

# Conflicts Between ERP Systems and Shared Services Can Inhibit Return on Investment

The proliferation of ERP systems may not be a problem for individual business units, but it can represent a significant obstacle in implementing a shared-services strategy

by David Hebert, Managing Director, Oracle Applications, Answerthink and Dr. David Oppenheim, Director, Delivery Services, Answerthink

Over the past decade or so, two types of initiatives — shared services and ERP systems — have played major roles in the ongoing quest for improved efficiency and effectiveness of core business operations. To gain maximum benefit from both, however, companies must resolve underlying conflicts between the two. Optimal solutions typically involve close cooperation between the business and IT organizations regarding ongoing management of the organization's ERP systems.

The primary impetus behind the adoption of ERP systems has always been the desire to integrate business processes across the enterprise. Of course, ERP systems alone are not complete solutions. Rather, they provide an IT platform upon which companies can build and operate business processes that reduce manual effort, minimize errors, and improve controls. To achieve these goals, deployment must involve centralization and standardization.

An example of the merits of this holistic approach is how top performers in 2003 were able to slash the total cost of running financial operations from 1.33% of revenue to 0.8%, according to The Hackett Group, whose analysis is backed by its work with more than 2,400 client organizations, including 97% of the Dow Jones Industrials.

In contrast, the primary goals of shared services are to reduce costs through economies of scale and to improve quality by treating the shared-services unit as a business within the business. Economies of scale are achieved by consolidating standard activities that are done in every business unit — such as paying bills — into a small

number of Shared Services Centers (SSCs), whose staffs are fully dedicated to those activities. SSCs “sell” their services to the business units through service-level agreements that provide SSC management with incentives to improve productivity and quality.

While there may not seem to be any inherent incompatibility between the desire for integration and the desire for economies of scale, conflicts do arise, especially in large, complex organizations. Many such organizations have encouraged rapid growth and innovation in part by minimizing corporate control over operations. This decentralized approach has left many enterprises with a multiplicity of ERP systems across business units. Consider the common example of redundant systems left in place following mergers and acquisitions.

This proliferation of ERP systems may not be a problem for individual business units, but it can represent a significant obstacle in implementing a shared-services strategy. To take full advantage of potential economies of scale, the SSC needs to establish highly standardized processes and procedures. In the worst case, an enterprise may find itself with ERP systems from different vendors in its various business units. In this situation, SSC staffers have to know how to use entirely different systems to accomplish similar tasks for different business units. However, even if all business units were using ERP systems from the same vendor, these systems are so flexible that they could all be configured differently, leading to significant differences in the way the same transaction is processed in different parts of the organization.

In either case, SSC staffers would have to learn and apply different procedures for different business units, including logging in to and out of different systems. Clearly, this variability and added effort can limit gains in productivity and quality while at the same time increasing required the skill levels — and hence the cost — of SSC staff. The net effect is to undermine the basic value proposition associated with shared services and reduce the likelihood that it will be embraced by enough of the organization as a whole to have a significant impact.

To achieve the full potential of shared services, companies must reduce the number and diversity of ERP systems they have internally. For many large companies, this is a daunting prospect. For example, a \$16 billion diversified electronics manufacturer with 50 divisions and 400 plants found itself with 120 separate ERP systems and real questions about how it could achieve its objectives of consolidating finance and IT operations into a small number of SSCs. This case is far from unique: The Hackett Group's data indicates that even world-class companies operate 27 finance systems per \$1 billion of revenue, while the number for average-sized companies is 48.

From a shared-services point of view, it may at first seem that the optimal end state would be a single ERP environment for the entire enterprise. SSC staffers would encounter no obstacles in applying the same policies and procedures in processing transactions for all business units. Nor would there be problems coordinating data about customers and suppliers from multiple databases. The single-ERP strategy appears to offer the best of both worlds: end-to-end integration and standardization.

