The Impact of ERP Partnership Formation Regulations on the Failure of ERP Implementations

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Abstract

According to statistics, majority of ERP implementations fail. Failure means either total cancellation of the project, or failure to go-live on time and/or within budget constraints. Mainstream literature focuses on different reasons for failure including poor project management, resistance to change, lack of top management support, insufficient user training, etc. In this research we focus on the impact of vendor-partner relationship on the failure of ERP implementations. Some vendors provide easy terms and conditions in order to attract new partners and develop a wider network of partners in the targeted regions. In this study, the terms and conditions of SAP for certifying partners are studies and analyzed. In addition, case studies of two SAP partners are conducted. The primary research results suggest that the easy partnership conditions set by ERP vendors are among the main contributing factors for ERP projects failure in our cases. This finding is considered novel since most of the related work attributes failures to other factors, ignoring the vendor-partner terms and conditions.

Keywords: ERP; vendor-partner relationship; implementation failure.
1. Introduction

Enterprise resource planning (ERP) systems are comprehensive software designed to integrate business processes and functions. ERP systems are information systems (IS) that integrate several business functions together. ERP Systems evolved from basic inventory software systems into material requirements planning (MRP) and manufacturing resource planning. An ERP system combines inventory data with financial, sales, and human resources data. ERP adoption projects may vary in scale and structure, each requiring careful management decisions to be carried out during the implementation process [1]. Nowadays, the organizational and technical complexity associated with the implementation of ERP systems requires more attention in making implementation-related decisions [2]. ERP projects involve difficult, possibly unique, technical and managerial choices and challenges. It is one reason why organizations buy their ERP systems off-the-shelf instead of developing them in-house [3].

Towards the fulfillment of the implementation of ERP systems, organizations usually contract with an ERP vendor having a specific ERP knowledge, to provide a turnkey operation that suits their needs without having to learn the intricacies and complexities of the ERP system. Having said that, the result of implementing ERP, however, is not always successful. Many large organizations have installed an ERP system but had to cancel their implementations [4]. Due to the fact that an ERP system implementation is too complex, the efforts may be expensive. That is why top managers are likely to require an evaluation of the success of the resulting system. Although it may be more desirable to measure system success in terms of monetary costs and benefits, such measures are often not possible due to the difficulty of quantifying intangible system impacts and isolating the IS effect from numerous intervening environmental variables that may influence organizational performance [2, 4]. It is expected that improved performance will automatically follow if the system meets information needs. This does not imply that satisfaction causes performance. Performance and user satisfaction are both caused by the extent to which requirements are met [5].

ERP systems enable the integration of transaction-oriented data and business processes organization-wide. In addition, it supports a process-oriented view of the business as well as business processes standardized across the enterprise. As increasing number of organizations worldwide have chosen to build their IT infrastructure around this class of off-the-shelf applications, there has been a greater appreciation for the challenges involved in implementing these complex technologies. Although ERP systems can bring competitive advantages to organizations, the high failure rate in implementing such systems is a major concern [4]. Among the most important attributes of ERP are its abilities to: automate and integrate an organization's business processes; share common data and practices across the entire enterprise; and produce and access information in a real-time environment.

Although ERP packages are costly, an even more substantial amount of business cost is typically spent on consulting to overcome difficult software implementation [6]. ERP systems are generally packaged solutions with long complicated interrelated code containing set processes. Usually businesses have their own existing competitive advantage processes set in place. Businesses might have to adapt their proven processes to fit the software in order to take advantage of future releases, benefit from the improved processes, and avoid costly irreparable errors [7].

ERP systems are usually implemented in a large-scale project setting. ERP implementation projects regularly involve selecting the ERP vendor, establishing business process reengineering, implementation, and evaluation of the adopted system. ERP implementation projects normally involve internal IT & business personnel from the adopting firm as well as external consultants from implementation partners in order to be successful. This shows how human resources intensive ERP projects are. It is also worth mentioning that a good implementation partner is considered one of the most important factors for the success of ERP projects, and is another addition to the complexity of ERP implementation projects [8].
This paper is organized as follows: next section presents the related work. In section 3, the problem statement is introduced followed by research methodology and data collection in sections 4 and 5. The case analysis is presented in section 6, and finally a conclusion is provided in section 7.

