

Process Improvement in ERP Implementations

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Installing new accounting software or developing new programs to handle routine tasks is an exciting and challenging time in the lifespan of a company. Yet many organizations do not recognize one of the largest threats to such a project by failing to focus on process improvements. While employees and executive leadership look forward to a more efficient and productive culture and work experience, the value of the software might never be recognized. If executive leadership does not establish process improvement as a clear goal, many of the benefits listed in any preliminary cost/benefit analysis are likely to never be fully realized. Without knowing it, many organizations limit the value they can extract out of a software solution before they ever get started, simply because they do not spend the time and effort to analyze their business processes before implementing a new technology.

This paper focuses on the need for process improvement in an Enterprise Resource Planning (ERP) implementation. A manager has a responsibility to the organization to use resources in the most efficient manner possible. Creating effective processes is the best way to achieve this. Whether you use an outside consultant or an objective person within your own company, the key is realizing that the processes often can and need to be transformed. First will be a discussion of some of the more common reasons that companies do not focus on process improvement along with arguments against those reasons. Then the focus will shift to three types of process improvements and when each might be appropriate. Ultimately, the reader will

understand that the keys to successful process improvement are an objective point of view and a commitment to change. If a manager of an ERP implementation is unable to see process change as a necessary and constructive element of the project, then the project will not be as successful as it possibly could be.

Regardless of industry, company size, and product set, there are a multitude of reasons why an organization may choose not to re-engineer its processes. Some of the more likely reasons include (1) the leadership is ignorant of process inefficiencies in the system due to the nature of the incremental changes to the business over the years, (2) the perceived cost/time, both in terms of internal resources and external consultants, to analyze and change their current processes, (3) there may be a perception that the existing processes are correct and work efficiently, (4) a common concern among staff that if you are able to do things more efficiently then people's jobs will be eliminated. This is a concern for the worker (who may lose employment) and for management (who may at the very least end up being in charge of a smaller section of the company). This is often the most difficult concern to manage because the very people who can ensure a successful project will be the same people who are fearful of losing their jobs.

Why Companies Fail to Change Processes

The first reason that companies do not focus on process improvements is that management is unaware of the inefficiencies in the process. Business managers must recognize that with growth, downsizing, market changes, and employee skill set evolution, processes are constantly in motion. Some process needs may not even exist in a company a year after they

were developed. Processes change with business needs just like everything else. This might be due to technology innovations (few organizations would think of typing up a memo and sending it out through interoffice mail) or due to outside influences (new government regulations or an acquisition). It could also be as simple as management requesting a new report to analyze data. With each small change, the process becomes more complicated and less transparent. Whatever the reason for the change, a business process can change incrementally every few years or as often as every quarter. In addition, few business processes exist in a vacuum, meaning that each incremental change to a process impacts the other processes before and after it. Over time, you end up with a suite of processes that are redundant, inefficient, and costly. Frontline labor is often overwhelmed with the day to day details of an overly complex system. Management, not working in the process on a daily basis, is ignorant of the excessive time and effort required. This process is destroying value and no one in management may be aware of it. This is where a benchmarking study can often provide the objective point of view needed to recognize inefficiencies. When a company is compared to the marketplace, as well as best-practices that have been seen across their industry, management is able to see where their processes fall short and where they excel. A benchmarking study is more than an academic process; it shows the appropriate starting point to start driving real changes and improvements throughout the business. This is a process that can be done quickly and with minimal cost compared to the potential savings involved.

Another possible reason for companies not wanting to make changes to their processes is

the perceived cost/effort involved from both an internal and external perspective. To effectively create new processes and procedures, there has to be commitment from top management that not only will the project get the appropriate support, but also that it is done with their, and their employees', participation. It is critical that an objective point of view be maintained by all who are involved. Whether an outsider or someone in the company who can step back to see the whole picture, real change will only come from someone who is committed to the project and who can admit where the process is breaking down. By engaging the employees in the process improvements the executive is empowering the employee base while also providing external analysts the opportunity to facilitate change. ERP implementations and process changes are long term projects that may not pay off for several years. Companies will often try to save money by reducing the number of process teams involved in a project. A good manager will not allow the project to fall into this trap. By eliminating these teams the long term benefit is decreased, long term costs are increased, and short term costs are steady at best due to increased programmer needs. If an organization does not change their processes then a decision has already been made to customize the ERP solution. This will have immediate personnel costs in terms of programmer support, IT staffing, and possible software licensing fees for the project. It will also have long term support costs. A customized solution is more difficult to upgrade when the ERP vendor releases patches and other updates.