For many organizations, however, the cost of such a utopia would be a level of standardization — of business practices, interactions with customers and suppliers, and so on — that would not make sense for the enterprise as a whole. After all, very real differences in countries of operations, lines of business, and other things led to the

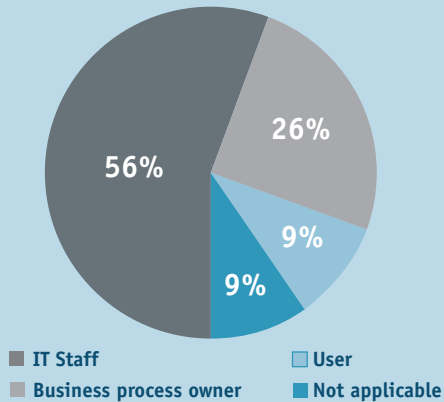
current proliferation of ERP systems in the first place. Even if companies could envision this level of standardization across the enterprise, few would find the costs, risks, and compromises involved in getting there to be justified by the benefits.

For shared services to succeed then, a compromise must be reached. One common approach is to consolidate only those aspects of the ERP environment that support the business processes handled by shared services. Typically this means consolidating financial transaction processing from all business units into a small number of ERP environments while allowing each business unit considerable latitude when it comes to the software it uses to support sales, customer service, the supply chain, and other activities.

The problem with this compromise is that it may “disintegrate” business processes. If, for instance, a business unit enters purchase orders in its own procurement system but suppliers are paid through the shared-services payables system, then custom software (and sometimes procedures) must be developed and maintained to ensure that transactions flow correctly between the separate systems and that supplier data is coordinated between the two. Custom interfaces of this kind require continual maintenance, since they are subject to vendor changes in the two software products they seek to integrate.

They also represent control risks: The Hackett Group's data indicates that most companies rely primarily on IT staffs to deal with interface errors, which suggests that these problems may often be handled in a way that bypasses normal controls — hardly acceptable in today's Sarbanes-Oxley environment. In a study of members of The Hackett Group's Shared Services Optimization Business Advisory Service, it was reported that 56% of interface errors require IT involvement for resolution.

### Most companies continue to rely on the IT staff to fix interface errors



Source: © 2003 The Hackett Group

Moreover, this compromise may lead to conflicts of interest. Seeking to maximize its own efficiency, the SSC may consolidate payments by vendor, issuing a single payment to cover purchases by several business units. Efficient as this is for the SSC, it may well make it more difficult for individual business units to manage their supplier relationships. Analogous conflicts can arise with CRM systems. Just how serious the problem of disintegration is depends on the range of ERP functionality the organization actually uses. For manufacturing companies that rely on ERP systems to manage their supply chains as well as their finances, breaking the direct link between supply chain and financial processes may have a negative impact on core business operations that far outweighs any gains in financial-processing efficiency that might be achieved by shared services.

On the other hand, companies in financial services, health care, education, utilities, and other non-manufacturing sectors have no choice but to manage custom interfaces between the financial modules of the ERP system and the specialized software they use to manage their operations. These companies may still face ERP rationalization challenges, but only in relation to financial transaction processing. ERP rationalization is a complex undertaking that requires careful planning and coordination of several

streams of activities, usually over a multiyear period. In most cases, the consolidation strategy will be driven by business operating concerns.

Business operations management should therefore take a leading role, with strong support and technical guidance from IT. Most companies will adopt some variant of the following approaches:

### Understand the current state of ERP deployment

Put particular emphasis on the number of ERP environments currently in use as well as the vendors, products, and versions represented by those environments. Pay attention to how these ERP systems interface with one another and other application components to know who is responsible for data management, maintenance, enhancements, and user support. And finally, understand the dominant business operation model, taking into account not only the company's current situation but also the direction in which it is evolving in terms of centralization of control, supply chain integration, and growth strategy.

Note that the three dimensions in Figure 1 are not really independent. In particular, the operating model typically reflects both the degree of supply chain integration and the level of volatility, so it would be unlikely for a company that is essentially a group of disconnected businesses in different markets to operate with a high degree of centralized control. However, each dimension should be considered separately in formulating the ERP rationalization strategy.

### Define the end state

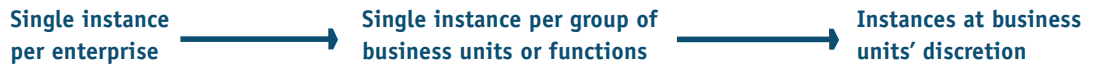
Based on the current state and the dominant operating model, determine the number of separate ERP environments that constitutes the optimal end state for the enterprise.