2. Related Work

ERP is a standard system that provides integrated transaction processing and access to information that spans multiple organizational units and multiple business functions. These functions include financial and accounting, human resources, supply chain, and customer services. An ERP system is based on a single central database. This database collects data from, and feeds data into, modular applications supporting virtually all of a company's business activities – across functions, across business units and across the world. When new information is entered in one place, related information is then automatically updated. Most companies expect ERP to reduce their operating costs, increase process efficiency, improve customer responsiveness and provide integrated decision information [9]. They also want to standardize processes and learn the best practices embedded in ERP systems to ensure quality and predictability in their global business interests by reducing cycle times from order to delivery [5]. ERP systems are among the most commonly adopted IS solutions in organizations [10]. The decision as to whether to adopt an ERP system or not is highly critical; it is not a trivial decision to be taken. The change over from a manual system or scattered applications to an ERP requires extensive planning and changes within organizations. Besides the potential cost savings, one of the main drivers for ERP adoption is the technical and operation integration of business functions; these would harmonize the information stream with the material flow of goods or services [11]. ERP adoption would integrate the internal value chain of the firm [12], and provide a seamless and streamlined business processes, which could potentially sustain the firm’s market competitiveness and responsiveness. According to Beheshti [11], enterprise competitiveness could be achieved through the use of ERP systems, because they can provide reporting capabilities to management; such cost and operational information would aid in strategic decision-making related to the enterprise’s competitive position. On the other hand, in order for management and employees to utilize the competitive capabilities of ERP systems, they must have a basic understanding of the principles of ERP, so that it can be used to its maximum potential. Acquisitions, mergers, and joint ventures could also be drivers for organizations to adopt ERP systems, in order to unify, utilize and manage the huge information and work flow among themselves. In addition, one of the major forces for implementing ERP systems is globalization. As the world moves closer to becoming one small village, more and more organizations are being involved in strategic alliances. Thus a large volume of information and communications needs to be managed and utilized amongst these alliances. All of these factors have led to a more heightened need for ERP systems in organizations.

Studies of ERP implementations, combined with findings from earlier work on change management, point to some of the areas in which critical barriers to success are likely to occur. Those barriers are: human resources and capabilities management, cross-functional coordination, ERP software configuration and features, systems development and project management, change management, and organizational leadership are significant factors [6, 13].

In their research [14], eleven factors were identified as critical success factors. Those are: ERP teamwork and composition, top management support, business plan and vision, effective communication, project management, project champion, appropriate business and legacy systems, change management program and culture, Business process reengineering (BPR) and minimum customization, software development, testing and troubleshooting, and Monitoring and evaluation of performance. In addition, systems quality, information quality, vendor/consultant quality, individual impact, workgroup impact, and organizational impact were identified as critical factors [15]. Moreover, [16] stressed on the importance of integrating trust in vendor, consultant, and system as factors contributing to ERP implementation projects success.
According to [8], there might be an effect caused by the industry status and shocks that might occur in the market when measuring business performance. This might lead to incorrect measurements and therefore misconceptions. Business performance might be affected by the industry of the business. Proper management of IS implementations like the ones involved in ERP can also be reported as an important contributing factor that affects performance gains from the system. Management should also set objectives from ERP implementations. The majority of literature recognizes the organization size as a critical factor for ERP implementation success [17]. On the other hand, other factors like “ERP size” could also be a critical factor because of its impact on businesses and implementation complexity. The alignment between strategic business goals and ERP objectives is an important factor for generating business benefit from the ERP system [18]. While it was believed that ERP implementations based on business goals are more successful. Business oriented ERP implementations do not necessarily result into better financial performance; however technical driven implementations were found better performing in terms of return on investments.