In addition, you will need programmers who are able to understand the changes that were made and how to support them. This is one area where the importance of an objective point of

view cannot be understated. An ERP vendor has spent many years and a great deal of money trying to build the best accounting software that they can. It is conceivable that the process they have come up with for writing a check is better than the process that has developed within your company. A software solution should not be “slammed” into the organization, but it should not be needlessly customized either. By removing the bias that many insiders have towards their own process they can determine whether or not they should change the process or the software. An organization may have several reasons to customize a system to fit their business needs. They need to evaluate whether or not these are valid reasons, however, before blindly customizing the solution to end up with the same convoluted process that existed before. They need to consider all costs when determining which parts of the system to customize and which processes need to be changed. Upfront costs will not be lower when the processes are left unchanged and the potential long term benefits will not be fully achieved. Customize your core processes that differentiate you from your competitors and standardize the others as much as possible. This helps ensure that the processes that are your high cost areas are the same processes that are your high value areas. As a manager over a process improvement project, you have to be willing to admit that the way your company does things could be poor. This will enable the company to achieve the most cost effective long term solution.

Recently, a small publishing firm was using a proprietary enterprise system that had been developed in house over several years. The users were primarily the editors and staff working

on the published books. As a result, the system handled their tasks extremely well but was very ineffective at providing financial data and analysis. Nearly all analysis and much of the reporting were accomplished outside of the system. As the firm grew, they quickly realized that this model was not scalable but in spite of that, continued their focus on the book compilation to the detriment of their other business processes. Eventually, this firm was unable to generate a simple list of Accounts Receivable as the data lay in multiple areas and in a multitude of formats and platforms. The company failed to recognize that while they were accomplishing their core value proposition as a business, they had failed to focus on process improvement across the organization. The result: a firm that limited its own growth potential from the start.

Many organizations believe that this would not happen to them, but all too often systems inhibit companies as the software dictates the process and not the people. While implementing a new module for Accounts Payable, companies may not take the time to evaluate how they can change a procurement process at the same time. Processes do not stand alone and cannot change without having an impact on different areas. As discussed previously in the series, integration is a critical component of any technology implementation¹. Integration of new processes within the larger process framework is just as critical to the success of the project.

The third reason a company may not want to change their processes is internal politics or momentum that makes people think there is no

¹ Aligning Technology to Business Strategy”, Jay Dumphy, 2006

reason to change it. "If it works for us today, it will work for us tomorrow." This sort of culture will kill a process improvement project and is often the reason the company is running poor processes in the first place. A company was reviewing the process for one of their Accounting Schedules. They had recently installed a new ERP consolidation tool to speed up their closing process but this particular schedule still required five different people to log in to the system and approve the schedule. This added more time and cost to the process without creating much value; but more importantly, it was making one of two statements:

1. Managers do not trust the ability of the first four people to adequately approve the schedule. If that is true, then why have them approve it all? While it is possible that five levels of approval are necessary, it is not very likely.
2. Approvers know that there will be someone else checking the schedule before or after they do. This encourages them to take a more relaxed view of the approval process. They know that if they do not catch something then someone else probably will. Without realizing it, they have made the extra levels of approval more necessary because the process encourages a lack of accountability.

This process "worked" in so much as it provided an accurate result for this schedule but teams were afraid to remove these approvals due to a lack of clarity in the roles and responsibilities across the group. They had spent the time and money to upgrade their system but failed to achieve any real benefit due to the time consuming nature of the approvals and inherent

inefficiency in the management of the process and group. If the company worked to increase the first time accuracy of the data by improving the previous processes, then the approvals could be eliminated.

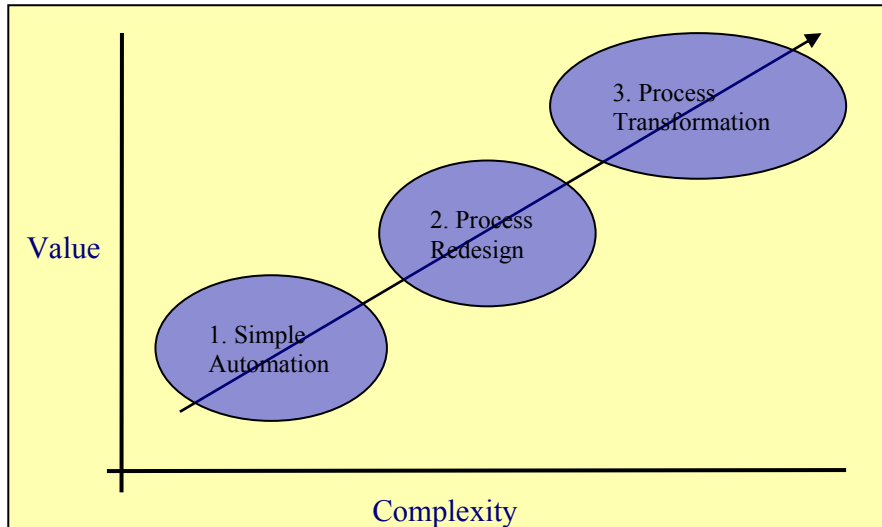
Lastly, concerns over job elimination can lead a company to not redesign its processes at all, or to redesign them poorly. As mentioned above, one of the most difficult things to manage in a process change can be the people. Even people with the best work ethic can be quickly discouraged if they think that their job is at risk. This is where the difficulty lies. An organization has two real options depending on whether or not they are going to reduce the size of their work force. If management intends to execute a reduction in force, retention bonuses or project milestone bonuses would be most appropriate for the team implementing new processes. This may seem expensive but the cost is very small relative to years of dealing with a poorly implemented system. If the company is not going to lay people off then it needs to work to reassure its employees that they will have a position after the implementation. While it is always important to get Senior Management's support, it is equally important to get lower level management and employees to buy in to the changes being made. Without their input on the day to day activities, it will be much more difficult to design an effective process. These will be the people performing the daily project activities. Even if a large outside consulting team is brought in, you will still require the expertise of your everyday accountants in order to deliver a process that meets all of your needs.

