

Chapter 5.7

Achieving Business Benefits from ERP Systems

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ABSTRACT

Enterprise resource planning (ERP) systems are becoming popular in medium and large-scale organizations all over the world. As companies have to collaborate across borders, languages, cultures, and integrate business processes, ERPs will need to take globalization into account, be based on a global architecture, and support the features required to bring all the worldwide players and processes together. Due to the high cost of implementation for these systems, organizations all over the world are interested in evaluating their benefits in the short and long terms. This chapter discusses various kinds of business benefits in a comprehensive way in order to justify the ac-

quisition and implementation of ERP systems in organizations in the present global context.

INTRODUCTION

Enterprise resource planning (ERP) systems have become very important in modern business operations as ERP has played a major role in changing organizational computing for the better. One study found that more than 60% of Fortune 500 companies had adopted an ERP system (Stewart, Milford, Jewels, Hunter, & Hunter 2000). These systems have been credited with reducing inventories, shortening cycle times, lowering costs, and improving supply chain management practices. ERP has been credited with increasing the speed with which information flows through a company

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(Davenport, 1998). ERP has also been credited with creating value through integrating activities across a firm, implementing best practices for each business process, standardizing processes within organizations, creating one-source data that results in less confusion and error, and providing online access to information (O'Leary, 2000). All of these features facilitate better organizational planning, communication, and collaboration (Olson, 2004). Applied Robotics increased on-time deliveries 40% after implementing ERP, and Delta Electronics reduced production control labor requirements by 65% (Weil, 1999). Therefore, in the last decade, organizations around the world have made huge investments in enterprise systems. According to a report by Advanced Manufacturing Research, the ERP software market was expected to grow from \$21 billion in 2002 to \$31 billion in 2006, and the entire enterprise applications market which includes customer relationships management and supply chain management software will top \$70 billion (AMR Research, 2002). It was estimated that in the 1990s about \$300 billion was invested in ERP systems worldwide and that this was expected to grow to \$79 billion annually by 2004 (Carlino, Nelson, & Smith, 2000).

Enterprise systems include enterprise resource planning, customer relationship management (CRM), supply chain management (SCM), product lifecycle management (PLM), and e-procurement software (Shang & Seddon, 2002). ERP software integrates management information and processes, such as financial, manufacturing, distribution, and human resources, for the purpose of enabling enterprise-wide management of resources (Davenport, 1998; Deloitte Consulting, 1998; Klaus, Rosemann, & Gable, 2000).

ERP helps organizations to meet the challenges of globalization with a comprehensive, integrated application suite that includes next-generation analytics, human capital management, financials, operations, and corporate services. With support for industry-specific best practices, ERP helps organizations improve productivity, sense

and respond to market changes, and implement new business strategies to develop and maintain a competitive edge. ERP is designed to help businesses succeed in the global marketplace by supporting international legal and financial compliance issues, and enabling organizations to adapt internal operations and business processes to meet country-specific needs. As a result, organizations can focus on improving productivity and serving their customers instead of struggling to ensure they are in compliance with business and legal requirements around the world. Companies that automate and streamline workflows across multiple sites (including suppliers, partners, and manufacturing sites) produced 66% more improvement in reducing total time from order to delivery, according to Aberdeen's 2007 study of the role of ERP in globalization. Those companies that coordinate and collaborate between multiple sites, operating as a vertically integrated organization, have achieved more than a 10% gain in global market share. The majority of companies studied (79%) view global markets as a growth opportunity, but of those companies, half are also feeling pressures to reduce costs (Jutras, 2007). Those companies that coordinate and collaborate between multiple sites, operating as vertically integrated organizations, have achieved more than a 10% gain in global market share (Marketwire, 2007).

BUSINESS BENEFITS FROM ERP SYSTEMS

With the growing proliferation of ERP systems, including midsize companies, it becomes critical to address why and under what circumstances one can realize the benefits of an ERP system (Gefen & Ragowsky, 2005). ERP systems can provide the organization with competitive advantage through improved business performance (Hitt, Wu, & Zhou, 2002; Kalling, 2003) by, among other things, integrating supply chain management, receiving, inventory management, customer orders manage-

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