ERP INSIGHTS

Maybe It Was Your Fault

Who to Blame When Your ERP Project Isn't Going Well

BY MIKE MUCHA

Replacing a government enterprise resource planning (ERP) system is one of the more difficult projects finance professionals will take on. While the technology part can be complex, the real difficulty is that ERP projects are about more than just technology. Every project that takes advantage of the new system will also require changes to policies, processes, and people. At the same time, ERP projects are highly visible, with much at stake. Think about the

ERP system as being the infrastructure for public administration—much like roads, bridges, transit stations, water lines, parks, and schools.

ERP systems allow governments to provide the services that keep the organization functioning, managing every dollar, employee, vendor, and customer. Now think how crazy it would be for a community to modernize all its infrastructure at once. When we implement a new ERP system, that's essentially what we're doing for the organization. We not only expect that the transition will be completed on time, but we also expect that it will be completed without major disruption to the services that rely on it and that we will come out of the project with efficient processes, smart policies, trained employees, and new modern system features. What could possibly go wrong?

As anyone who has worked on an ERP project will tell you, a lot can go wrong. Not all ERP projects result in failure,

though. In fact, many organizations have been extremely successful in migrating to a new ERP system and benefit greatly from what modern technology and a well-run project can do for an organization. ERP projects are difficult, but they're not impossible. What many finance professionals may not realize is that they have the power to heavily influence the outcomes of their project.

GFOA's experience and research in this area shows time and again that success or failure with ERP projects is not determined by the vendor you chose, the capabilities of the actual software, or other outside factors. The biggest predictor of project success is whether an organization is prepared going in. Has the government done the necessary work to define roles, think through business process change, identify requirements, communicate changes within the organization, and prepare for the work effort the project will require? Organizations that go through an ERP project for the first time in ten,

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15, 20, or more years with a staff who also has little experience often struggle. This should be no surprise. If ERP readiness is important and you have no idea what to expect, how are you supposed to get ready for it?

This challenge is not new. Almost 25 years ago, GFOA began providing consulting services for local governments looking for honest, independent, and objective guidance on how to prepare for an ERP project. GFOA has now worked with more than 600 governments—cities, counties, school districts, utilities, transit organizations, state agencies, and more—to assist with ERP readiness. Services often include assessing the current situation, organizing proper governance and project management structures, providing recommendations on business process or policy change, developing requirements, issuing requests for proposals (RFPs), facilitating the vendor selection process, and negotiating a final statement of work (SOW) and agreement. GFOA also provides oversight during an implementation. Having an experienced guide to help navigate the project helps you prepare for what is coming next. It also puts GFOA in a unique role of being able to experience many projects, compare what goes well and what doesn't, and offer recommendations to help the next government navigate a similar problem or avoid a similar trap.

If you weren't aware that GFOA offered this service or question why a membership organization provides consulting services, just look at the role an ERP system plays in the administration of government services. Almost all the topics GFOA provides guidance on, from accounting to budgeting to treasury management to procurement, are facilitated by the ERP system. The ERP system becomes the primary tool that finance professionals use to perform their jobs. In addition, unsuccessful projects have the potential to create risk, experience significant cost overruns, and create instability for an organization. There is some truth to the joke that ERP actually stands for "early retirement plan" for those leading the project, and GFOA wants the exact opposite for its members.

While it is by no means necessary to include GFOA resources on your project, our experience over the last quarter century has allowed us to develop a knowledge base that we want to share and that we believe helps us achieve our mission—to advance excellence in government finance and to help contribute to the success of your project. Going forward, each issue of *GFR* will contain practical guidance on how to improve your chances for ERP success. Our training catalog will continue to feature classes to help organizations prepare for ERP projects. The GFOA website will offer additional tools for helping manage an ERP project, and we hope that finance professionals will continue to use our member network to share experiences.