European midsize companies tend to focus on product characteristics rather than on characteristics of the supplier of the ERP package [19]. It makes little difference whether the vendor is a market leader, an international oriented company, or a company with a superior corporate image. Companies predominantly look at the functionality and quality of the products and services for evaluating ERP suppliers, which has been found across all lines of business and all countries [13]. To a somewhat lesser extent, the implementation speed, the degree of the product interoperability with other applications, and the price of products and services are also important supplier selection criteria.

According to [20], one of the most important IT-enabled business innovations during the past decade has been the emergence of ERP systems. One study of mid-size to large companies conducted by AMR Research found that 67% of these companies are implementing some form of ERP, while another 21% are evaluating potential ERP systems solutions. As a growing number of companies adopt ERP systems, ERP implementation and upgrades are identified as one of the top five IT priorities among global CIOs according to independent surveys conducted by Morgan Stanley and Deloitte & Touche/IDG Research Services Group. Organizations worldwide continue to allocate a considerable portion of their IT budgets toward either completion of their initial ERP system installations or upgrades to their existing systems.

Many organizations that have committed significant organizational and financial resources to their ERP initiatives have encountered unexpected system implementation challenges. One survey of ERP project managers found that 40% of respondents failed to achieve their original business case even after being live for a year or more; meanwhile, more than 20% of managers stated that they actually shutdown their projects before completion. In addition, in their 2013 ERP report [21], Panorama Consulting Group has stated that from 172 companies surveyed in 2012, 59% of the projects have already crossed their estimated budgets. Also, the report shows that around 60% of the companies have realized >50% of their expected benefits (see table 1). Some of those companies were not yet finished with their ERP implementations. In addition, the report shows that 53%, of projects have exceeded their planned durations. It is worth noting that these ERP adoptions included on-premise and cloud-based implementations.

According to [22], ERP systems are easy to install, yet users must also determine which goals they wish to reach with the system, how the functionality of the system can achieve these goals, and how to customize, configure, and technically implement the package.

Table 1. 2013 ERP report. Adopted from [21].
| Year | Cost   | % of Overruns | Duration | % of Duration Overruns | % Receiving 50% or Less Benefits |
|------|--------|---------------|----------|------------------------|----------------------------------|
| 2012 | $7,1 MM| 53%           | 17,8 months| 61%                    | 60%                              |
| 2011 | $10,5 MM| 56%           | 16 months | 54%                    | 48%                              |
| 2010 | $5,5 MM| 74%           | 14,3 months| 61%                    | 48%                              |
| 2009 | $6,2 MM| 51%           | 18,4 months| 36%                    | 67%                              |

For example, SAP ERP comprises more than 5,000 various parameters to define. The complexity of the implementation process will then be evident. Further, customization and implementation of ERP systems became an industry on its own. But particularly small- and medium-sized enterprises are not able to pay consultants millions of dollars for ERP implementation. Hence, modeling methods, architectures, and tools have become increasingly popular because they can help to reduce the cost of software implementation and at the same time increase user acceptance of ERP software solutions. Several modeling approaches are possible: reduce the effort necessary for creating the target concept by leveraging “best practice case” knowledge available in reference models; create a requirements definition by leveraging modeling techniques to detail the description; document the system requirements definition by means of conceptual modeling methods, making the business logic more understandable; and leverage conceptual models as a starting point for maximum automation of system and configuration customizing.

The relationship between ERP vendors and their partners in literature has been reviewed by [23]. Their findings suggest that the value delivery to customers is based on the process of value cocreation between the vendor and partner. This is also regarded as an important factor for the success of ERP projects in organizations. However, most of the literature was focused on post partnership formation processes and coordination, and overlooking the pre-partnership rules and regulations.

