

## **CHAPTER 1: INTRODUCTION**

ERP stands for Enterprise Resource Planning. ERP is a way to integrate the data and processes of an organization into one single system. Usually ERP systems will have many components including hardware and software, in order to achieve integration, most ERP systems use a unified database to store data for various functions found throughout the organization.

The term ERP originally referred to how a large organization planned to use organizational wide resources. In the past, ERP systems were used in larger more industrial types of companies. However, the use of ERP has changed and is extremely comprehensive, today the term can refer to any type of company, no matter what industry it falls in. In fact, ERP systems are used in almost any type of organization - large or small.

In order for a software system to be considered ERP, it must provide an organization with functionality for two or more systems. While some ERP packages exist those only cover two functions for an organization (Example: Payroll & Accounting), most ERP systems cover several functions.

Today's ERP systems can cover a wide range of functions and integrate them into one unified database. For instance, functions such as Human Resources, Supply Chain Management, Customer Relations Management, Financials, Manufacturing functions and Warehouse Management functions were all once stand alone software applications, usually housed with their own database and network, today, they can all fit under one umbrella - the ERP system.

The effectiveness of Enterprise Resource Planning (ERP) has carved a place in so many companies in this country. The process of implementing ERP solutions is ridden with risk and affects processes and the people especially the whole management control system. In this paper, the experiences are encountered by some of the companies in Malaysia and their efforts to handle implementation issues.

This study examined the relationship in between the effectiveness implementation of ERP system, issues and problems among Malaysian companies. 100 companies' employees from Malaysian provided data in relation to their organizations' experiences. Employees in companies reported a significant increase in the number of effectiveness by employee after implementation. Respondents also reported a significant decrease in the number of difficulty after the ERP implemented. When comparison between companies equipped with ERP system and companies without ERP system was made, the level of internal satisfaction is found to be higher for the companies who had ERP system.

ERP implementations are littered with tales of lost millions and withdrawals after implementation. Many of the most experienced IT organizations have failed. So what are the secrets? What are the traps? This question could produce at least a book, and probably a sequel. Here are a few things the Vendor is not going to tell you about. They are by no means the most important, but they are missed in many implementations. Positives and Negatives Most organizations do not understand the costs associated with an

ERP system when they first commence the implementation. The benefits are usually well understood.

The costs do not surface until well into the Implementation - and why should we talk to an organization about the costs and difficulties when they are trying to make a sale? On the surface, there are very attractive reasons for going ERP. Below are few benefits:

- 1) A single system to support rather than several small and different systems.
- 2) Single application architecture with limited interfaces.
- 3) Access to management information unavailable across a mix of applications.
- 4) Access to best practice systems and procedures.
- 5) More integration hence low costs.
- 6) More "automation" of tasks Generic Costs and Impacts.

The very important thing that we must learn about is; do not play up the costs and impacts. Some of those are:

- 1) Implementation effort will be bigger then ever talked about, or even imagined.
- 2) We yet to hear from an organization who have implemented ahead of schedule and under budget.
- 3) Users see all the functionality available and suddenly they want it now. The scope can grow out of control.
- 4) The existing environmental mix between what is done manually and what is done by the system will swing dramatically after

implementation. Many more tasks will be automated. Automation will significantly reduce the flexibility of how you operate as a business.

- 5) Users need to become more computer literate. Many see this as personally challenging - even beyond their ability - and will not cope, or leave the company.

The word "Enterprise" in ERP means that whatever happens in one area has a ripple effect in other areas. The world is flat as so as ERP because ERP providing various range of choices in order to resolve organizational issues and problems and enhance their competitiveness. Understanding the implications of actions of one Area, on other areas of the company, is not something that happens overnight. Training tends to focus on how to do my job. It should also focus on what are the impacts of my job, in other areas.

- Near enough is no longer good enough. Data integrity becomes critical. The Computer cannot make human judgments. If stock is moved, it is no good somebody remembering where they put it. However ERP is able to capture where things put and how things can it missing. Below are few examples regarding the usage of ERP in an organization:

- 1) The information needs to be put into the system or there will be a domino effect. E.g. Stock is moved from location A to location B and the information is not put into the system.
- 2) The system will tell someone to get the material from A and when it is not there, they have to go looking. At the same time it is telling someone else to put new material in B, but B is full. The first person finds the original material in B and logs it into the system. We now have

double the quantity in the system again and it doesn't re-order. And so it goes on and everyone is blaming the system.

- 3) ERP systems tend to replace old systems. As such it is a quantum leap for all areas of the company. It is replacing the trusty Ford with a high performance Ferrari. This happens at a Technical level as well as a Business Level. New ways need to be learnt in a very short space of time.
- 4) Things have to be done consistently. No longer are we able to do something one way in one branch and another way in another branch.
- 5) The system is going to determine how we do things in all locations. Even within one location, special treatment may not be possible any more without changing the configuration of the system. If the system says you can either have 0, 15, 30 or 60 day credit terms, you can no longer offer 45 day terms without changing configuration.
- 6) If consistency can be implemented, there is good potential for cost savings as well as getting rid of special arrangements that reduce profit.

There are many advantages of implementing an EPR system; here are a few of them:

- 1) A totally integrated system.
- 2) The ability to streamline different processes and workflows.
- 3) The ability to easily share data across various departments in an organization.
- 4) Improved efficiency and productivity levels.

- 5) Better tracking and forecasting.
- 6) Lower costs.
- 7) Improved customer service.

ERP system implementation have changed the work landscape in IT organisations. ERP implementation basically takes into account people and technology. An ERP package monitors the work flow of the entire organisation and it also connects the people from each other. Earlier only big multinational companies preferred to go for ERP implementation due to high costs involved. Now most of the companies opt for ERP package implementation to gain the competitive edge over others.

ERP implementation is necessary for the business organisation because the ERP software packages cover all the basic work functions of an organisation. The ERP implementation eliminates the role of external systems which used to mediate between two systems and gives some benefits like standardisation, lower maintenance, and systematic data integration.

For an ERP implementation you may have to dish out a chunk of your fortune, but if done properly you can see a drastic change in your returns. But if the ERP implementation is not done properly then you are at the risk of losing your fortune. A successful ERP implementation demands efforts, team coordination, commitment, support, management and execution. The impact of the ERP implementation is not confined to any one specific business area; rather it can impact all business areas. So the ERP Project management team should include team members from all departments because continuous

involvement and utmost commitment is required to lower above risk of failure and gain the rewards. The business can reap benefits from an ERP implementation only with effective preparation and its proper execution.

For this paper, survey participants are reported a marginally substantial association between the effectiveness of ERP system to employee-voiced concerns and the level of satisfactory by employees. Due to the absence of ERP system in the vast majority of the company surveyed, the final part of this study also seeks answer for the fundamental ERP system predicament; will they implement the ERP system and to whom the respondents think they should improve it? Sensible interpretations of these results are discussed and their implications for employees are addressed.

The study seeks to answer the following research questions:

- 1) To what extent are the ERP system has characteristics associated with rapid change of organization adaptation?
- 2) To what extent are the identified ERP system characteristics associated with the innovation indicator of quick product or service introduction?
- 3) To what extent are the identified ERP system characteristics associated with bottom-line organizational performance? Or perhaps the effectiveness to general organization daily operation?