

# THE 2014 ERP REPORT: ORGANIZATIONAL CHANGE MANAGEMENT

A Panorama Consulting Solutions Research Report

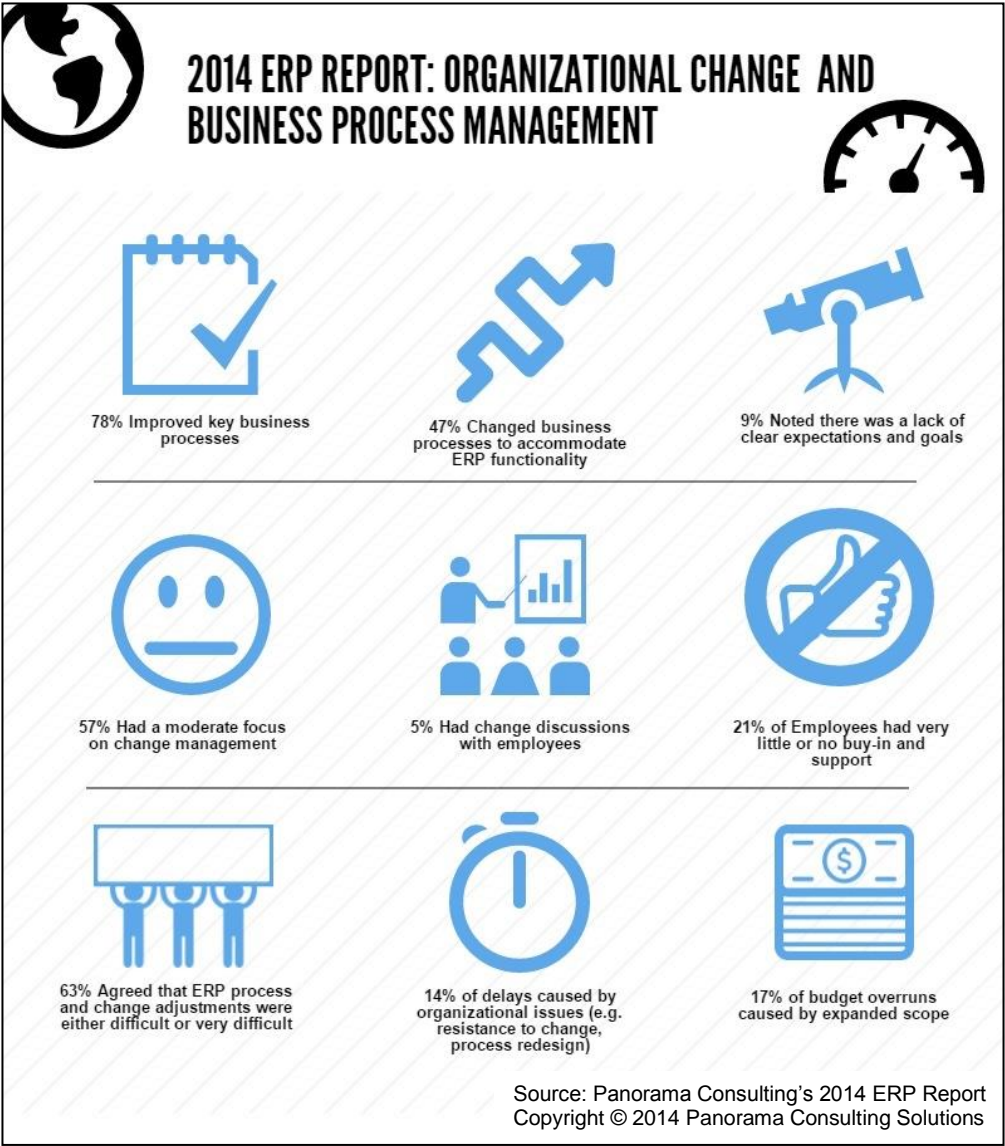


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3773 Cherry Creek North Drive – West Tower, Suite 720 – Denver, Colorado 80209  
Phone: 720.515.1377 [Panorama-Consulting.com](http://Panorama-Consulting.com)  
Denver | Chicago | Boston | San Francisco | Dubai | Lima

# Introduction

While many organizations are familiar with organizational change management, this is one of the most overlooked success factors in an ERP project. Panorama Consulting Solutions developed the **2014 ERP Report: Organizational Change Management** to investigate the impact of change management activities on project outcomes. The report summarizes Panorama’s independent research into the experiences of implementation teams, each with varying levels of focus on organizational change management. To ensure that our findings reflect the current conditions as accurately as possible, data for this report was collected from Panorama’s website ([Panorama-Consulting.com](http://Panorama-Consulting.com)) during a recent 12-month period (January 2013 to December 2013). One hundred thirty respondents completed the surveys upon which this data is based.

