

ERP Readiness Assessment

A comprehensive guide of the “7-S” framework strategy to prepare for ERP implementation & achieve success

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Introduction

In the 1970s, consulting firm McKinsey & Company developed a framework for organizational effectiveness that identified seven key components that provide the greatest opportunity for success when operating in balance with each other. Dubbed 7-S, the principles have since provided a framework to help drive the coordination of nearly any corporate business initiative. When applied to an ERP project, 7-S serves as an effective readiness assessment. Applying it, an organization can identify potential gaps in strategic alignment for an ERP implementation and address the issues before they have a chance to derail the deployment.

The 7-S framework is divided into “hard” and “soft” components. The three hard components — strategy, structure, and systems — represent tangible elements often documented in most companies. The four soft components, on the other hand (style, staff, skills and shared values), are usually less clear. Visually speaking, consider the shared values component as the hub for the other six spokes, representing the importance of shared values as the foundation of company culture that should drive the other elements. Using 7-S for an ERP readiness assessment aims to identify gaps where strategies for one component don’t align with those for the others. Let’s look at how each component applies to the goal of ERP effectiveness:

Strategy

ERP implementations generally don’t succeed without clearly defined, measurable goals that are tied directly to business strategy. So, an ERP readiness assessment must first establish a framework for the scope of the ERP that reflects that overall business strategy. Tight alignment helps ensure buy-in from stakeholders, who better understand the “why” for the implementation. It also helps minimize user resistance to the implementation, which can lead to delays and low adoption rates. For example, a company strategy might emphasize customer service, while a goal of the ERP system is to automate processes. However, if the ERP implementation results in too much automation, it could create customer service issues. Understanding this possibility could help address concerns before they sidetrack the implementation.

Structure

ERP systems help companies improve operational discipline, but a certain degree of organizational structure must already be in place to reap those benefits. An ERP readiness assessment ensures that existing organizational structures are aligned with the changes in workflows, collaboration and decision-making that ERP systems often bring. A readiness assessment should evaluate the following aspects of organizational structure:

- Centralization:** Centralizing data is a hallmark of ERP systems; it benefits organizations by providing better information for decision-making. But this doesn’t necessarily favor companies with centralized decision-making structures — ERP systems can be configured to support centralized or decentralized decision-making and should be consciously designed for one or the other.
- Specialization:** Companies with higher degrees of specialized resources, such as business analysts or IT personnel, are often more prepared to support ERP system growth.
- Formalization:** ERP systems help companies embed standardized processes into automated workflows. As a result, companies that already have documented, standardized work processes tend to find greater success with ERP implementations.

- Size:** To some degree, larger organizations find ERP implementations easier because of the availability of a wider pool of diverse internal resources, particularly in IT. Smaller organizations, however, can use third-party resources to help with implementation.
- Hierarchy:** Different levels of resources should have different levels of access to data in an ERP system. After all, junior managers don't need the same level of access as department heads. Companies with defined hierarchies may find it easier to benefit from access controls in ERP systems.
- Span of control:** Unlike hierarchies, which regulate access, span of control regulates who can modify systems. Companies with defined rules for span of control can better minimize ERP security issues.

Systems

Whether the technology is in place to support an implementation is a critical question for ERP readiness assessments, although cloud-based ERP implementations make technology support easier than on-premises solutions. On-premises solutions require significant hardware, software and infrastructure investments, while cloud providers host and manage hardware and software as part of their subscription pricing. ERP readiness assessments should go beyond just technology evaluations, however. For example, is the company prepared for data migration, one of the most important components of an ERP implementation? Data migration involves identifying, cleaning and mapping large amounts of financial, employee, customer and inventory data, among other things. For an ERP implementation to succeed, companies need to assess their data quality to ensure that their new system won't struggle to process improperly formatted data, which can lead to operational disruptions. Incomplete, incorrect, inconsistent or duplicate data can create serious issues with reporting, inventory tracking and customer service.

Style

Paradoxically, one of the more interesting results of implementing a centralized ERP system is that it often leads to greatly improved decentralized thinking, because business units gain access to tools that generate better business insights and collaboration. This decentralized shift, however, creates changes in processes and corporate culture for which companies may not be fully prepared. In particular, managers may want to consider how the changes could impact their leadership styles. For example, leaders accustomed to having decisions flow through them may find their teams more eager to use new insights to drive decisions. As a result, managers will need to welcome feedback in the decision-making process. An ERP readiness assessment should determine whether company leadership is prepared to develop a new, more collaborative style after implementation.

Staff

Staff assessments, arguably the most important element of a readiness assessment, evaluate whether teams are culturally prepared to embrace an ERP implementation and their capacity to learn new ways of working. A readiness assessment should review three specific areas of staff preparedness:

- Flexibility:** ERP systems require new skill sets and often lead to changes in organizational structure and job responsibilities that can be jarring for staff who struggle with change. That doesn't mean workers can't adapt; but a readiness assessment should carefully examine staff flexibility. Surveys are one way to do so, as well as checking performance reviews to assess strengths and weaknesses of those who will be impacted by the implementation plan.
- Education and training:** An important way to help staff prepare for the cultural changes of an ERP implementation is to build a thorough training program to educate them on how to use the new system and how to embrace the change it brings. ERP implementations require training before, during and after implementation to ensure high adoption rates.

•**Project management:** ERP implementation hinges on selecting an effective project leader and team. In most cases, internal employees should lead the project, given their familiarity with the nuances of company operations and processes. An ERP readiness assessment should focus on building a cross-functional team possessing high collaboration skills and familiarity with large IT projects. The project leader should have full executive support to make important decisions about how the project proceeds.

Skills

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Shared Values

In some organizations, the role of shared values in business success feels vague and disconnected from tangible objectives. But regarding ERP implementation, shared values can be critical to success. In the context of ERP, "shared values" refers to the degree to which stakeholders agree on the importance of the implementation to the company's overall goals. Any perceived conflict between the impact of the ERP implementation and the company's overall goals can foment confusion for the project team or ERP users, that can lead to resistance to the project. For example, if a company touts flexible business processes as a goal but its ERP implementation results in inflexible standardized, automated workflows, the disconnect could impact adoption rates.

An ERP readiness assessment can help ensure that goals remain aligned throughout an ERP implementation. Establishing a change management plan during the rollout can also help. Change management focuses on preparing employees for the adjustments in technologies, processes and culture that ERP systems often necessitate. Change management teams build a core communication strategy for the project, providing thorough and consistent messaging across the company about goals, timelines, delays and shifts in strategy.

Choosing project champions is another important way to align shared values with an ERP implementation. An overall project champion should be a high-level executive who is adept at managing teams and large-scale projects. Selecting project champions for key areas within the implementation, such as IT, finance, human resources and sales, can also make a positive difference to system adoption.



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