“Even though this seems to be an objective metric, few companies have been truly successful in defining up-front the expected ROI, measuring the actual ROI after the completion of the project, and then comparing the two.”

It is important not only to understand the factors influencing success of enterprise resource planning (ERP) projects, but also to have an approach for measuring and tracking success of the same. There are new and different perspectives on the topic of measuring and tracking success of major ERP initiatives that should be explored.

ERP implementation projects are very different from most other types of projects such as the construction of buildings, the installation of networks, or the provisioning of complex defense-related systems. The key difference is that there are no precise industry standards, legislated codes to which to adhere to, or published performance benchmarks against which success can be measured quantitatively. This lack of such objective, measurement techniques has created an environment in which ERP projects are declared as successes or failures based on arbitrary criteria, individual perceptions, partisan motivations, or other subjective factors.
Measurement should entail a more holistic approach that assesses how well the ERP project has established the foundation for business transformation, providing the organization opportunities to achieve substantial business benefits.

Return on Investment
In the search for quantitative metrics, many companies have attempted to define the success metrics of ERP initiatives based on a single financial dimension: Project Return on Investment (ROI). In fact, expected ROI was, and in most cases continues to be, the primary method in justifying ERP projects to executive management. Even though this seems to be an objective metric, few companies have been truly successful in defining up-front the expected ROI, measuring the actual ROI after the completion of the project, and then comparing the two. In addition, in most cases, when analyzing many “successful” and “failed” ERP implementations, the categorization of “successful” or “failed” could not be correlated to the official project ROI. Some of the key challenges that are encountered include:

The fallacy in this approach is the belief that the implementation of an ERP software package can provide significant business benefits and generate the expected ROI. Too much focus has been given to the software implementation and too little attention has been given to the business transformation and the impact on the user communities. It is, in fact, only the change in business models, the change to a process-focused business organization, and the changes in relationships and processes with customers and suppliers that have proven to provide significant business value.

The ERP project can be considered as the mere foundational backbone that enables such changes and is only the first step in the required business transformation process.

Measuring the success of ERP projects should not, therefore, be focused on purely the one dimension of the ROI achieved by the specific project. Measurement also should entail a more holistic approach that assesses how well the ERP project has established the foundation for business transformation, providing the organization opportunities to achieve substantial business benefits.

With this understanding, we therefore need to find new ways for measuring the success of these programs.

A New Method for Measuring Success
Success is defined as “the achievement of something desired, planned, or attempted.” This definition therefore implies the following:

The targets to be achieved are defined,
Someone needs to ascertain that the targets are actually achieved, and
Success is a process over time rather than a single, isolated event.

If we accept these concepts and want to measure the success of ERP programs, we need to properly identify the targets that we want to achieve, by having three key dimensions:

• Targets
• Stakeholders
• Timeframes

Targets
There are many types of targets, some of which can be clearly articulated and associated with easily measurable numerical attributes, while others are more qualitative or strategic in nature and cannot be easily translated into numerical representations.

Political
Political targets are those that are typically aligned with new strategic directions, changes in culture or image of the company in its marketplace, or specific goals of key executive management stakeholders. In many of these cases, the ultimate objective may be clear, but a well-defined path to achieving it is not. Some examples of these may be increased management of security risks, increased focus on customer satisfaction, the need for more timely and accurate management information, and the management of risk during a major downsizing.

Operational
Operational targets are those that represent changes in some of the major operational and organizational structures of the business. Some examples of these may be the restructuring of regional business models to global business models, the integration of a new acquisition, the creation of shared services organizations, and the transition from internal manufacturing to a contract manufacturing model.

Economic
Economic targets are the most commonly used targets, and they represent specific, tangible goals focused on either revenue increase or cost reduction. Some examples include reduced inventory or manufacturing costs and the increase of revenue due to the introduction of new sales channels.

Technical
Technical Targets are those that represent technical capabilities of the implemented ERP solution and its support organization. These types of targets can normally be well-defined and measured. They can include the retirement of obsolete legacy technology, the deployment of faster network connectivity, improvement in system response time, increase in customer support desk service levels, a widened scope of deployment, or the reduction of the number of screens required to process a specific business transaction. In many of these instances these targets set a level of expectation for the users of the system prior to deployment.

Timeframes
It is a known fact that at the time of go-live, organizational effectiveness and performance will invariably be affected on some level due to learning curve and ramp-up time of users and potential organizational change management issues, as well as normal imperfections in the early lifecycle of complex solutions.

In addition, as mentioned previously, ERP systems are foundational enablers to business transformation. Their success cannot be measured by project time-lines but need to be based on longer time frames that incorporate the impacts of the business transformation. Only by understanding these various dimensions and taking a more holistic evaluation approach can one truly define metrics for success of ERP programs.

So what is the best approach for the measurement of ERP solution implementation success based on? An up-front definition needs to be completed at the time the program is initiated and should be a crucial part of the approval process.

To discover 3 simple steps to follow in the up-front definition, please read the second part of this two-part series on metrics of ERP projects in the Practical InSights section of www.neoris.com.

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