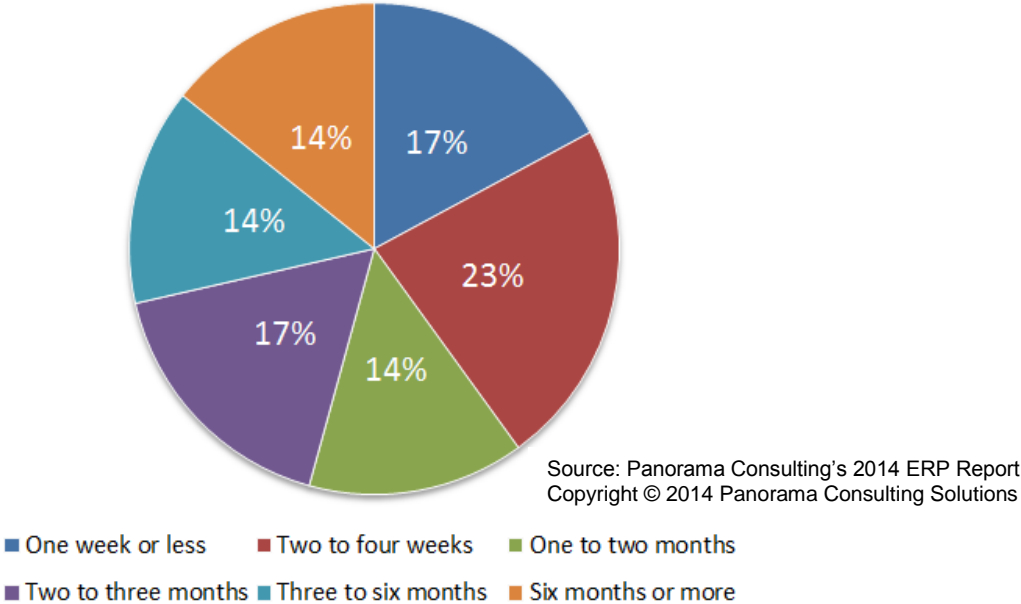


# Project Challenges

## Operational Disruption

Organizations should expect some form of operational disruption at ERP go-live, lasting anywhere from a week to more than six months. As seen in the graph below, 100-percent of respondents experienced some form of operational disruption at go-live, a quarter of which lasted two to four weeks. Forty-five-percent of respondents experienced a disruption lasting more than four weeks, and 28-percent experienced a disruption lasting more than three months. The fact that 60-percent of respondents experienced an operational disruption beyond one month, suggests that organizations are not taking the time to mitigate risks before go-live. It also points to a lack of due diligence during the critical 60-day post go-live timeframe where further issues can be prevented.

### Length of Disruption



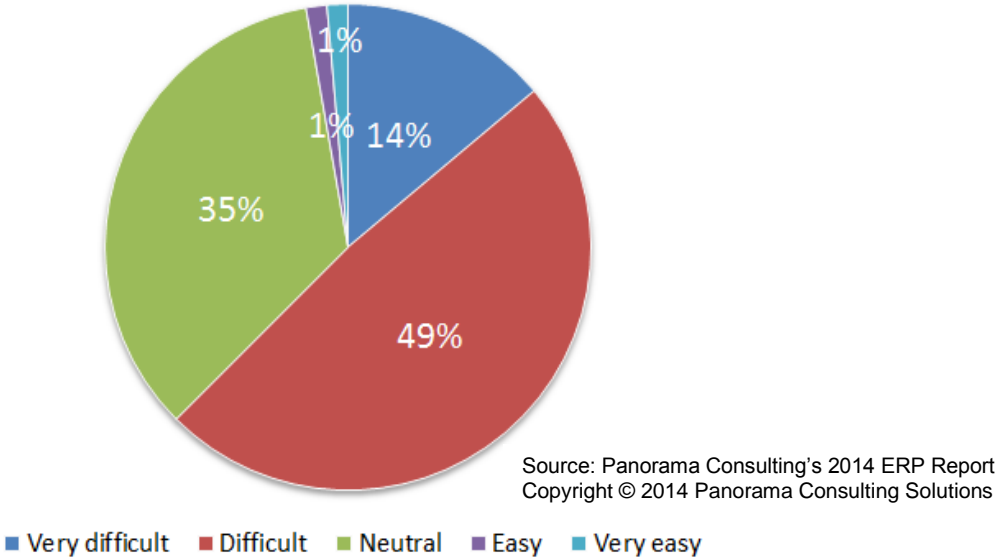
More than half (55-percent) of respondents who experienced an operational disruption also reported challenges related to organizational change management. Key issues (outlined in the graph on page 5), included a lack of staffing resources, resistance to change, a lack of clear expectations, a lack of overall vision, internal resistance to change, lack of top management commitment, and inadequate user training.