To start, we will focus on providing simple recommendations to help you avoid the most common mistakes that governments make in approaching an ERP project. Each one of the traps listed below is completely within the control of your government, and your ability to plan and prepare will go a long way to ensuring success. Please be aware of the following common challenges.

No requirements or project vision

If you don't know where you're headed, you aren't likely to get there. Developing a vision, goals, and requirements is essential for aligning all stakeholders and for making decisions. Modern ERP systems provide many configuration options, and governments face two major risks when making configuration decisions that aren't aligned with overall business process goals or a future state vision. First, governments are susceptible to the dangers of trying to recreate their old system. Second, governments can quickly make a mess out of their ERP system if decision-making is not aligned across multiple modules. GFOA recommends that governments develop an overall vision for the project that highlights the purpose for the project.

In addition, GFOA recommends that governments define expectations for key business process areas. To develop and refine these expectations, staff should discuss what is not currently working, identify opportunities for improvement, and set realistic goals that include changes to business process and policies. Functional requirements identify what you need your ERP system to do to achieve the outcomes. You can then manage the project and ensure requirements are delivered. Requirements act as acceptance criteria and set clear expectations for both the vendor and government on how to define the scope of the project. Unfortunately, too many organizations don't have the discussions related to vision, goals, and requirements before the project and think everything will be sorted out during the actual software implementation.

Ineffective or understaffed project management

The difficulty inherent in ERP projects isn't because of the technical complexity of modern systems, but because of the combination of technology, process, policy, and people challenges that exist in any major change project. Within each of these areas, detail and precision matters—and ERP systems often require managing large quantities of information and many

moving components. For example, data conversions, development test scripts, training end-users, and documenting acceptance processes require someone to manage large amounts of information and multiple diverse stakeholders. Coordinating all these functions requires a properly resourced project management function.

Many governments simply underestimate the effort required to manage an ERP project. Attempting to assign project management responsibilities to the finance director or other key subject matter experts is asking for trouble. It is extremely rare that one individual will be able to balance and succeed at both roles. However, assuming that project management is only a clerical role also isn't likely to end well. Project managers need to be able to communicate clearly, coordinate resources, manage a project plan, resolve conflicts, and serve as the primary point of contact for vendors' project management responsibilities. The resource needs to take on a very prominent and visible role throughout the project.

Lack of governance

Formal governance for an ERP project involves creating and defining project roles and responsibilities. It also requires that the organization clearly define the decision-making authority of each role. The project management role is one part of effective governance, but projects will also need a steering committee and project team. To parse out day-to-day management of the project from a high level of accountability means defining the purpose of each group and their relationship to each other and other parts of the organization. This is what ultimately allows governments to achieve their overall project goals.

When explaining the role of governance, GFOA uses the analogy of being able to tell the forest from the trees. The steering committee is responsible for managing the "forest." For the project team, details at the individual "tree" level are important. Having a clearly defined governance structure allows each group to focus where it's appropriate and prevents

instances where the steering committee tries to micro-manage the project. Similarly, it also reduces the chance that the overall project goals get lost in the shuffle of day-to-day detail—where you can't see the forest for the trees.

Having an effective governance structure allows for clear communication to the rest of the organization. Policy changes can be communicated, resources can be assigned, and risks can be addressed; and most important, key project decisions can be made and respected.

Inability to make decisions

ERP projects require the government to make hundreds, if not thousands of decisions. Some will be relatively easy and have a clear right or wrong answer. Others may require some research or analysis to fully understand what's at stake. The most difficult part of decision-making involves dealing with uncertainty. Project leaders need to be comfortable making decisions without having perfect or even complete information. It's often very difficult to predict how certain decisions will play out. Often, the tendency is to delay and wait for more information—information that generally never comes. It's better to make the wrong decision today than to delay, go searching for more non-existent information, and then make the same wrong decision two weeks later.

ERP governance sets clear expectations for decisions—who will make them, what the deadlines are, and how to escalate in case there are disagreements. Most vendor contracts also set expectations for decisions, and failure to meet those requirements can result in costly change orders or project delays.

