

HR & ERP

Canadian HR Reporter,
July 12, 2004

ERPs: A good idea for HR to take a pass on

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By Al Doran

First off, what is ERP? It is commonly known to mean “enterprise resource planning” software, though most observers would say planning is a misnomer since few systems have done much of that.

However, emphasis should be placed on the word “enterprise,” as that is the true ambition of ERP to integrate all (or most) departmental information systems in a company onto a single computer system and in turn service all those department’s individual needs.

That is a lofty objective: delivering a single information system that serves the needs of human resources and payroll and its customers, finance and its customers, and warehouse and distribution and customers. If the organization happens to be in the business of higher education, the system would potentially include the complex world of student information. Replace student information with patient care if the business of the enterprise is health care.

Typically each of those functions already has its own information systems that have been optimized to meet that department’s particular information needs. Those systems have either been built from scratch or more likely purchased from a vendor and fine-tuned (configured) to meet to the specific needs of the organization.

So why change all of that, you ask? Well, some systems do grow out of date and sometimes the time comes to upgrade to newer technology. Sometimes an organization wants to have its systems talk to each other. So instead of now shopping for a new replacement human resource management system (HRMS), why not also look for a new financial system, possibly a warehousing system, even a customer relationship management (CRM) system at the same time?

Often the search for the new HRMS comes even before any of HR’s colleagues in finance or other parts of the company had thought to seek a new business system for their part of the enterprise. But if the professionals in the information technology shop are doing their jobs properly, they should be asking

the key question at this time: “Should we be looking for replacement systems for all of our business areas?” The IT department should actually have a five-year strategic plan that includes the direction they are going with the technology in the company. That should include a preference for delivery systems, platforms, even desktops for end users. Having a strategic direction assists in the acquisition of systems that are easier to maintain with fewer resources. Equally, it’s also very important to be able to move towards an environment where everyone can share access to information they need to do their jobs.

An ERP (in theory, at least) provides all or most of the information systems in a single integrated software program that is active on a single database so that each department can obtain information it needs and share that information with others that need it. There are significant potential benefits if a company can buy the best software for its combined needs and in turn implement it properly.

An ERP wipes out the old stand-alone information systems in HR, finance, the warehouse, etc., replacing these silos of information with a single integrated program divided into functional modules that actually resemble the old stand-alone systems. Each area gets its own software module, except now the software and data are linked together so that someone in finance can look into the HR database to see how many funded unfilled positions there are. Likewise, someone in distribution can see the stock level of a particular item in the warehouse.

Much has been written about the potential benefits for an organization. For the moment, let’s look at some of the realities.

How long does it take to implement an ERP? Well, like the answer to, “How long is a piece of string?”, it depends. Many companies do not have an easy time of it. I have actually heard an ERP vendor tell a client that the system could be implemented in six months and the implementation will cost less than the cost of the software license. Well, there is always an exception to the rule, but I have yet to see one in this range and have seen many that take years and cost in the tens of millions of dollars to implement.

To do an ERP implementation correctly the business must change and the ways people do their jobs need to change too. People do not like change, but an ERP will definitely ask them to do their work differently. The information system they are now going to be using is used by everyone in the company and everyone must do their part. And on time. If an ERP is implemented without making changes to the way work is done, it’s highly unlikely that any return on investment (ROI) will be realized.

The Meta Group recently reported that the “total cost of ownership (TCO)” of an ERP averages out at \$15 million US (the highest was \$300 million and the lowest was \$400,000) in a study that included 63 small, medium and large companies. It reports a staggering cost of more than \$53,000 per key end user to deliver an ERP.

ERP projects do not have a good track record. They are almost always over budget, very late and unlikely to produce the expected ROI within a reasonable time frame. Why? It often comes down to the simple

things, including getting people to change the way they work. Everyone must adapt to the way the ERP wants information fed to it. If the employees feel that their current work methods are better than what the ERP software calls for, they will resist using the system. Eventually someone wants to change the software to meet the preferred way of doing work, and this is where the political fights break out and ERP projects break down. Customization of the delivered software takes a lot of time, and weakens the system, making it unstable and harder to maintain once it's finally working.

So, searching for and then implementing an ERP is not for the faint of heart. As a consultant who solely works in the area of helping clients select the best HRMS software for their needs, I will go on the record in stating that I far prefer to find "best of breed" HRMS software solutions versus ERP any day of the week.

The problem I have found with ERP is that even if the HR/payroll module is a good fit for the organization, it's highly probable that finance, warehousing or someone else will find it lacking and will prefer another ERP solution. Then HR/payroll is likely to end up with an ERP solution that is a generally good fit for the company, but not a perfect fit for HR/payroll. Either way, someone is going to be dragged along kicking and screaming, and the battle begins to try and implement it properly and on time.

To further complicate matters, not all companies need or want the same kind of information systems to manage information. Most organizations do require an HRMS, scheduling/time and attendance, and a financial system, and several require warehousing and distribution. Higher education is reaching the point now where there are some choices with a few vendors offering ERP options that include HRMS, scheduling/time and attendance, finance, and student information, as well as alumni. But health care has very few options for obtaining an ERP that includes HRMS, scheduling/time and attendance, finance and patient care.

Hopefully over time we will start to see some actual success stories related to ERP. For now, they must remain a noble idea, but also a significant challenge. It would be great if all company business systems could talk to each other and share the same database, technologies and IT support staff, but given the complexities at present, this goal still remains on the horizon.

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