This indicates a strong correlation between an organization’s level of focus on change management and their likelihood of experiencing an operational disruption. Successful organizations realize that ERP implementations are not just about technology but about people. Organizational issues can cause operational disruption, and according to Panorama’s research and experience, it is the process and organizational issues that pose the most risk. Technical issues certainly can and do exist, and are likely responsible for many of the short-term disruptions, but they are typically more quickly and more easily resolved than their operational counterparts. An improperly trained or ill-motivated department will do more damage in the long run than supply chain or shipping hiccups.

**Organizational Adjustment Challenges**

As seen in the graph below, 14-percent of respondents indicated that organizational change adjustments were “very difficult,” compared to 18-percent last year. Respondents who considered the adjustment “very easy” only increased by one-percent since last year.

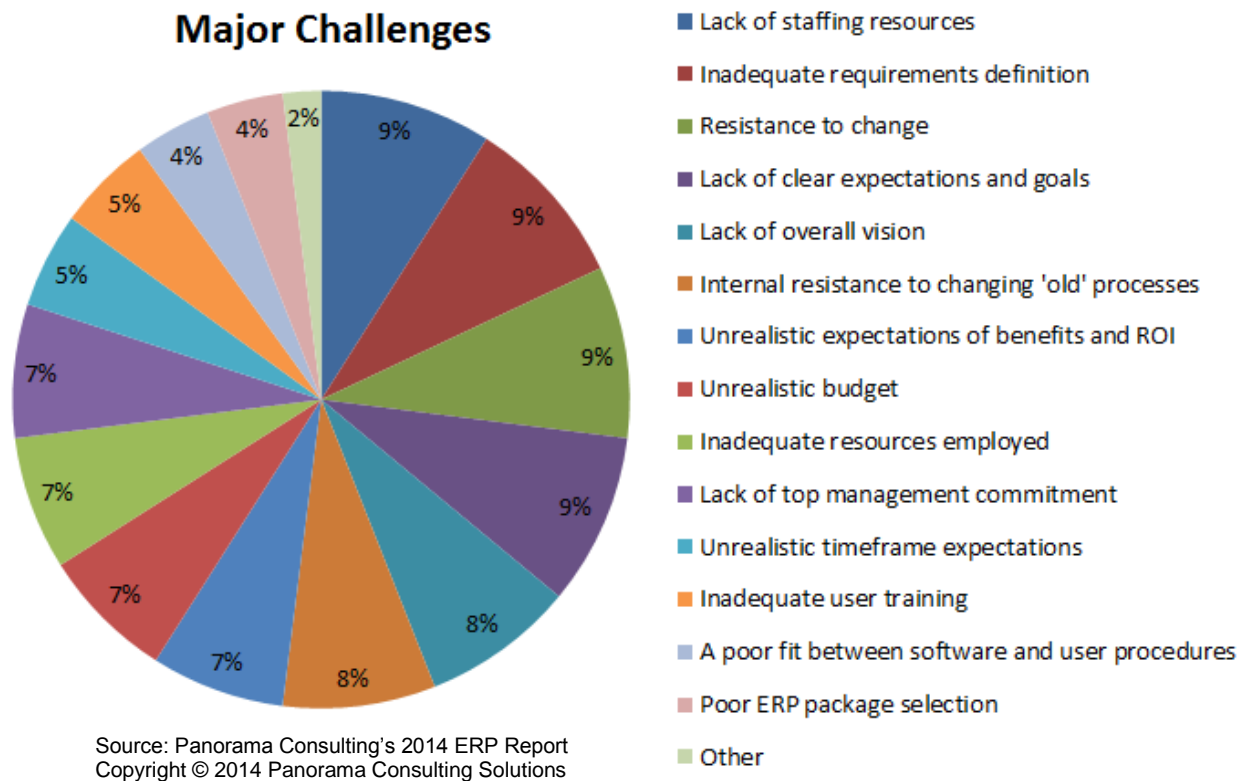
**Process and Organizational Change Adjustment**



Many of the adjustment challenges posed by an ERP implementation can be mitigated by building a cross-functional project team with different areas of expertise. An organization that staffs its project team with IT subject matter experts instead of a variety of technical, operational and communications experts, will struggle to adjust to change.

