

Lessons from a failed ERP implementation: The Role of Leadership

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Track: Leadership and Leadership Development

Summary

The opportunities of technology investment to unlock improvements in productivity are widely anticipated, but there is plentiful evidence that this is not always achieved in practice. In this paper we explore one of the key reasons behind this – the role of leadership in shaping the scope of the project, understanding the expected benefits, and leading the actual introduction and embedding into use of the technologies. The role of leadership is critical and forms the focus of this study. We first outline details of a project to develop a mentoring scheme for SME leaders, to understand the challenges of technology investment decision making, and provide support for leaders. The paper then focuses on a case study from the project where an ERP system failed to deliver the anticipated benefits, and was eventually abandoned, which exposes the impact of the way in which the project had been led in the organisation.

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1. Introduction

The adoption of digital technology such as Enterprise Resource Planning (ERP) systems is believed to have a positive impact on firm productivity. However, the relationship between technology adoption and productivity is not simple and realising benefits requires complementary organisational changes to succeed (Brynjolfsson and Hitt, 2000). The actual impact technology adoption has on productivity gains has been the subject of much debate. One view is that productivity gains are not the exclusive result of technology adoption; rather, it is the associated improvements in knowledge, employing higher skilled workers and adopting other allied technologies such as high-speed internet, which had a positive impact on firm productivity (Boothby et al, 2010; Oguz, 2019; Tastan and Gonel, 2020). Other scholars such as Hitt and Brynjolfsson (1996) and Power (1998) have questioned whether technology adoption contributes to firm productivity growth. These scholars find evidence for the "productivity paradox", which is the view that there is no discernible impact of technology on firm productivity. The persistence of this *productivity paradox* (Hitt and Brynjolfsson, 1993) has impacted UK economic growth continuing as the *productivity puzzle* (Barnett et al, 2014) since the 2007-8 financial crisis with technology investments failing to drive expected performance improvements.

This paper examines a case study of a failed ERP implementation within a UK manufacturing organisation. The case study forms part of a funded project to support SME leaders to improve technology investment decision making through a mentoring framework (the project was funded by The Productivity Institute, whose support is gratefully acknowledged). The case study shows that leadership style and quality emerge as contributory factors for the productivity puzzle. The paper seeks to contribute to the literature on ERP implementation challenges and by using ERP acquisition as an example of digital technology investment, it also contributes to a better understanding of the productivity paradox at a firm level. Furthermore, by exploring the role of leadership within ERP implementation, it adds to literature on how leadership decisions influence the dynamics of introducing new technology into the workplace.

1.1 Project overview

The study aims to understand the differences in approach to technology investment between SME organisations with high productivity and organisations with low productivity. The long-term goal is to improve strategic decision-making of SME management in relation to technology investment, enabling related productivity gains to be realised.

We have framed the following research questions:

What are the organisational factors that contribute to technology investment decisions that improve productivity in organisations?

How can this knowledge and expertise be captured and be shared with other SMEs?

Lessons from a failed ERP implementation: The Role of Leadership

The researchers aim to answer the questions by designing a mentoring framework for SMEs in a UK region that has low productivity and needs regional development. They first established a way to select firms based on their productivity and are carefully supervising a well-defined pairing process for the mentors and mentees, which is then assessed. Through a structured mentoring scheme, leaders share insights on overcoming barriers, fostering innovation, utilising data, and more. The project aims to bring together participants based on firm productivity benchmarks, with discussion topics designed to extract actionable best practices, and explore the capability gaps that can inhibit technology investment success. Enhanced leadership acumen in this area can then translate to improved decision making and, ultimately, productivity gains. The structured framework maximizes the established benefits of mentoring relationships - reciprocal learning, relationship-building, and professional development.

2. Literature Review

The acquisition of an ERP system involves considerable financial investment and organisational change with the implementation invariably bringing change and disruption. Poorly designed and managed implementations have seen firms suffer huge financial loss and staff upheaval. Therefore, leaders must develop a strong business case for implementing ERP systems and adopt measures to ensure that the integration, process redesign and financial cost do not outweigh the anticipated benefits. The following literature review covers two strands. It first expands on the advantages and adoption challenges of ERP systems. Second, the role of leaders in ERP implementation is discussed.

2.1 ERP systems and their adoption

An ERP system is an integrated software solution that brings together the essential functions of an organisation. Berchet and Habchi (2005) report that the solution could cover more than twelve functional areas including finance, human resources, manufacturing and materials management amongst others. Spathis and Constantinides (2003) state that ERP systems could improve quality and manufacturing efficiency in an organisation.

Despite the potential benefits of adopting an ERP system, the implementation process is not always easy. Business processes are often reengineered before ERP implementation. However, reengineering invariably affects organisational behaviours and could lead to decreased productivity, at least in the period of transition (Mishra and Mitra, 2016). Moreover, resistance to change arising from employees and other stakeholders in the organisation could lead to poor outcomes or even failed implementations (Shaheen, 2016). In short, the process could be disruptive and lead to the business suffering a loss. This led to researchers' focusing on the behavioural aspects involved in ERP adoption.