Leaving out key players

The "E" in ERP stands for enterprise, and ERP projects should be organized in a way that benefits the entire organization. Concentrating control over the project to the centralized administrative departments like finance, human resources, procurement, or information technology leaves out key players in critical business process. For example, most procurement processes involve a

requisition or contract that likely originates in an operating department like public works, fire, parks and rec, police, or health. Many projects and grants are managed by analysts embedded in similar operating departments. Time entry and payroll also require coordination of many departments, and many challenges may be unique to the specific business area—for public safety scheduling, tracking labor costs for projects, or managing on-call workers.

No one group really owns the ERP system, and centralized administrative departments need to include representatives from across the organization, including as part of formal roles on the steering committee and project team. Even with decisions that involve process or policies, the finance department doesn't own everything related to finance. Ultimately, it's more effective and less time consuming to consult with and include key stakeholders in decisions than to work on deploying change management strategies to convince them to come along after the decision has been made.

Failure to hold vendors accountable

At their best, ERP vendors make honest mistakes. At their worst, ERP vendors cut corners, fail to deliver on promises, and take advantage of governments' relative inexperience with ERP projects. ERP leaders need to be able to hold their vendors accountable, and this starts with establishing a clear process for quality assurance. That process should be outlined in the agreement or statement of work and include the following tools.

Traceability of requirements. It is standard practice for requirements to be used in the competitive procurement process to help define scope and establish vendor capabilities. But many vendors will push back against including these requirements in the actual agreement—removing the government's ability to hold vendors to the promise they made. ERP contracts should include requirements, the vendor's response to each requirement, and clearly established expectations that requirements will be managed throughout the project. Yes, requirements may evolve, and that is

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fine—so long as there is mutual agreement about changing the requirement.

Acceptance of deliverables. ERP projects produce work products like design specifications, business process documentation and recommendations, test scripts, project plans, training materials, and more. The level of effort that goes into producing these documents, along with configuring the actual system, makes up the implementation costs for a project—which are typically greater than the software costs. Governments must be able to review these work products and accept the work only if it meets pre-established criteria. GFOA recommends setting deliverable expectations as part of the statement of work to reach agreement on what the purpose of each deliverable will be, the role of the government and vendor in producing the deliverable, and any notable considerations on scope, format, level of analysis, or quality.

Project management standards. Just as having an effective project manager on the government side is critical for a well-run project, the same is true for the vendor. The statement of work for an ERP project should clearly communicate the expectations for the vendor project manager and include standards for developing a project plan, creating status reports, participating in meetings, conducting risk analysis, or other key project management tasks.

Fixed-fee contract based on completion of milestones. Holding a vendor accountable for promises requires that the government and vendor agree to a contract that compensates the vendor based on completion and acceptance of agreed-upon milestones rather than effort put into the project. There is a reason why most vendors will gladly sign a time and materials contract based on an estimate of hours and a billing rate. All risk is on the government.

GFOA never recommends that a government sign an hourly contract for ERP implementation. It becomes almost impossible to enforce standards of quality. Any additional work, missed requirement, delay, or added complexity—even if it is caused by ineffective consultants—will result in additional costs.

Having tools in place to hold vendors accountable is only the start. Governments must also not shy away from conflict when it's clear that contractual requirements aren't being met. GFOA has conducted reviews on projects where deliverables were signed off on, despite major errors, projects were closed out while entire groups of requirements weren't met, or project management responsibilities were blatantly ignored. This simply can't be allowed to happen.

Addressing each one of these common mistakes that government makes in managing their ERP projects will put you in a great position for success. Sometimes it's not entirely up to you, though. In the next issue of *GFR*, we'll explore the primary causes of ERP failure when it's your vendor's fault and provide strategies for dealing with them. 🗗

Mike Mucha *is deputy executive director for GFOA and director of GFOA's Research and Consulting Center.*