## Implementation Challenges

When asked about the specific challenges of implementation, responses varied, but the majority was people-related. As seen in the graph below, the most prevalent challenges were related to organizational change issues. Resistance to change proved to be the most common challenge, while other common challenges include a lack of staffing resources, a lack of clear expectations and goals and a lack of overall vision.



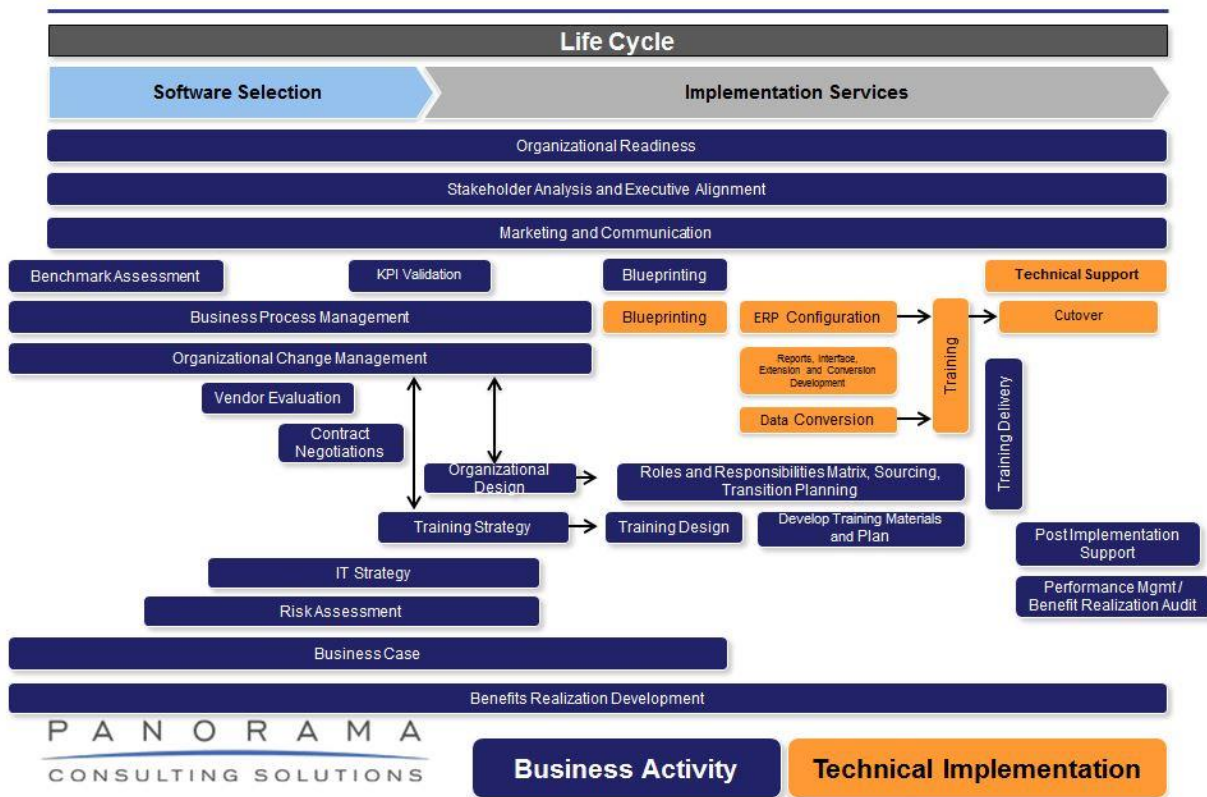
These results indicate that organizations need to take a more pragmatic approach to organizational change management with a direct focus on increasing end-user buy-in. Project challenges, weak organizational change management and lack of executive alignment all can lead to poor buy-in across the organization. Poor buy-in shows itself in a number of different ways. End-users who don't understand the need for the ERP system or the benefits it can and should bring to the organization may fail to pay attention during training, continue to use workarounds (such as Excel spreadsheets), and participate in other subversive activity to undermine system and management efficacy. Organizations often don't realize the incredibly negative impact a poorly motivated staff can have on attrition rates, ERP system usage, benefits realization from the system, return on investment and, ultimately, the customer experience.

# The Role of Organizational Change Management

Organizational change management (OCM) employs strategic planning, communications and employee engagement to facilitate the transition between current-state and future-state business processes. Because OCM focuses on people, it is a useful tool in a wide array of projects, especially large-scale ERP implementations. Change management is necessary before and during an ERP project in order to garner acceptance and support for changes related to the new ERP software. Organizations must recognize the need for change and carefully plan change management activities for every stage of an ERP project.

