IMPLEMENTING ERP SYSTEMS IN THE PUBLIC SECTOR:

NINE SURE WAYS TO FAIL — OR SUCCEED

BearingPoint

Business and Systems Aligned. Business Empowered.

Implementing ERP Systems in the Public Sector: Nine Sure Ways to Fail—or Succeed

IN THIS WHITE PAPER:

Public leaders have become more sophisticated and more cautious about implementing enterprise resource planning (ERP) systems in recent years—for good reason. While the industry has made tremendous strides in the last decade, there are still too many failures. What can you do to avoid the mistakes of the past and realize the real benefits of an ERP solution? BearingPoint's State and Local Government and Education practice has identified nine mistakes that account for the majority of failed implementations.

Introduction

Are you considering implementing an ERP solution? Do you know that you need an ERP solution, but are afraid to take the risk? Are you just waiting to get past other burning issues?

If so, you are in good company. Most states are planning, implementing or operating ERP systems, according to a 2002 survey conducted by the National Association of State Auditors, Comptrollers and Treasurers. And local governments and nonprofit institutions are right behind.

Why? Today's public leaders understand that they cannot afford to manage their organizations in departmental or agency silos. Instead, they seek ways to manage the enterprise as a whole. The goal

is to implement best practices for each business process across all agencies in order to:

- Streamline financial and administrative systems.

- Allow individual agencies to share information in a standardized way.

- Eliminate multiple systems and reduce duplication.

- Reduce costs.

Other organizations have already demonstrated the power of ERP systems to achieve such results. For example, industry benchmarks show that generating purchase orders using ERP applications can produce savings of *more than 80 percent* over the cost of manual processing.
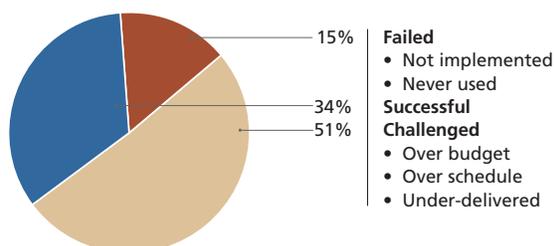
Still Too Many Failures

At the same time, public leaders have become more sophisticated and more cautious about implementing ERP solutions in recent years—for good reason. While the industry has made tremendous strides in the last decade, there are still too many failures.

A 2003 report of the Standish Group shows that 15 percent of all information technology (IT) projects failed in 2002, and an additional 51 percent did not deliver the desired results on time or within budget (see Figure 1). Only 34 percent succeeded. For large, complex ERP implementations, this percentage will be smaller.

What can you do to avoid the mistakes of the past and realize the real benefits of an ERP solution? BearingPoint's State and Local Government and Education practice has identified several common mistakes that account for the majority of failed implementations.

FIGURE 1.
SYSTEMS IMPLEMENTATIONS: STILL RISKY

15% **Failed**
- Not implemented
- Never used

34% **Successful**

51% **Challenged**
- Over budget
- Over schedule
- Under-delivered

Source: The Standish Group, 2003.

Common Mistakes—and How To Avoid Them

For years, BearingPoint's "10 Commandments of ERP Implementation" have provided our public-sector clients with a helpful starting point. These commandments outline basic principles for assuring implementation success—principles that have since become conventional wisdom:

I. Thou shall ensure the senior executive's strident sponsorship before proceeding.

II. Thou shall make your ERP implementation a business transformation project, not an IT project.

III. Thou shall anoint the most talented business manager in the organization as project manager.

IV. Thou shall decide issues quickly and decisively.

V. Thou shall communicate, communicate, communicate and communicate more.

VI. Thou shall ensure that your technical infrastructure is sufficiently robust before implementing an ERP solution.

VII. Thou shall not change the ERP source code.

VIII. Thou shall test the configured ERP software until exhaustion.

IX. Thou shall plan user training and assign sufficient resources to this activity.

X. Thou shall set reasonable user and executive expectations.

Now our clients want more specifics about how to put these principles into action. This document is BearingPoint's response. In the following pages, we drill down another level of detail to explain what works—and, just as important, what does not—in the real world.