### Develop a migration strategy

Plot a migration path that mitigates the risk inherent in all major changes to core systems, perhaps by defining intermediate stages with fewer ERP systems than the current state but more than the end state.

**Figure 1**

<b>Operating model</b>	Hierarchical company — centralized control	Limited business-unit autonomy — central involvement in decisions	Significant business-unit autonomy — mgt. focus on reducing overlap	Holding company — significant business-unit autonomy
<b>Supply chain integration</b>	Vertical integration among business units/products	Mix of stand-alone and vertically integrated business units/products	Stand-alone business units/products with limited customer overlap or supplier overlap	Stand-alone business units/products in diverse markets without synergies
<b>Volatility</b>	Stable business environment, 0% - 5% growth	Modest organic growth of 5%-15% or declining growth, occasional acquisitions and divestitures	High organic growth, occasional acquisitions and divestitures	High growth, through acquisitions, frequent divestitures



**Establish effective governance**

Because the rationalization process has such a broad effect, it is important to establish early on the governance mechanisms that will ensure sustained, effective participation from all relevant stakeholders, including business unit operations, shared services, and IT.

Given the magnitude of the change and the central role of the ERP system both in business operations and in the IT architecture, leadership will have to demonstrate considerable determination in overcoming the inevitable resistance and inertia that manifest as an unending series of minor obstacles. At the same time, it is inevitable that the consolidation strategy will face legitimate challenges stemming from unexpected changes in the business and technology environments.

With effective governance mechanisms, however, key decision-makers will have the level of understanding of the ERP consolidation strategy they need to make — and implement — good decisions about how to respond to those challenges.

**How Answerthink Can Help**

Answerthink’s Business Transformation Services help you improve your business performance by designing and implementing strategically aligned organizational, service delivery, and business process improvements across the enterprise. Capabilities include operational planning, process and organizational design, change management, and the effective application of various technologies.

Answerthink combines world-leading benchmarks and best practice resources with deep business expertise and broad technology capabilities to deliver solutions that maximize investments made in people, processes, and technology. Answerthink’s experienced business consultants work with companies to answer fundamental questions like:

- What is the optimal business operating and service delivery model?
- How can the company grow its top line while at the same time controlling or reducing my costs?
- How can the company fully realize the benefits of the investments that have been made in technology, people, and processes?
- How can the company improve performance to operate more efficiently and effectively?

## About the Authors

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David Hebert has a decade of experience working with Oracle applications with experience in both functional and technical aspects of implementing Oracle financial and supply chain applications.

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In addition to leading Answerthink's applied research in knowledge management, Dr. David Oppenheim oversees development of Answerthink methodologies as well as the content architecture of its Mind~Share knowledge base.

## About Answerthink

Answerthink, Inc. ([www.answerthink.com](http://www.answerthink.com)) is a leading business and technology consulting firm that enables companies to achieve world-class business performance. By leveraging the comprehensive database of The Hackett Group, the world's leading repository of enterprise best practice metrics and business process knowledge, Answerthink's business and technology solutions help clients significantly improve performance and maximize returns on technology investments. Answerthink's capabilities include benchmarking, business transformation, business applications, business intelligence, and offshore application maintenance and support. Founded in 1997, Answerthink has offices throughout the United States and in Europe.

## About The Hackett Group

The Hackett Group ([www.thehackettgroup.com](http://www.thehackettgroup.com)), an Answerthink company, is a business advisory firm providing empirically based advice and best-practices research to executives seeking to drive world-class performance in areas such as finance, IT, human resources, and procurement. Hackett's functional and process-specific benchmarks and its confidential, on-demand, membership-based advisory services are backed by an ongoing database of best practices in processes, technology, and organization in use at more than 2,400 clients around the globe. This unparalleled information repository allows Hackett business advisors to provide data, advice, and strategic insight with a level of integrity and authority available nowhere else. As of this writing, Hackett clients comprise 93 percent of the Dow Jones Industrials, 80 percent of the Fortune 100 and 94 percent of the Dow Jones Global Titans Index.

Do you know how your company measures up to world-class business performance? How should you prioritize the implementation of best practices to give you the fastest and greatest return on investment?

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