As indicated in the project lifecycle breakdown below, organizational change management accounts for a large portion of the overall implementation:

## ERP Project Life Cycle



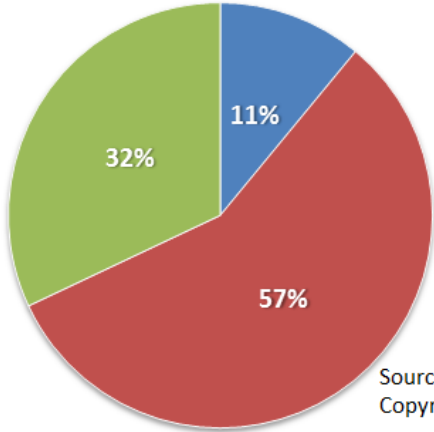
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**Focus on Organizational Change Management**

As shown in the graph below, there is a strong focus on organizational change management among organizations in this study. More than half of respondents (57-percent) employed some form of organizational change management during their ERP projects. Unfortunately, almost one-third of respondents invested in little to no change management.

**Organizational Change Management Focus**



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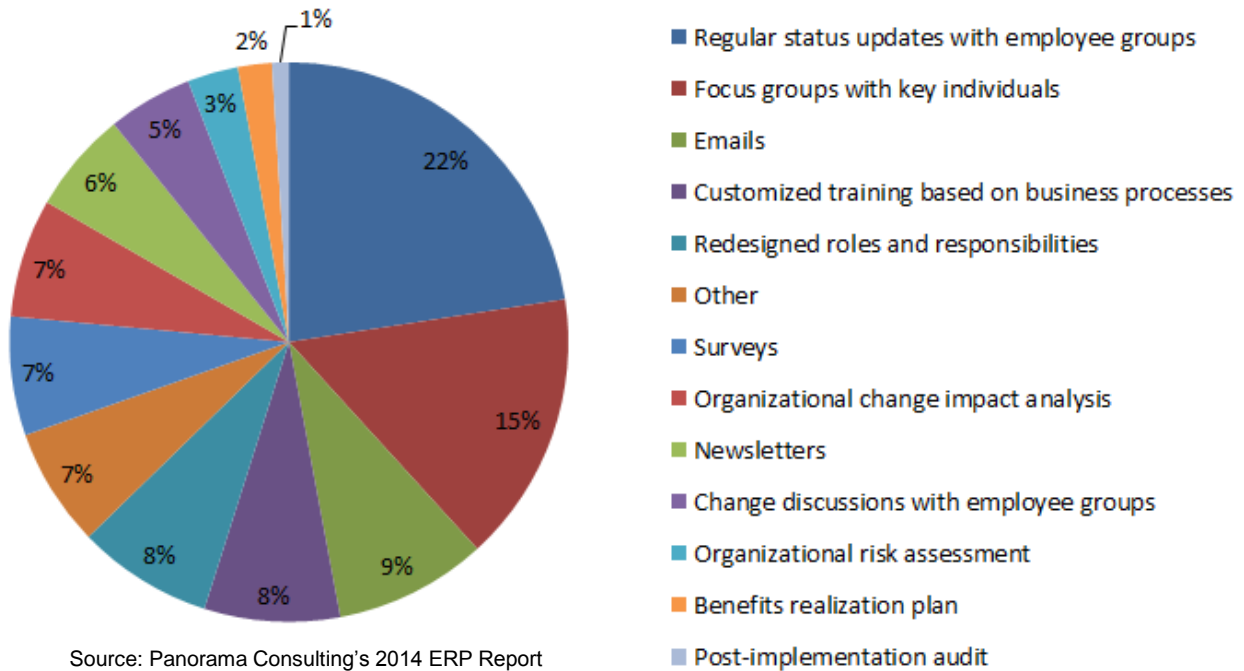
- Intense focus on change management
- Moderate focus on change management
- Very little or no focus on change management

Since last year's report, there has been an increasing focus on organizational change management. This year, 57-percent of respondents reported a moderate focus on change management, compared to 48-percent last year. Unfortunately, there also has been an increase in the percentage of respondents who reported little to no focus on change management, from 27-percent last year to 32-percent this year.

**Organizational Change Activities**

As seen in the graph on the following page, the use of status updates accounts for nearly a quarter of reported change management activities. A significant portion of respondents also used focus groups as part of their change management strategy. Beyond these two activities, there is a sharp decline in responses for emails, customized training and other critical change management activities.