Mistake 1: Assume There Is a Natural Constituency for ERP

***Success Strategy**: Actively build a base of support for the project*

If you brought together all the agencies, divisions and departments and asked how many wanted to implement standard business processes across the enterprise, what do you think you would hear?

Dead silence. At least, that is what has happened in other public-sector organizations that undertook large ERP implementations. The agencies tend to be strongly opposed to losing control of administrative operations and each can justify why its unique mission merits special attention.

While agencies do differ in important respects, they share many business requirements. All have to manage a budget, recruit people, distribute payroll, generate purchase orders and so on. ERP solutions provide a standard, uniform way of performing these functions, so the enterprise can reduce duplication, produce meaningful information and cut administrative costs.

How can the public sector reap these benefits? Since there is no natural constituency that puts the needs of the enterprise ahead of its own, you have to build one. Someone at the very top of the organization must have the vision, understand the benefits and get the message out.

This leader has to say—and mean—"There is no turning back. We are going to do this. Period."

Mistake 2: Treat Technology as the Key Challenge to Success

***Success Strategy**: Focus on the real challenges— people and process—from the start*

The technical challenges of implementation are a simple matter compared with the human challenges (see Figure 2). In fact, where implementations have failed, 70 percent of the reasons stem from neglect of the human side of the equation, the Gartner Group reports. Among the causes:

• Inadequate training and preparation.

• Little or poor change management.

• Lack of communication.

FIGURE 2.
THE HIERARCHY OF IT CHALLENGES IN GOVERNMENT
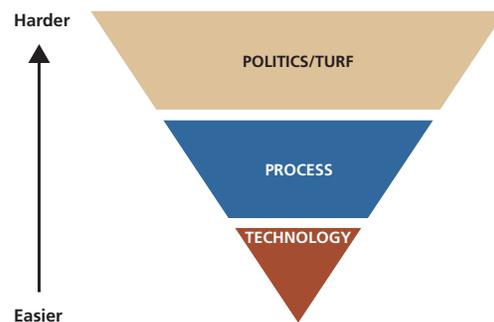
Source: Gartner Research, 2000.

FIGURE 3.
SOME DELIVERABLES INVOLVED IN CHANGE MANAGEMENT BEFORE GO-LIVE

	Project Launch	High-level Design	Detailed Design	Develop/Prepare for Go-live
Assess and Monitor Risk	• Stakeholder analysis • Organizational risk assessment			• Pre-go-live audit
Mobilize and Align Leaders	• Case for change • Governance model • Leadership strategy	• Leadership action plans		
Engage Stakeholders	• Start-up communications • Team onboarding and training	• Mobilization plan • Promotional campaign plan • Communication toolkit • Awareness events	• Deployment onboarding and training • Deployment toolkit • Validation events	• Go-live preparation events
Prepare Workforce	• Knowledge transfer plan	• Training strategy • Workforce transition strategy	• Workforce impact assessment • Training plan and curriculum • Training development • Job design	• Workforce transition plan • Workforce assessment and selection • Training delivery
Address Organizational Implications		• Organization and human resource inventory	• Future organizational model • Performance management model	

• Low levels of user involvement.

• Adversarial relationships with private-sector partners.

• Poor project management.

That is why change management is such a critical factor in successful implementation. And when we say change management, we do not mean sending out a monthly newsletter reporting on the project's progress. We are talking about a rigorous methodology designed to involve key participants at all levels, maintain a two-way dialogue between the project team and stakeholders, and prepare people to make the transition.

Contrary to the conventional wisdom, change management is not just a matter of common sense or "smoke and mirrors." It is a discipline based on the experience of other organizations. Figure 3 indicates some of the deliverables involved in change management *before* go-live.

MISTAKE 3: SKIMP ON THE FRONT END— PREPARING FOR IMPLEMENTATION

Success Strategy*: Invest in documenting current business processes*

There is no way around it. Planning and preparing for an ERP project is a complex and resource-

intensive undertaking. But if you do not invest in these activities—what we call "Phase Zero"—you are setting yourself up for problems down the line, when they are more difficult and costly to address.

