

ERP and the Art of Action

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In his book *The Art of Action* (2011), Stephen Bungay identifies three gaps that frustrate the ability of organizations to translate plans into actions that lead to desired outcomes. He calls them the knowledge, alignment and effects gaps. Here, I want to reflect on Bungay's perspective by reviewing these gaps in terms of the selection and implementation of enterprise resource planning (ERP) software.

ERP software exerts a significant influence over the way an organization manages itself and monitors its performance. In large organizations, ERP software can touch hundreds, even thousands of people given that today's ERP software may have a significant organizational footprint encompassing accounting, supply-chain, manufacturing, human resources (HR), customer relationship management (CRM), environmental, social and governance (ESG) and performance management activities. ERP software is at the heart of organizational management in the world's leading businesses.

However, most organizations approach the selection and implementation of ERP software with some trepidation. The stories of failure are legion. There are well-documented examples of businesses brought to their knees by poor selections and out-of-control implementations. Spiralling budgets, burnt-out implementation teams and legal actions between buyers and sellers are a fact of life in the world of ERP.

And much of this spiralling cost, team stress and organizational risk is a direct result of the uncertainty and friction generated from Bungay's three gaps. We'll begin by introducing a typical ERP selection and implementation process and then discussing Bungay's gaps in the context of ERP selection and implementation

The ERP Selection and Implementation Process

Figure 1 outlines a typical ERP software selection process. At the end of this process, buyers typically know very little about how exactly the ERP solution they are buying will meet their business needs, because the knowledge transfer from vendor to customer is of the order of just a few days of demos and reference checks. Therefore it's hardly surprising that significant knowledge and alignment gaps may exist even before the implementation process begins.

Part of the thesis of this article is that not enough attention is paid to the Decision Due Diligence step during the selection process – with the result that gaps inevitably surface during implementation that otherwise might have been narrowed or avoided altogether.



Fig. 1 – Typical ERP Software Selection Process (condensed)

Figure 2 outlines a typical ERP implementation process. Knowledge and alignment gaps can surface at any stage of this process. And these gaps may be wide enough to have the potential to derail the project timeline or cost or cause customers to consider switching their implementation partner. The Effects gap generally comes into play after implementation and during the initial go-live phase.



Fig. 2 – Typical ERP Implementation Process (condensed)

Consequently most ERP implementation projects, especially those informed by project management methodologies such as PRINCE2, are particularly concerned with managing risk. Unfortunately many project managers are not focused on actively mitigating risks caused by knowledge and alignment gaps and this is because many project managers either don't recognise these gaps or don't know how to mitigate them if they do. So let's examine Bungay's three gaps in more detail.

The Knowledge Gap

Bungay defines the Knowledge gap (p.45) as, '*the difference between what we would like to know and what we actually know*' and a situation that prompts the '*collection of more data*'. In this context, the knowledge gap frustrates the ability of organizations to plan for an on-time, on-budget, on-benefit ERP implementation project.

Today's ERP systems from market leaders such as SAP, Oracle and Microsoft (AX) are both broad and deep in terms of their functions and features. Much of the challenge in implementing these systems lies in figuring out how to configure the system to get the functionality you want with the minimum impact on operational (in-use) complexity. Gaining the knowledge required to design and build a fit-for-purpose solution is the key challenge for implementation partner; while communicating the information needed to enable this is the key challenge for an implementation customer.