## Organizational Change Management Activities



Organizational change management is significantly more effective when you have an in-depth understanding of your people and business processes. Implementing new ERP software when employees are not adequately prepared to handle that level of change, will present challenges throughout an ERP project.

## The Effects of Poor Organizational Change

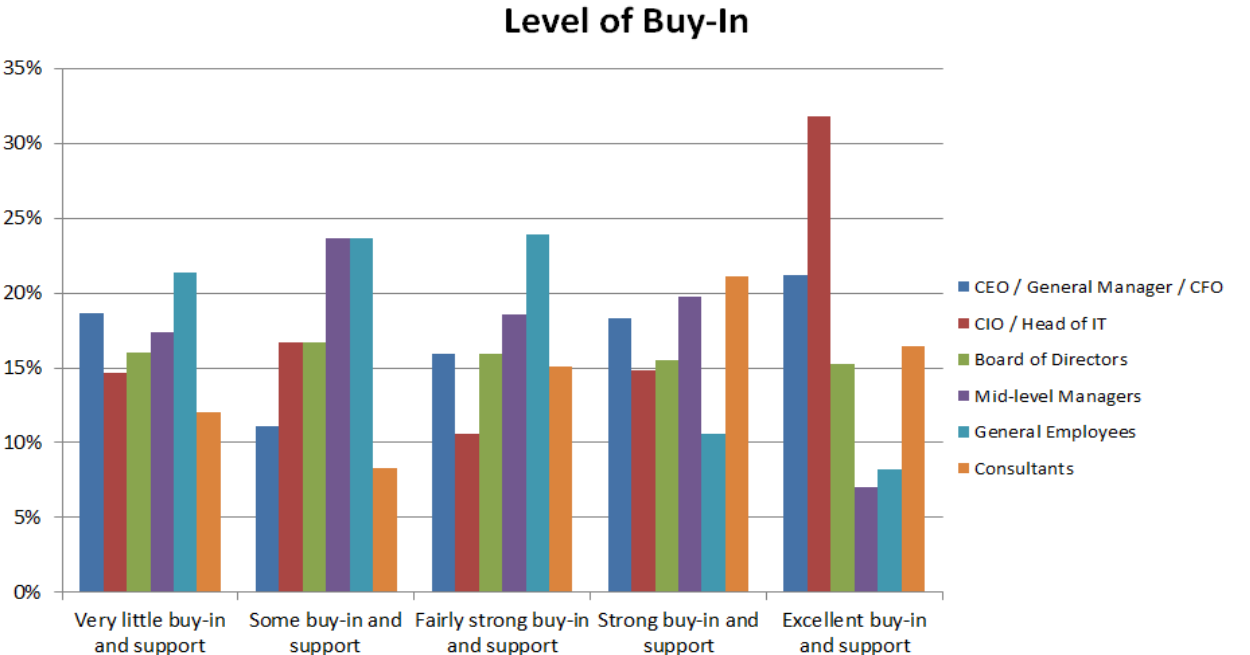
While many organizations believe that technology will be sufficient to drive change, there are several consequences to neglecting organizational change management. Without communication from managers and project teams, end-users grow disenchanted and apathetic. Their attitude becomes, "They don't care, so I don't care."

### Stakeholder Buy-in

Similar to last year, CIO's show a relatively high level of buy-in and support. This is can be attributed to the fact that ERP projects often are viewed as IT initiatives as opposed to business transformation initiatives. Understandably, ERP projects carry stronger buy-in among CIO's and IT managers than they do among CEO's and general employees.



As shown in the graph below, respondents indicated that levels of support and buy-in among various stakeholders (including C-suite executives, the board of directors, mid-level managers and general employees) in their organizations were generally quite low.



