WHERE’S THE ROI?

Leveraging Benefits Realization Activities to Optimize Your Organization’s Investment in ERP Software

In today’s increasingly competitive business environment, investments in ERP are becoming an important source of competitive advantage and operational efficiency. Companies often spend millions of dollars and a great deal of time implementing ERP software in hopes of achieving dramatic improvements in their operational efficiency.

However, during their quests to successfully implement these complex enterprise-wide technologies, many companies fail to realize the full benefit potential that these types of systems afford. Oftentimes, the ERP software gets blamed for inefficiencies or process breakdowns. The reality is that realizing true benefits and return on investment (ROI) from an ERP initiative typically has very little to do with the software itself.

This situation presents good news and bad news for CIOs. The bad news is that not all managers understand the primary drivers of benefits realization or how to overcome the many diverse obstacles to full benefit achievement. The good news is that realizing benefits is and should be easier than implementing the software. By leveraging an ERP system as a tool to achieve overall business objectives, CIOs are able to better maximize the potential benefits of any particular system. But no matter how talented a CIO is, he or she won’t get far without incorporating a comprehensive benefits realization program into the ERP project plan.

This white paper discusses the obstacles and drivers of technological benefits realization and focuses on how managers can optimize the potential of their existing ERP systems. In it, we have outlined common obstacles to benefits realization and the levers managers can use to realize IT benefits using their existing people, processes and organizations. We also have included specific tools and approaches for leveraging the possibilities of technology, including performance measurement, organizational design, process improvement, training and communications as well as a case study about ERP benefits in action.
The Elusive Nature of ERP Benefits and ROI

Despite the fact that most CIOs are quite capable of selecting and implementing ERP software in their organizations, most implementations fail to deliver a positive ROI. According to Panorama’s 2012 ERP Report (available at http://www.Panorama-Consulting.com), 48-percent of ERP implementations realize less than half of expected business benefits, and 29-percent of ERP implementations have not recouped any costs.

The other problem with the elusive nature of ERP ROI is the cost side of the equation. Obviously, the higher the implementation costs – in both time and money – the more benefits are required to justify the investment. The 2012 ERP Report reveals that 57-percent of ERP projects go over budget and 54-percent take longer than expected.

Given the millions of dollars that many companies spend on ERP projects annually, these figures can (and should) be disturbing to management and shareholders. To many CFOs and other managers, it is difficult to fathom the thought of a $5 million to $40 million-plus IT investment without knowing what the exact benefits payback will be and when it will come. Many companies develop business cases to justify ERP investments to gain budgetary approval, but very rarely is any type of follow-up analysis done to determine what the actual benefits of the implemented technologies are. As we will discuss in further detail later in this paper, this failure to conduct post-implementation measurement is a key breakdown in the quest to realize a strong return on investment.

What is Benefits Realization?

Before exploring the specific analysis required to achieve ERP business benefits, it is helpful to understand the general concept of ERP benefits realization. Benefits realization is a comprehensive project approach that focuses on identifying, measuring and ensuring the business benefits achievable through technology. In short, it combines the “soft” human side of organizational change management with the pragmatic and tangible nature of measurable business benefits.

In contrast to high-level business cases, benefits realization plans break down high-level benefits into manageable and actionable chunks, measure benefits after implementation and utilize tools to ensure that the true benefits potential of projects are attained. In essence, benefits realization supplements the technical aspects of an implementation with the business side of the equation to ensure that potential benefits come to fruition.
Key ERP Benefits Realization Activities

ERP benefits realization is a comprehensive and integrated approach that focuses on realizing business value. It combines elements of a cost-benefit analysis, performance metrics, organizational change management and process design. An effective benefits realization approach consists of ten key activities beginning at the design and build phase and continuing through post-implementation. Below is an overview of these activities, which should be implemented as part of your overall ERP project plan:

1. **High-level Business Case, Corporate Metrics and Benchmarks**
   One of the first activities to occur as part of an ERP project is the financial justification of the necessary technology investment. It is important to identify and quantify the potential benefits of the project and then compare those benefits to the projected costs associated with the proposed information technology.

2. **Organizational Readiness Assessment**
   Since most ERP implementations involve large-scale change in terms of end-users learning new technologies and processes, it is imperative to assess the company’s culture and identify employee resistance to change early in the project in order to pinpoint activities necessary to overcome this resistance. Such change often begins long before a project starts and continues after go-live, so it is important to get a strong reading on employee attitudes and resistance to the implemented ERP solution.