One of the key steps in planning is evaluating how you do business today. This involves not only the procedures outlined in business manuals but the processes people are using in practice. You have to determine *how the work is actually being done*; otherwise, you will be taken by surprise when you develop the system.

As you document the current state, be careful to distinguish between two kinds of business processes: "competitive advantage" and "commodity." Those in the first group, the key processes that run your business and add value, must be protected. For the remaining processes, which will make up the vast majority, the organization should accept the best practices built into the selected package.

Mistake 4: Try To Do Everything at Once

Success Strategy*: Implement in waves, beginning with core functions*

If there is one thing we have learned over the last two decades, it is that the big-bang, all-at-once approach to systems implementation is extremely risky. For public-sector organizations, where "go-live" must be a success, phased implementation is a better way to go.

Implementing waves of *functionality*—specific modules—serve multiple purposes:

- Early successes build support and momentum.

- Problems can be corrected before moving on.

- Training activities can be staged to make efficient use of resources.

- Phased implementation puts a reasonable load on the help desk and support staff.

ERP solutions can also be implemented in waves of *business units*. We suggest you identify the most eager agencies and include them in the first group, then adjust to ensure heterogeneous representation. Since ERP projects affect large numbers of people, and few organizations have the capacity to train everyone at once, the phased approach can spread out the burden on training "bandwidth." When you implement in waves, the members of the first group can serve as mentors to prepare and train the next wave.

Another problem arises when organizations insist on including all functionality at the initial go-live date. You would do much better by concentrating on getting the system up and running with the basic functionality. By keeping it simple, you can declare success, get people on board and add more features as you move forward. It is a little like driving a new car: If you had to read the whole manual before driving, you may never get out of the garage.

Remember, transformation does not take place the day you flip the switch. This is an ongoing journey where the end-state vision becomes clearer the closer you get to it. As you better understand what you have just implemented, your vision will continue to mature.

Mistake 5: Provide the Bare Minimum of Support for Users

Success Strategy*: Meet or exceed users' expectations for support*

Users expect and will tolerate some problems: unfamiliar screens, forgetting what they learned, not knowing how to do things the new way, and lower productivity in the early days. What they will not tolerate is lack of support—they expect a help desk.

We recommend giving them more: "SWAT" teams in the field to help them through the first days or weeks. High transaction areas should be staffed with project team members clearly identified by T-shirts and caps. With the team right there, users do not even have to pick up the phone to get their questions answered.

Training is a similar matter. While everyone agrees that training is important, it is *how* you conduct training that determines what users learn and remember, as well as their attitude to the project. The natural tendency is to teach the transaction: for example, how to enter an invoice. But users want to understand the business process, including how you move from purchase to payment. When you put the transaction in context, it is easier to relate to, understand and remember.

Our experience also shows that simulations are not an effective way to teach. In fact, users are likely to rebel and demand hands-on experience with live data. They want to conduct real transactions in a "sandbox" system with real data.

Finally, do not waste your money on reproducing large binders of useful information. Users will not read it. Instead, they want short, easy-to-scan documents that cover how-to basics.

Mistake 6: Underestimate the Level of Resources Required

Success Strategy*: Take into account the many hidden costs*

Every organization underestimates what it will take to implement an ERP solution. While the budget people carefully calculate the direct costs—software, tools, hardware and consultants—they overlook many indirect costs.

Take personnel, for example. An implementation will consume much more staff, among a much larger group, than those dedicated full-time to the project. Most organizations make the mistake of assuming that the project staff will be able to do everything it did before the ERP implementation project started. In fact, the rest of the staff will have to take on those responsibilities. The best thing you can do is set realistic expectations early on, letting managers and staff know what is ahead, so they can prepare to help.

Defining requirements also takes a huge staff toll. Few clients realize that they will need a requirements workshop for each business process that will be affected by the new system. There can be up to 50 business processes, and each workshop will take one-half to two days and involve roughly 20 people—which adds up to thousands of staff hours.

And this does not take into account training—another element that takes people away from their day-to-day responsibilities. Whether it is computer-based or instructor-led classroom training, you can expect each employee to require two hours, two days or two weeks of training. It adds up in ways that few executives imagine.

