, or the software experts. It is about a deep cultural change that cannot be managed without significant involvement and commitment by employees at all levels and in all functions. It is an all-hands-on-deck exercise that requires as much guided participation as possible to ensure that the implementation is effective and does not linger on and on as an energy-draining side effect.

You will need to build a strong change management team that understands strategy and strategic execution as opposed to training and development.



## **Managing the Change**

### **The Concept of Alignment**

4. Most senior executives understand that alignment is how well the various parts of the company fit together. However, alignment is more than just fit. It is a series of executive decisions on how to manage the inherent risk of operating to gain the desired reward. For the executive team, the risk-reward decision making first centers on setting the strategy and then on ensuring the organization’s ability to execute it. Strategic execution not only drives the company forward, but it is also designed to manage the inherent risk in the strategy.

Coaches and trainers develop race strategies for world class runners that take advantage of a runner's particular strength and manage or compensate for the runner's weaknesses. A world class marathon runner may have superior long-distance capability but little speed. The coaches design the runner's race strategy around taking a significant lead by the last mile or two of a marathon so that no one out-sprints the runner at the end. The coaches are managing the inherent risk in a strong but not speedy long-distance runner.

### External Alignment

5. Once your executive team is confident that an ERP system is strategically essential (an imperative), then the team must condense their insight into a clear, short explanation of purpose. When you embark on an ERP implementation, you are committing all your employees to extra duty, doing their day jobs while they also assist in implementing the ERP system. Yes, some people will be required to do much more than others, but everyone needs to understand why they are doing the extra work and what the payoff will be for the company and for each of them. They want to know the strategic imperative in an easy to understand statement. They want to know why.

You will need to develop the strategic purpose statement, test it for easy understanding, and then repeat it in a million ways over the length of the implementation. It will also be an excellent post project review tool. Did you accomplish the strategic purpose as you intended?

### External and Internal Alignment are Intertwined

6. Selecting strategy is optimizing the organization's capabilities to the opportunities in the market. Executives cannot separate the organization's strategy from its ability to execute; neglecting one or the other prevents the organization from achieving its mission. A brilliant strategy is only implemented well by brilliant tacticians who buy into the strategy. All strategies and strategic execution efforts are filled with risk.



The executive team needs to be aware of what are the deep-seated risks in the strategy and in the execution approach. It needs to understand what kinds of operating errors are disastrous and which are merely expensive.

### Internal Alignment

7. Your company's DNA is composed of four major components or sections: (1) Strategic Focus, (2) Relationships, (3) Daily Operations, and (4) People Philosophy. They are the drivers of strategy, the relationships with vendors and customers, the daily operations,

and the development of human capital. These drivers link the unique characteristics of the organization to the employees on a daily basis. The mix of these four segments and of the strands within each segment determines the organization's ability to execute and defines its capabilities. A shift in any of the four necessitates a change in the other three. Failure to rebalance the organization decreases organizational alignment and creates clumsier performance. Whether you are implementing a warehouse management system only within the logistics function or an entire ERP system, all these components will be impacted and need to be realigned.



You will need to measure them before you start, periodically throughout the process, and then at the end. Coupled with your strategic purpose statement, the measurements will help you assess how well the company is aligned. And you will be able to assess if the system is accomplishing what the strategy called for.

### **Alignment Drives Engagement**

8. Ultimately employees only want to know how the ERP system will change their work lives. Some will want the system to make their life easier; some will want it to give them more responsibility and an opportunity for advancement. In addition to understanding how the system will impact the company and their long-range future, they want to know what it does for them. They want to know how it will change their pay, their evaluations, and their supervisor's expectations. They want to know how they need to behave to meet their individual goals and they want to know how much latitude they will have in their newly impacted jobs. In short, they want to know how the ERP system is going to impact their daily lives.

In an ERP implementation, all the company's management systems must be revisited, reworked, and tested for effectiveness. The systems need to be reviewed through the lens of how the ERP system has changed the company's working approach. They need to be analyzed in the light of the new requirements that the ERP system has created and then realigned to support the new way of working.

Your executive team needs to manage the ERP system as a complete change to the company by realigning all the management systems. And the change process should be a cascading one, where changes are proposed, tested, and the revised with employee feedback as the guide.

### When It Goes Wrong

9. ERP implementations are a disaster when they go wrong. If you have treated the implementation as simply a software exercise that is complex, then in two or three years you may well be explaining to your board why you need to write off fifty or more million dollars. But that of course is the end result. There are many symptoms and signs of an ERP implementation failing. Disengagement scores increase in employee surveys, cynicism increases, absenteeism may increase, and passive-aggressive behavior increases.

Employees often can see the early warning signs before management. How they share that information up the chain of command varies with their personalities and with the culture of your company. Some will be clear that there is a problem and try to share with management what they think and see. Others will “act out the problem” by behaving as above.



Regardless of how the employees communicate it, your management team must be acutely and intently listening. Do not dismiss the complaints, the feedback, and the early warning signs of behavior as just normal grumbling. If necessary, bring in a consultant who focuses on listening so that you have a guaranteed speaker for those

### Summary

Implementing an ERP system is a cultural transformation for companies. It changes the company's DNA, its mindsets, processes, and behaviors. If it is not managed from a strategic perspective, then it is likely to cause numerous unintended consequences, expensive and time consuming, for your successors.