3. **High-level, Enterprise-wide Business Processes**
   While this may seem intuitive to most, it is often not performed adequately or at all. In order to realize the full benefits of ERP and leverage its cross-functional capabilities to support an organization’s operating model, business processes need to be modeled and improved to improve efficiency and to make certain that technology is not merely used to “pave the cow paths.” Even more importantly, these defined business processes should ultimately drive overall ERP design, configuration and implementation.

4. **Operational Metrics and Benchmarks**
   While most business cases effectively develop high-level projected business benefits for an implementation, it is perhaps even more important to translate those metrics into operational numbers that executives are held accountable for. High-level benefits are useless if they are not presented in a way in which individual managers can be measured. Therefore, the business case must be translated to target levels of performance at the departmental level.

5. **Design Detailed Business Processes**
   Once the high-level process modeling is complete, it is important to take this modeling to the next level and develop more detailed documentation to ensure that teams clearly understand their roles, responsibilities and key processes. Many companies effectively define their high-level processes but often fail to identify and document processes in enough detail to be meaningful to specific workgroups.
6. Group Metrics, Processes and Benchmarks

While operational and departmental metrics (activity #4) are useful, they must be translated to an individual level to gauge performance person-by-person. For example, a customer service manager needs to know how his or her day-to-day work and performance adds to the overall benefits identified in the business case. He or she should be aware of key metrics to aim for in order to contribute to the overall success of the ERP project’s benefits. When possible, these measures should be aligned with formal and informal performance reviews.

7. End-User Training

It is important to use the detailed process models detailed above to develop end-user training that not only helps employees understand how to use the new technologies but also how to perform new processes and job functions. Many training programs underestimate the value of the latter.

8. Benefits Measurement

Here is where the real value of benefits realization comes into play. A comprehensive benefits realization approach measures actual benefits after implementation and compares results to projected departmental and individual metrics to identify any potential benefits gaps. It also enables managers to understand what they are doing well and ensure that they continue to realize the benefits in these areas. Unfortunately, no matter how fully managers have incorporated related activities into their project plans, there are almost always areas where full benefits are not initially achieved.

9. Root Cause Analysis of Benefit Gaps

It is imperative to understand why gaps exist between potential and actual benefits realization. Root cause analyses determine and clarify the reasoning behind these gaps. A common example of a root cause of less than 100-percent benefits realization is that end-users revert to workarounds because they understand how to use the technology but not the importance of doing so.

10. Implementation of Corrective Action

Once the root cause of benefit gaps have been ascertained, managers should implement activities to address the problem areas. Follow-up training, enhanced communications, focus groups and process control and governance are some common ways to bridge gaps and enhance ROI.
Organizational Change Management and Project Communications

To ensure acceptance of any new technology, it is important to effectively (and frequently) communicate goals, benefits, expectations and timelines to end-users. This should be done through a variety of channels and should be targeted for each audience. Additional organizational change management activities should be deployed as necessary to create ownership and accountability for overall ERP benefits realization. These activities are ongoing tasks that should be implemented in parallel with other project activities and run the length of the project.

Benefits realization in and of itself does not offer any groundbreaking activities that have never been done before. The challenging aspect is making sure that all of these activities are implemented effectively and in alignment with the technical aspects of the project and that post-implementation activities both provide true metrics and plans to improve. The activities prior to implementation are intended to establish a foundation for benefits realization potential, while post-implementation activities are intended to measure and ensure that the benefits come to fruition.

Case Study: ERP Benefits Realization in Action

In order to better understand the value that an ERP benefits realization plan can add to an organization, it is helpful to look at a mid-size gas and electric utility that employed these tactics to optimize its ERP benefits. This particular company, which we will call Upstate Gas and Electric, services 300,000 customers in the northeastern U.S. and invested over $10 million in a leading ERP package to replace their mostly manual, paper-based processes. This company quickly realized that there are many obstacles to realizing the benefits of ERP.

The Importance of Organizational Change Management

Early in the project, Upstate and its team of consultants conducted an organizational readiness assessment (activity #2) to assess the current level of employee buy-in and identify potential resistance to change. Upstate quickly realized that there was an enormous resistance to the project and a troubling lack of alignment. Its employees were unionized, very tenured and extremely disinterested in switching to a new system, even though it would automate and streamline many of the complex manual processes that they were performing.