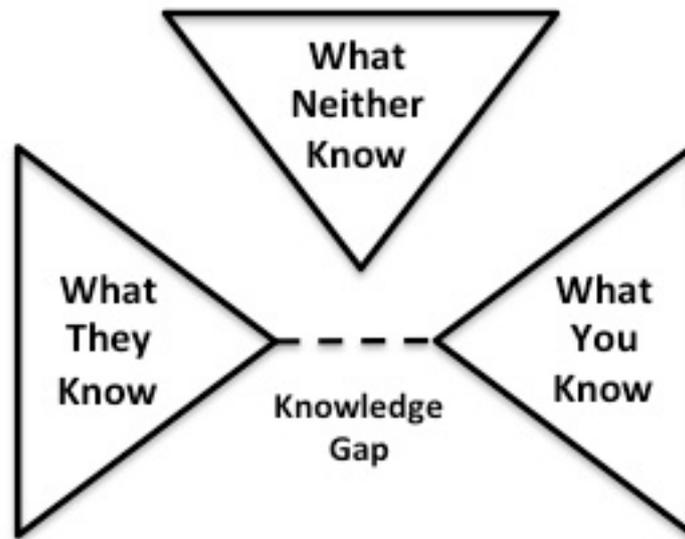


Fig. 3 – The Knowledge Gap

As figure 3 shows, the knowledge gap involves both parties, and has a significant role to play as a key project risk. Your implementation partner knows about the software and the best practices for configuring and using it. You know about your business processes and operational roles and responsibilities. Clearly, this is a gap that exists and needs to be crossed in every implementation. But at the same time, both parties are subject to what they don't know.

Implementation partners may have never configured the package to suit a specific business process or may uncover hidden software bugs in doing so. You may have never thought about managing a business process in the way that the system enforces or about adapting roles and responsibilities to suit new ways of doing things. So what neither of you know is an ever-present wild-card that can widen the knowledge gap, and in reality there's not much you can do about it.

The Alignment Gap

Bungay defines the Alignment gap as, *'the difference between what we want people to do and what they actually do'* and a situation that is indicated by *'top-level frustration and lower-level confusion'*. In this context, the Alignment gap frustrates the ability of organizations to execute an on-time, on-budget, on-benefit ERP implementation project.

In an ERP implementation, the alignment gap is all about methodology and expectations. If the implementation partner's implementation methodology is not clearly communicated and understood by the customer, alignment will suffer. Equally, if the customer's implementation constraints are not clearly communicated and understood by the partner, alignment is impacted.

As figure 4 shows the alignment gap is another key project risk that is created by misguided expectations created by poor communication and understanding between the two parties. Vendor methodologies must be adaptable to suit the organization size, operational style (e.g. methodical vs. agile) and team-makeup of the customer. Otherwise an alignment gap will exist from the start and is likely to grow over time. And like the knowledge gap, there is a further 'gotcha' that may come into play in the

form of unexpected events triggering timeline/people constraints (among others) that inevitably occur in implementation projects that can take many months or even years.

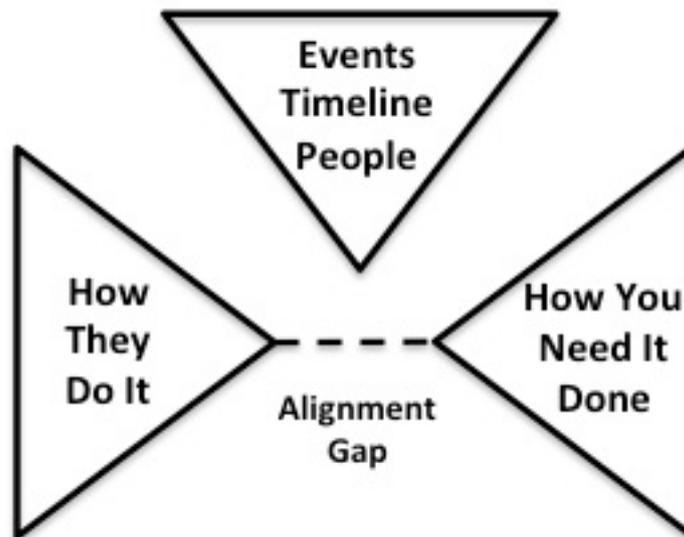


Fig. 4 – The Alignment Gap

The Effects Gap

Bungay defines the Effects gap as, ‘*the difference between what we expect our actions to achieve and what they actually achieve*’ and a situation that is responded to by ‘*an increase in control*’ typically via the collection of more metrics. In this context, the Effects gap frustrates the ability of organizations to fully realize the benefits from their ERP investment.