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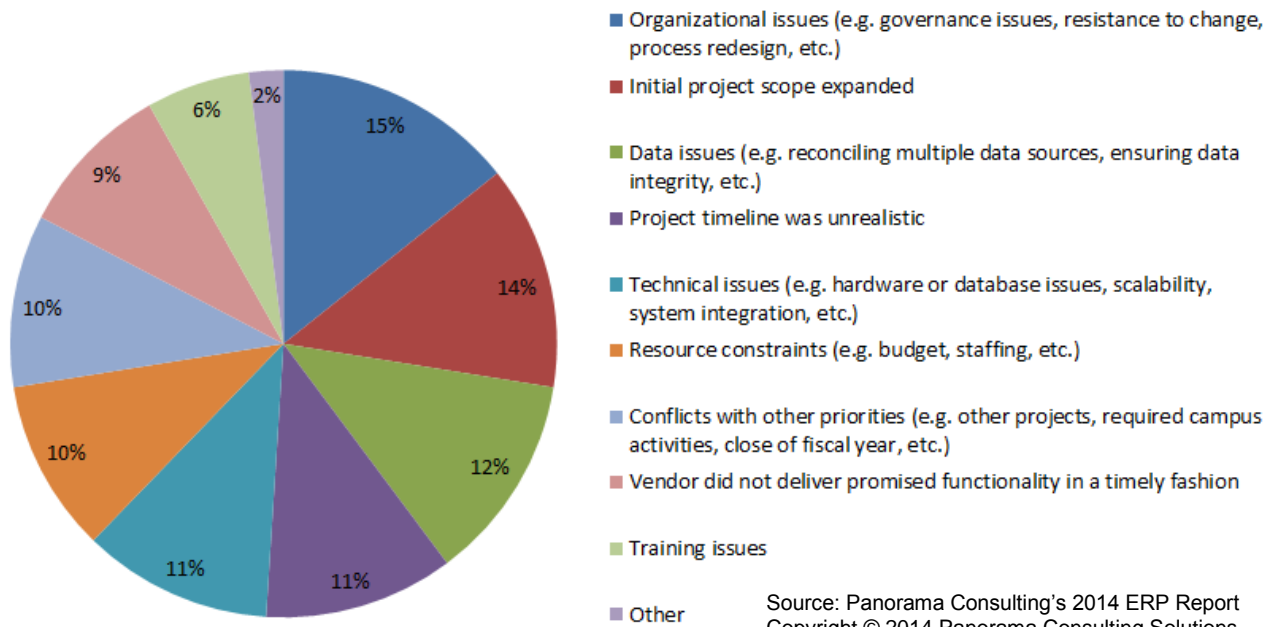
Support and buy-in at any level is directly attributable to knowledge about the benefits the system will bring to the organization and the true reasons behind the organization's investment in the project. These results indicate that organizations need to ensure that every member of the organization understands the why's, how's and when's of the ERP project and all the ensuing changes to business processes.

**Timeline Overages**

More than 14-percent of respondents indicated that organizational issues – such as change resistance – were responsible for extended project timelines. Project scope expansion was responsible for timeline overages to a large degree as well. Technical, data and/or functionality issues ranked lower, although these are frequently the project components to which implementing organizations devote the most resources.

As seen in the graph below, only 32-percent of respondents indicated that technical, functional or data-related issues caused their organization to exceed its original project timeline.

### Reasons for Timeline Overages



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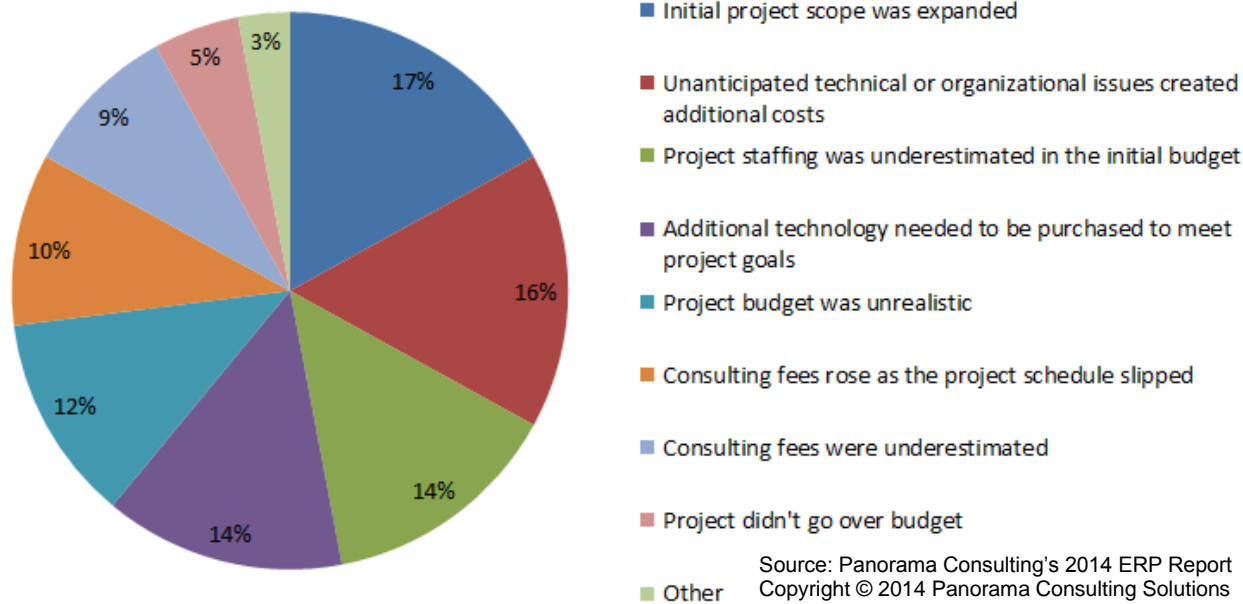
### Budget Overruns

