

## THE CULTURE OF CHANGE DEFINES ERP ROLLOUT

**Enterprise resource planning systems can create as many problems as they seek to solve. A recent study looked at the ERP implementation projects at two multinational businesses – one American and one Japanese. While the companies concerned took different approaches, they had many common experiences.**

The February issue of *Finance & Management*, published by the ICAEW's faculty of finance and management, reports on a study conducted by Paulo Quattrone of the Said Business School, University of Oxford, and Trevor Hopper of Manchester University. Their study examined the installation of a similar ERP system at an American and a Japanese multinational corporation.

The Japanese company undertook limited evolutionary change, using the new ERP system to increase the efficiency of existing transactions. The American company, on the other hand, embarked on more revolutionary changes, resulting in almost all operations being controlled by a single, real-time integrated system.

### Common experiences

Despite the different approaches to ERP implementation, the study found that both businesses had several experiences in common:

- Both undertook major reviews of existing routines, business processes and accounting systems.
- Both companies discovered that the key issue was not simply to 'speed up' current practices, nor to modify current practices so as to 'meet the system's constraints'.
- FDs and other senior and local

managers at both companies were forced by the projects to reassess their information needs and 'philosophy of control'.

- In both cases, the companies' intentions with regard to the ERP systems were modified during implementation; initially, managers had only 'approximate' ideas about what the systems could deliver.

While senior managers, particularly IT managers, initially perceived ERP as a means of integrating operations globally in real time, many more diverse (but 'poorly articulated') user needs emerged during design, implementation and operation.

Training prior to usage of ERP systems was found to be ineffective, as most of the learning about the functions and constraints of the ERP systems came post-implementation.

The process of getting accountants, controllers and managers to agree what information should appear on their computer screens was "prolonged and perilous".

### American standardisation

The American company's need for standardisation sparked arguments about how to represent operations with regard to:

- Overhead allocation
- Transfer pricing
- Inventory valuation
- Which currency to use

In particular, managers realised that their familiar 'green book' KPIs were not automatically available on the ERP system. Some local diversity was permitted, but the Italian subsidiary stuck with its old ERP system. It didn't adopt the new one because it was not available in

Italian and was too expensive to train users in English.

While some degree of local customisation was allowed initially, it became a problem when the ERP system was upgraded. Redoing those customisations proved expensive and difficult.

### Japanese efficiency

The Japanese company took the view that implementing a fully integrated ERP system would cause disruption. It had a complex way of routing transactions between manufacturing and selling subsidiaries in regional offices and head office. They decided to restrict the project to speeding up existing transactions. Because of a culture of 'incremental change' and 'consensus-seeking' – and a desire to keep the existing organisational structure – the Japanese company rejected the option of more radical change.

### Implications

ERP standardisation required managerial agreement on a number of issues, and the outcome was unpredictable because of the shifting managerial preferences during and after implementation. Structural issues that had to be addressed included:

- Drawing boundaries between head office, subsidiaries, divisions, functions and geographical areas.
- Deciding who could access and input data.
- Deciding on best practice and evaluating whether the ERP system offered it or could be customised.
- Determining if one ERP system could do everything.

It was actions by managers that determined the outcome of the

ERP installations. While the accountants played a key role, they were, in effect, playing the role of knowledge consultants, not systems designers.

Accountants should have a good knowledge of ERP systems and possess group-working skills, but even that won't guarantee they will be at the centre of the implementation process.

Moreover, the accountant's job is under threat, say the researchers: once the ERP system is installed, the accounting function "becomes dispersed across employees with the 'right' to post the books". So-called 'new accountants' who post entries to the new system need to understand how the system works and the implications of making incorrect entries. Non-accountants who generate financial reports from ERP systems need to understand the systems' limitations.

In the US company, centres of control became more diffuse and constantly evolving. "Accountants were no longer masters of the control system or financial data."

### Conclusions

"ERPs are not homogeneous, predetermined technologies: they are choice-giving, *à la carte* menus rather than *tables d'hôte*. However, the dish comes in the making – not merely from preset recipes. The diners enter the kitchen with unpredictable results."

*Andrew Sawers*

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- This Briefing is based on an article by Helen Fearnley in the February issue of *Finance & Management*. See [www.icaew.co.uk/fmfac](http://www.icaew.co.uk/fmfac) for information