It seemed that the resistance to change displayed by Upstate employees was merely a symptom of a much deeper problem: over its very long history, the company’s culture had fostered a command-and-control environment with very little respect for employee input. As a result, it became clear that Upstate would need to overhaul its corporate culture to encourage more employee involvement in decision-making. Since this culture was rooted in more than 100 years of doing business, this was a very difficult task. The culture was not going to completely change overnight or even in the two years it would take to implement an ERP system.
The team began by identifying high-impact organizational change management activities that leveraged the ERP project as a catalyst for initiating change to the corporate culture. Key executive stakeholders focused on developing a network of “change agents” and subject matter experts and conducted training classes to teach managers how to delegate and empower employees to make business decisions.

*Measure, Measure and Measure*

Not only did Upstate have a deeply ingrained culture, it also had no history of measuring performance or holding managers accountable for achieving business metrics. The team realized that this too had to change if it was going to realize tangible and measurable operational improvements as a result of the ERP project. Therefore, it deployed a comprehensive performance measurement and management program based on the balanced scorecard.

First, Upstate and its consulting team developed a high-level scorecard based on corporate objectives, such as reducing SG&A, minimizing customer outage times and improving customer response times. Once these high-level measures were established, they were “operationalized” by assigning executives and mid-level managers responsibility for KPIs that would contribute to these higher-level metrics. These measures were then incorporated into its annual performance review, salary and adjustment process. This ensured that managers had ownership of performance targets that would enable ERP benefits while allowing them to share in the success of the project.

*The Importance of the Post-Implementation Audit*

Upstate had high hopes for its ERP project, so the team had a natural fear of measuring against key metrics (activity #8) after the ERP go-live. But the team also understood that the only way it was going to actually realize benefits was to measure and make adjustments where needed.

The initial results were discouraging: three months after the first module go-live, Upstate had realized approximately 20-percent of its projected benefits.

The team’s next step was to conduct a series of focus groups and work sessions to identify the root causes for why the other 80-percent of benefits were not being realized (activity #9). It quickly found that users did not fully understand how to use the system and were reverting back to their manual processes. It also found that markups of work drawings from the field were not being sent back to the office for updates in the system, which was a key process breakdown that the system itself couldn’t fix.

As a result, Upstate implemented corrective action to improve its performance (activity #10). First, it conducted refresher training and provided additional on-line documentation for employees to make them more comfortable with the system. Second, it redefined the business process for field drawing markups to ensure that office staff was receiving them quickly. These two activities alone had an immediate impact on business benefits and within three months, Upstate was realizing over 60-percent of its projected improvements to its business. Within another three months, that figure was close to 85-percent.
Additional Lessons Learned from the Front Lines of ERP Projects

While the above case study highlights just a few of the key aspects of Upstate Gas and Electric’s ERP benefits realization program, the project also resulted in a host of additional lessons learned.

- **Be realistic in projecting ERP benefits.** Upstate made the common mistake of being too aggressive in defining improvements they expected to see, which made success very difficult to achieve. Benefit projections should be challenging but not impossible.

- **Ensure involvement and representation from all key areas of the business.** Too often, companies try to implement ERP without involving key stakeholders and employees in the decision-making and implementation process. Upstate learned early in its project that it needed to involve employees to begin changing its rigid cultural history.

- **Link the business case to the operational metrics.** Oftentimes there is a disconnect between the dollar savings quantified in ERP business cases and the operational metrics and targets. While it is easier said than done, it is important that there is an apples-to-apples linkage between the two.

- **Don’t get too caught up in “as-is” processes.** While there is value in defining and documenting current processes, the real focus should be on the “to-be” future processes. Many ERP project teams have found it useful to begin the analysis with high-level as-is documentation to better understand pain points and benefit opportunities, then spend a majority of time on how the processes will look in the future in the new ERP environment.

Conclusion

Given the nature and risk of ERP projects, it is clear that there is a need to ensure that companies more fully realize the potential benefits of this technology. Simply stated, investing millions of dollars in ERP without a compelling justification and validation of this justification is not acceptable in today’s increasingly competitive environment. By understanding and integrating a comprehensive benefits realization approach into ERP implementations, managers will ensure that their projects are rolled out successfully, their employees are aligned and that their organizations realize the operational improvements so necessary to their continued success.
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