Mistake 7: Overestimate How Many "Best Practices" You Will Adopt

Success Strategy*: Be realistic in identifying the right ERP package for your organization*

Every ERP solution includes industry best practices—basic business rules for managing finances, human resources and procurement, for example, that have been proven over time. But when evaluating an ERP package, it is important to be realistic. The real issue is not how many best practices are built into the package, but how many your organization will actually implement, and how many compromises you will decide to make.

Sometimes there is a reason for not making a change, for legal or contractual reasons or the precedents of the past. In most cases, however, changes to the basic package are not necessary. They are simply the organization's way of holding on to the familiar practices and processes of the past.

To accommodate the familiar, the organization must write a complex user exit or program to replicate current processes. And every time you modify the software to create a user exit, you slow down the project, add costs and impact future upgrades.

In other words, changes quickly increase your total cost of ownership. To get the highest return on your investment, you need to evaluate the options carefully, avoid modifications wherever possible and set realistic expectations for payback.

Mistake 8: Take a Myopic View of the Project

Success Strategy: Keep your eye on the big picture and how it can impact your project

ERP implementations are complex, highly visible and vital to an organization's success. It is easy to get buried in the business of drafting requests for proposals, evaluating responses and implementing the selected solution. But leaders must keep an eye on the big picture as well, and this means paying attention to external factors that will impact the project.

- **Budget health**. An ERP project is a multi-year undertaking, crossing budget cycles. It is essential that funding be committed for the duration of the project.

- **Administrative changes**. In government, there may be a change in leadership and structure over the course of the project. The project design should take such timelines into account, building in the major functionality before the administration changes.

- **Legal compliance**. This is a good time to review some of the laws that have been on the books for years and to build legal compliance requirements for the system—and to validate that the system meets the current legislative structure.

- **Labor contracts**. Determine when contracts are renegotiated and be aware that the ERP implementation may quickly become a focus for employee unions.

By considering the long term and planning ahead, you can create a plan that overcomes these bumps to produce a successful implementation.

Mistake 9: Let Deadlines Slip

Success Strategy: Treat milestone dates as sacred

Business units—agencies, departments, divisions and programs—will always have reasons why they cannot meet the project deadlines. But once you start to let the schedule slide, you create a climate where it will happen again and again.

This is why it is so important to treat milestone dates as sacred. While you should never compromise on quality, you must create a sense of urgency throughout the project. We recommend that you accomplish this by requiring all milestone changes to be justified and approved by the steering committee, a group of high-level executives committed to the project's success.

You can help accelerate the process by giving project team leaders the authority to make day-to-day decisions without an elaborate approval process.

FINAL THOUGHTS

Organizations with leaders willing to make the tough calls and "burn the boats"—making it clear that failure is not an option—are the ones now reaping the benefits. You can join them. Here are a few final thoughts to help you along the way:

- ERP projects will set your operational direction for at least the next 10 years.

- ERP projects are complex, resource-intensive and risky.

- Risk can be mitigated through strong executive sponsorship, communication and involvement of stakeholders, and good project management.

- Tough decisions must be made to realize the benefits of ERP.

- This is about transforming the way a government does business, not installing software.

- An ERP project will require agencies to cooperate in ways they never imagined.

- If processes do not change, no benefits will be realized.

- Process changes require changes in roles and responsibilities.

- Not all benefits will be realized on go-live day. Transformation is never-ending, and benefits will be realized along the way.

BEARINGPOINT'S LONG-TERM COMMITMENT TO PUBLIC SERVICES

Over the years, BearingPoint has worked with virtually every state, hundreds of large local governments and many of the country's top universities, helping them build business and technology strategies, re-engineer business processes, integrate systems and realize results. Many states have utilized BearingPoint teams as part of statewide or agency-level system implementations.

Within our State and Local Government and Education practice, we serve clients in distinct areas, including:

- Finance and administration.

- E-government.

- Transportation.

- Health and human services.

- Public safety and justice.

- Education.

- Retirement.

Our Public Services practice is a cornerstone of our company, accounting for 35 percent of BearingPoint's total revenues for fiscal year 2003.

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