What Can be Achieved Through Successful Process Improvement

When an organization decides to pursue process improvement along with a technology upgrade there are three general types of improvements.

increased functionality. These additional features allow the user to perform more and more tasks in the system. Ideally, an organization would be looking to make these low value/low complexity improvements on a continual basis.

The first type of process improvement is simple automation. This change is a low value/low complexity improvement. It involves no real change to the process and only small improvements in speed due to automation.



The second type of process improvement is process redesign. This change is more of an incremental improvement and could involve the elimination of some steps in the process or a change in the process flow. Using our idea of the report that is

For example, a company has a report that is generated and sent for approval. It may be possible for the system to email the report instead of someone going in to the system and running the report themselves. If data is keyed in manually then a link between systems could reduce process time and errors due to redundant data entry. What is important to remember is that the process is nearly identical to what it was before the improvement. The only real difference is that the most basic of manual tasks have been taken over by system processing. These types of process improvements are best suited for repetitive tasks that do not enable the company to differentiate itself from the competition. When implemented as part of a technology upgrade, these improvements are almost automatic. Nearly every software upgrade will include

generated, analysis of the process may reveal that there is a redundant layer of approval or the same data is being keyed in more than once. Process redesign would involve removing the extra layer of approval or the step required to key in the data the second time. This sort of improvement means that the process looks very similar to its previous state but is more streamlined and efficient. Processing time and costs are reduced through the elimination of these steps. Ideally, these types of incremental process improvements would be occurring on a regular basis at any organization. At a minimum, however, implementation of a new system should include these types of process changes. They do not require a large effort in terms of resources and will allow the company to increase the benefits associated with the ERP solution.



The third type of process improvement is process transformation. This involves a radical departure from the way you are currently doing business. Process transformation is the most difficult and most rewarding process improvement that a company can make. Let's use our example of the report that is generated and sent for approval. Instead of reviewing this report at a set time (weekly, monthly, etc.) perhaps there would be a way for the line managers to review and approve the numbers in the system as they are generated. By adding real time review and approval of the data, Senior Management could stop compiling and reviewing the old report and would have real time visibility into the business process. In addition, an in-depth process review may reveal that, due to upgrades or process changes in other areas, this report is no longer needed. The company would then be able to eliminate it completely. Fundamentally changing the way you do business is what process transformation is about. It is also the goal that you should be striving for while pursuing process improvements along with a technology change. As mentioned previously, the keys to successful process transformation are an objective point of view and a commitment to change. This is the best way to leverage all the benefits that come from a new ERP system.

system, prioritizing and altering the processes of the business so they create the most value for the business is paramount. By reshaping the business processes, management will create a culture which focuses on the high value generating activities and reducing the long term costs. ERP systems can create sustainable value for a business but without recognizing the function the software will perform and with the assistance/perspective of an independent party, it is often an overwhelming and unrealistic task to address.

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Implementing a new accounting system is a chance for an organization to "set things right." It is a large-scale project that can pay large dividends or be an ongoing headache. In order to get the most out of your project and new ERP

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About the Author

Kevin Delano

Kevin Delano brings 7 years of consulting and industry experience in helping companies achieve their operational goals. He holds a B.S. in Accounting from the University of Southern California and a M.B.A from Washington University in St. Louis. His focus is in finance and accounting process improvement and project management. Prior to joining Impart Solutions, Kevin held a management position with a global consulting firm.

Impart Solutions, Inc.

714 W. Burlington Ave

(708) 354-8302

(312) 577-0978 fax

www.impartsolutions.com

info@impartsolutions.com