3. Problem Statement

Mainstream literature explored and identified various reasons for ERP failure. Those reasons included poor project management, resistance to change, lack of top management support, insufficient user training, etc. In addition, much of the literature assumes that off-the-shelf software implementations involve only a vendor and a customer, overlooking the role of the intermediate partners that are present in many cases [23].

In this research we focus on the impact of vendor-partner relationship on the failure of ERP implementations. We believe that the easy entry terms and conditions set and defined by ERP vendors allow premature vendors to become part of their ecosystem. Then, those partners get engaged in projects with customers, and later fail due to their inability to deliver and lack of required competency. In ERP literature, very few studies focused on the vendor-partner relationship and coordination activities [23], specifically addressing partner-vendor terms and conditions.

Thus, in this paper, the research question explored is “what is the impact of ERP partnership formation regulations on the failure of ERP implementations”.
4. Methodology

There are many previous quantitative research conducted about the relationship between ERP and business performance. Such research usually involved surveys and large amount of quantitative data. However, qualitative research approach is normally used where knowledge about the problem domain is rare and rather unstructured [24]. As a result, for this research paper multiple exploratory case studies were conducted and qualitative methods were employed. Case study research is useful to represent unique cases when exploring new phenomena and when there is a lack of theory. According to [24], case study research method is recommended when “how” and “why” questions are postured, when the researcher has little control on the events, and when the focus of the investigator is on a current phenomenon that occurs in a real-life context.

On the other hand, generalizability and transferability from qualitative research and the case studies may pose something of a challenge. The relatively small samples available mean that it is difficult to replicate findings in other contexts [25]. Nonetheless, other researchers have argued that it is feasible to generalize and develop theories from such case studies [26]. Guba and Lincoln [27] argued that ‘thick descriptions’ of case studies could help other researchers in judging the transferability of their descriptions to their own contexts and lexicons. Although case studies’ generalizability is limited, however, it can provide important insights and direction for future research. We have therefore chosen an exploratory case study methodology. Exploratory research is a satisfactory method for investigating and explaining why certain phenomena occur [24]. The purpose of this study is to increase our knowledge of the impact of the vendor-partner relationship on ERP implementation projects. Specifically, it is to study the impact of vendor’s terms and regulations for accrediting new partners on the failure of ERP implementations. Case studies’ generalizability is limited; however, they can provide an important insight into the direction for any future research.

The cases, which will be subject to the analysis in this research, represent two SAP partners in the Middle East region.

5. Data Collection

Data was collected about the world’s leader ERP vendor, SAP. In this context, SAP’s award-winning PartnerEdge program and benefits have been analyzed using the information published online at http://www.sap.com/our-partners/become-a-partner/partneredge.epx. The website provides general information about the SAP partner program. In addition, it provides the benefits, rules, and regulations to interested implementers for becoming a certified SAP partner. SAP also supplies its partners with access to tools and their knowledge base.

Further, the data obtained from the PartnerEdge program was supported by interviews and documents collected from two SAP partners. Also, interviews were conducted with one of Partner B’s customers. Both partners are members of the PartnerEdge program in the Middle East region. Partner names have been disguised to preserve anonymity. The partners are referred to as Partner A and Partner B. While Partner A has not succeeded yet to get any consulting contracts, it managed to sell system licenses to several organizations. Meanwhile, Partner B has managed to get two consulting/implementation contracts, however, failed to deliver in both projects.

Data collected included interviews, projects documents, documents submitted to SAP Middle East, company profiles, balance sheets, and consultants’ experience evaluation.

6. Analysis and Discussion

Remarkably, the analysis of the two SAP partners in the Middle East revealed interesting findings.
One of the partners, Partner A is a start-up company. This indicates that they do not have experience as a company, yet they managed to get SAP approval for becoming a certified partner. This shows how easy the terms and conditions are, which enabled a new start-up to become an SAP partner.