While many ERP projects are pursued with the prospect of cost savings, organizations accrue unexpected expenses when the project begins to suffer from the organizational issues pictured above. By the time these issues become apparent, desperate attempts to increase momentum lack credibility as people are generally not excited to receive invitations to a project they already perceive as an imminent failure. Organizational change management can amass support early in the project lifecycle by addressing concerns before they have a chance to breed resistance.

It is crucial to set realistic budget expectations for your organization's ERP project. Organizations should ensure that a properly-vetted approval process is in place to determine which scope changes are suitable. Scope expansion is often due to poor governance, poor understanding of the changes being introduced and poor communication of and training on those changes.

As seen in the graph below, 17-percent of respondents indicated that expansion of project scope inflated their project budget, followed closely by technical/organizational issues.

### Reasons for Budget Overages



## Organizational Change Management Best Practices

- 1. Customize training and communications.**
- 2. Asses change readiness.**
- 3. Convert process owners.**
- 4. No changes will be accomplished without supervision.**
- 5. Don't sweat the small stuff.**

In general, people fear change. Organizational change management helps organizations empathize with employees' fears and provide them with ample information about project goals and ongoing progress. Organizations put themselves in danger of sub-optimal benefits realization when organizational change management becomes marginalized.

Panorama's organizational change management methodology ensures that each of our clients not only improve their operations but also communicate the improvements to their employees. Due to our time in the trenches of manufacturing, financial services, public sector, distribution and retail organizations (among many others), our consultants have devised a number of "best practices" for successful organizational change management:

**1. Customize training and communications.** Be wary of a consulting firm offering a canned OCM methodology. If the communications and training aren't immediately applicable to your organization's specific situation, end-users will tune them out.

**2. Assess change readiness.** Perhaps one of the most underrated parts of ERP implementations is addressing the "readiness" of the organization to change. Many executives subscribe to the "they'll change because we told them to" school of thought – which is wildly ineffective. It is more effective to measure and identify the root causes for organizational resistance. A series of online surveys and focus groups will yield huge returns in the way of providing a clear vision for how employee acceptance and other organizational issues can and should be addressed to ensure a successful go-live.

**3. Convert process owners.** Every organization has process devotees: individuals who have brought value based on the processes they have developed. These individuals must be targeted in a change management campaign, as they will likely be the most negative about the changes. The earlier an organization can get their buy-in and support, the more successful the whole initiative will be.

**4. No changes will be accomplished without supervision.** In the history of the world, there has never been a workforce that has willingly and happily changed its processes without supervision and accountability. If a supervisor continues to accept reports in Excel, then an end-user will use Excel rather than the ERP system. Buy-in must come from the top down. Usage must be consistent and consistently enforced.

**5. Don't sweat the small stuff.** Contrary to belief, the technical side of implementation is "small." Make sure your organization isn't mindlessly focusing on the software at the expense of the people and the processes who will drive overall organizational success. As we have seen many times, the technical issues are much easier to solve than the internal issues related to personnel and their on-the-job tasks.

## Conclusion

While organizational change management is a critical component of a successful ERP project, organizations spend too little time and money on activities that ensure maximum buy-in and benefits realization. The impact of not devoting sufficient effort to these activities is profound, and must not be underestimated. An organization cannot expect to find any value in an ERP implementation that doesn't involve organizational change management. Organizations must shift their focus away from the technical aspects of implementation and towards the things that really count: making sure end-users and stakeholders have taken personal responsibility for making the implementation a success.

## About Panorama Consulting Solutions

Headquartered in Denver, CO, Panorama Consulting Solutions is an IT consulting firm specializing in the enterprise resource planning (ERP) market for mid- to large-sized organizations around the world. Independent of affiliation, Panorama facilitates the evaluation and selection of ERP software, manages ERP implementation, and expedites all related organizational change to ensure that each of its clients realize the full business benefits of their ERP systems. Panorama maintains a global presence with current and planned offices in Chicago, New York, Washington, D.C., San Francisco, London, Shanghai and Dubai.

More information can be found on its website, [Panorama-Consulting.com](http://Panorama-Consulting.com) and Twitter feed, [Twitter.com/PanoramaERP](https://twitter.com/PanoramaERP).