
ERP Projects & The Board of Directors – Part II

In June 2023, I published the original article regarding the requirement for a Board of Directors to exercise a “Duty of Care” when authorizing projects that have significant risk potential. The original article posting is found via the link below. I recommend you take a few minutes to read it prior to reading this one.

https://www.linkedin.com/posts/ken-cowman-3706024_erp-and-the-board-of-directors-duty-of-care-activity-7074405383825465345-DyT?utm_source=share&utm_medium=member_desktop

You can also view the article, and a few related topics, on our website:

<https://emercomm.com/resources-for-you>

This article will provide some follow-up regarding the steps that have been taken to minimize the potential for litigation between the shareholders and Board of Directors members and point out some of the factors that have been taken into consideration when putting the full cost picture together.

Obvious Costs in the Project

The obvious costs included:

- The cost of the software license which is cloud-based, locked in for seven years and subject to a maintenance and support agreement.
- The cost of the ERP partner firm that was providing consulting and technical services during the implementation of the solution.
- Upgrades to internet services and several laptops to support the use of the solution.

Less Obvious Costs in the Project

There were some situations that were going to have costs to the organization, but they had not been fully thought through including:

- Cost of replacing the Project Director (resigned during the project)
- Cost of replacing the President (employment terminated)
- Lost business that, normally, they would have won.
- Loss of planning credibility with suppliers.
- Cost of an additional financial audit
- Cost of replacing a few people that had resigned during the project. Exit interviews blamed issues related to the project.

The Cost Factors

As mentioned in the previous article, the ERP organization removed their partner organization from the project and has made significant concessions. The partner organization has also cancelled all outstanding invoices. This will help, but *the project will not be able to be completed on budget.*

The people that needed to be replaced had several cost factors including:

- Human resource time creating and posting some employment opportunities.
- Recruiters for two sensitive executive positions
- Human resources time spent sorting through many applications for the positions
- Human resources and management personnel interviewing short-listed potential employees.

The organization's financial personnel have calculated an estimate of the lost profit value of the customer orders that were not realized due to project-related issues.

The organization held a supplier's meeting at a hotel to provide a forum for the suppliers to provide feedback and recommendations. There is the cost of the hotel, the food and beverages provided, and the time of the employees involved in:

- Meeting logistics and planning.
- Meeting preparation and being at the meeting.
- Follow up documentation and ongoing communications.

Then there is the cost of the financial auditors and internal financial staff.

The Shareholders and the Board of Directors

There is the basis of an agreement in place.

- The five Board members have agreed to stay in place for a period of five years. They will not receive compensation for their BoD activities and, should they depart prior to the end of the five-year term, there will be a financial cost to their departure.
- There are two new 'employee advisors' to the Board who will, for the remainder of the project, be available to provide direct input to the Board along with the new Project Director and Director of Change Management.
- The Project Director and Director of Change Management will have the ability to call meetings of the Board and / or Senior Management when issues critical to the project's success arise.

With the agreement of all parties, the former president donated a substantial amount of money to a charity that the organization supports.