The total cost of ownership (TCO) of ERP solutions can easily run into millions of dollars of licensing and implementation fees, plus on-going maintenance and upgrade costs. So naturally the company boards or investors that authorize this level of expenditure expect significant benefit realization from their investment. What this depends on is a clear understanding of expected benefits, communication of those expectations internally, and regular checkpointing of progress towards those benefits.

Implementation project managers are rightly focused on delivering projects on-time and on-budget. But the third deliverable, on-benefit, is often neglected or forgotten entirely. The reason is usually that benefits were never clearly defined and communicated in the first place and even if they are, it’s all too easy to forget the destination whilst dealing with the hazards of the journey.

As figure 5 shows, unlike the previous gaps, the effects gaps is less about distance between the implementation partner and the customer and more about distance between an organization’s internal executive and operational management and the impact of ‘change strain’ on the ability of the organization to realize the expected benefits.

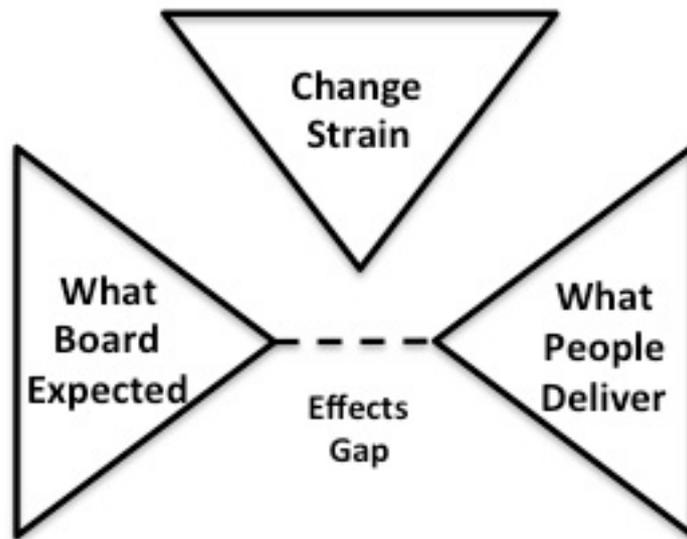


Fig. 5 – The Effects Gap

Closing the Gaps

Bungay claims (p.47) that the usual reactions to these three gaps are:

- Knowledge: more detailed information
- Alignment: more detailed instructions
- Effects: more detailed controls

In other words, many project managers' dream: More complexity.

In terms of ERP selection and implementation, I believe one way of tackling the gaps that threaten to derail implementation projects specifically is to do more due diligence at the selection stage: that is to do more and take more time about doing it.

Many selections are hasty, with companies rushing headlong into implementation like a train that is already in danger of running off the tracks. The selection is treated like a necessary evil and an unwanted cost. But money spent here will almost always lead to money being saved during the implementation process, where mistakes can be so much more costly. So here are some recommendations:

- Start the selection with a clear definition and communication to the project team of executive management's expected benefits so that these can be revisited and adjusted regularly during selection, implementation and post go-live. Formally build-in the checkpoint and review meetings, especially in the first year after go-live.
- Consider sending your key functional 'leads' (e.g. finance, supply chain and manufacturing) on a training course in your preferred ERP system before you decide to buy, rather than leave this until after the pilot phase of the implementation. These people should be smart enough to figure out if the package is likely to be a good fit from this 'early-visibility' training and act as an early warning system for potential issues and problems to come.
- Make sure that you fully understand your implementation partner's methodology before you choose them. These methodologies can be complex – whole books have been written about Microsoft's Sure Step methodology for example – so spend the time understanding it or put your team on a methodology training course well before any implementation process is started.
- Focus your implementation project on meaningful rather than more data. So that as well as regular management of implementation tasks/actions, change requests and risks, make sure you also log and monitor business process and product configuration decisions made, and questions/issues/suggestions raised, as these are useful to refer back to when someone asks the inevitable question: 'so why did we do it that way?'

It's impossible to expect that you can fully close these gaps and remove all uncertainty and friction from a project. But there are ways to narrow the gaps and mitigate the risks they pose give your plans and actions the best chance to deliver the outcomes you want to achieve.