Partner B is not a new organization, however, does not possess any experience with neither SAP ERP implementation nor consulting projects. Yet again, they managed to become an SAP partner. Both companies’ personnel and consultants were not provided any training by SAP. While trust among vendors and partners is a prime requirement for their alliance success [23], however, given the little background research conducted on partners, trust in the partners by SAP was not evident in our cases. In addition, the analysis of the balance sheets and financial statements of Partner A and B revealed that both partners were facing financial problems i.e., high operating risks. Also the projects documentation shows that both partners rely on outsourcing consultants in their ERP implementation projects, and was not competent enough to coordinate the required projects’ deliverables efficiently. Moreover, since their membership in the PartnerEdge program, both partners have never had any sort of audit nor appraisal by SAP in order to make sure that they are still qualified.

The other analysis that we have undertaken was at one of Partner B customers. The customer has cancelled the contract with the partner. The customer claims that the partner has been premature and was not competent enough to manage the implementation process. Further, little role was enforced by SAP when they knew that the project is a failure and contract is cancelled. This shows that the contractual agreement and rules of engagement between the vendor and its partners might be non abiding or unclear. Thus, a clear business model that represents the rules of engagement and liabilities of each party is a must in order to deliver value through their alliance to their customers and minimize opportunism [23]. In addition, in the interviews, both partners indicated that SAP has been very inactive in terms of knowledge transfer. Knowledge transfer and learning are
considered as important enablers for success in ERP implementation projects. In addition, they enhance the collective strength of the alliance between the vendor and its partners [23]. However, ERP projects vary in settings, structure, and scale. To a considerable degree, each ERP project could be regarded as a unique case in each client organization. Thus, partner hands-on experience and competence are paramount necessities for success along with the knowledge transfer provided by ERP vendors. Through their literature review, [23] identified several contributing and regulating factors in the relationship between ERP vendors and their partners, which could maximize the value cocreation for their customers. The factors are presented in figure 1.

The factors include contractual agreements between the vendor and partners. Also, the competitiveness of the partner is a requirement for a collective IT capability. However, the factors list focused more on post partnership processes, and overlooked the partnership entry regulations, which is the main focus of this study.

Our analysis indicates that SAP has put more effort in attracting new partners in order to penetrate the market of the Middle East, yet little attention was given to the competitiveness of partners and their on-going learning process. Also, the results suggest that SAP does not dedicate enough efforts in governing their non-primary partners. It has been very clear to us that the role of SAP in accrediting and authorizing those partners was minimal. The objective of SAP was to increase the number of partners in the region rather than enabling quality partners and hence ensure quality services to their customers. This combined with data analysis of the cases, shows clearly that the easy entry terms and conditions set by SAP has been a major factor for why those ERP implementation projects failed. In addition, the trust in SAP as a vendor by client organizations had most likely an impact on building an immediate trust by the clients in their implementation partners.

7. Conclusions

ERP literature mainly focused on issues like trust in ERP vendor and vendor competence as critical success factors. However, very limited research indulged into the relationship between vendors and their implementation partners. Not only the relationship is important, but also the process of how ERP vendors acknowledge and certify partners is equally important. In this research, we have studied the impact of vendor-partner formation-regulations on the failure of ERP implementations. The case of SAP terms and conditions was analyzed and case of project implementation failure was investigated. Results showed that easy partnership conditions set by ERP vendors is a main factor why ERP projects failed in our target cases. There has been a conflict of interest between the desires by the vendor to authenticate more partners at the expense of quality, and the interest of customers to only deal with qualified partners.

Results call for more restrictive policy needed from the vendor side in order to authorize only qualified partners. Also, the assumption based on the belief that ERP vendors only certify competent partners, might not be supported in some cases. Thus, thorough analysis of partner credentials and history is required from the customer side. ERP customers should not rely on recommendations or lists made by ERP vendors, as those lists are usually maintained and administered by sales organizations, which lack competencies and have other objectives e.g., increase number of partners in the region, to achieve new leads rather than carefully inspecting partners’ qualifications.

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