2.2 Role of Leadership in ERP implementation

Ke and Wei (2007) contend that for ERP implementation to be successful, the management team in the organisation should adopt a collaborative approach and participative decision making to shape a culture that is conducive to successful implementation. Highlighting the high failure rate of ERP projects, Agha et al (2019) call for effective change management and

Lessons from a failed ERP implementation: The Role of Leadership

a transformational leadership style to ensure project success. In their view, a transformational leadership style combining facets such as "idealised influence, inspirational motivation, intellectual stimulation, and individualised consideration", has a direct positive relationship with successful ERP implementation. Elkhani et al (2014) also highlight the need for adapting leadership styles and advocate the transformational leadership style to ensure that users in the organisation realise the benefits of the ERP system and adopt it without resistance. Still, realisation of expected benefits relies on vision, commitment, and governance from leadership and organisational leaders must foster stakeholder buy-in through involvement, communication, and support.

While researchers have focused on the role of leaders in technology investment decisions (Clemons and Weber, 1990; Ryan et al, 2002; Krusinskas and Vasiliauskaite, 2005; McNiff, 2014), Keating et al (2009) opine that there has not been sufficient research into the process by which ERP investment decisions are made despite the fact that acquiring an ERP system involves huge financial investments and could pose a high risk for the adopting organisation. Based on their review of literature on ERP adoption, Keating et al (2009) report that many projects end in failure because the organisation does not adopt a rigorous evaluation and procurement process. Within SMEs particularly, the lack of expert knowledge of ERP systems (or other digital technologies) may be a barrier to making the right decisions. Christofi et al (2022) recognise that the lack of knowledge about advanced business practices may be a barrier to making the right decisions. Collectively these challenges place great demands on leaders if they are to make good ERP investment decisions and facilitate successful adoption.

3. Case Study: Failed ERP Implementation

The case study focuses on a UK manufacturer located in Greater Manchester that struggled with an ineffective management team failing to meet growth and productivity goals. The new senior leadership group addressed this by overhauling systems and processes through an ERP implementation. However, a flawed vendor selection and change management inhibited adoption, requiring a leadership reassessment to transform investments into bottom-line gains.

The case follows company's journey from a failed technology investment to renewed productivity via leadership adjustments enabling adoption. Initial rollout struggled without governance and change vision. But realigning teams, processes, and communication practices extracted value from existing assets.

Transformational approaches engaging stakeholders mitigated persistent barriers like resistance (Elkhani et al, 2014). Still, rigid perspectives limited exploiting data and systems. Finding technology savvy leaders is equally crucial (Christofi et al, 2022). Partnership programs can bridge skill gaps.

The Technology Investment Puzzle

Despite multimillion-pound investments, the anticipated performance benefits from system integration failed to materialise at the case study company:

Lessons from a failed ERP implementation: The Role of Leadership

- Productivity declined by 8% in the year following rollout vs. goals for 10% improvement
- Revenue fell 2% year-over-year due to order management inefficiencies
- Staff turnover rose by 5% with users citing poor usability and unreliability

Course Correction - Leadership Adjustments for Renewed Technology Success

New Vision and Governance

A new senior management cohort aimed to shift culture, and processes to welcome change were put in place. The Managing Director anchored biweekly leadership meetings to align around efficiency with accountable governance. With adjusted teams and a new vendor support, workflows were reconfigured towards industry best practices. Continued tuning ensured fit-for-purpose utility.

Outcomes: Benefits of Aligned Leadership & Change Approaches were Realised

- Productivity subsequently improved 12% year-over-year post-relaunch
- Profitability rose by 8% from operational streamlining
- Customer satisfaction increased with order fulfillment velocity
- The Managing Director cited smoother adoption and optimization of future innovations

Case Study Findings

The implementation initially failed to bring about any organisational benefits let alone improve productivity. The company has a well-established customer base and a history of innovation. Having gone through a series of organisational changes, the leaders of the firm decided to invest in an ERP system. However, for a variety of the reasons which is mentioned above, the implementation did not go to plan and had to be temporarily halted. The business has resumed the implementation and roll-out with a new technology partner after adapting their business processes and hiring a new implementation manager

Early challenges stemmed from incompatible systems and inefficient teams driving the rollout. Poor documentation and training engagement hindered user uptake of the platform. The Managing Director adjusted their course by changing internal groups and vendors. He also introduced remote work options to access and retain expertise. This enabled change leaders to motivate shop floor users to embrace enhancements.

This analysis provides key principles for SME leaders undertaking complex integrations:

1. Assess vendor alignment to productivity needs

Lessons from a failed ERP implementation: The Role of Leadership

2. Champion changes through vision and motivation
3. Govern progress via accountability metrics
4. Customise platforms to embed best practices
5. Continually tune systems based on adoption data

A mentoring model matching investment decision makers amongst SME heads also cultivates proactive capabilities. By detailing leadership factors inhibiting returns alongside corrective measures, this paper supports leaders to realise the potentials of technology.

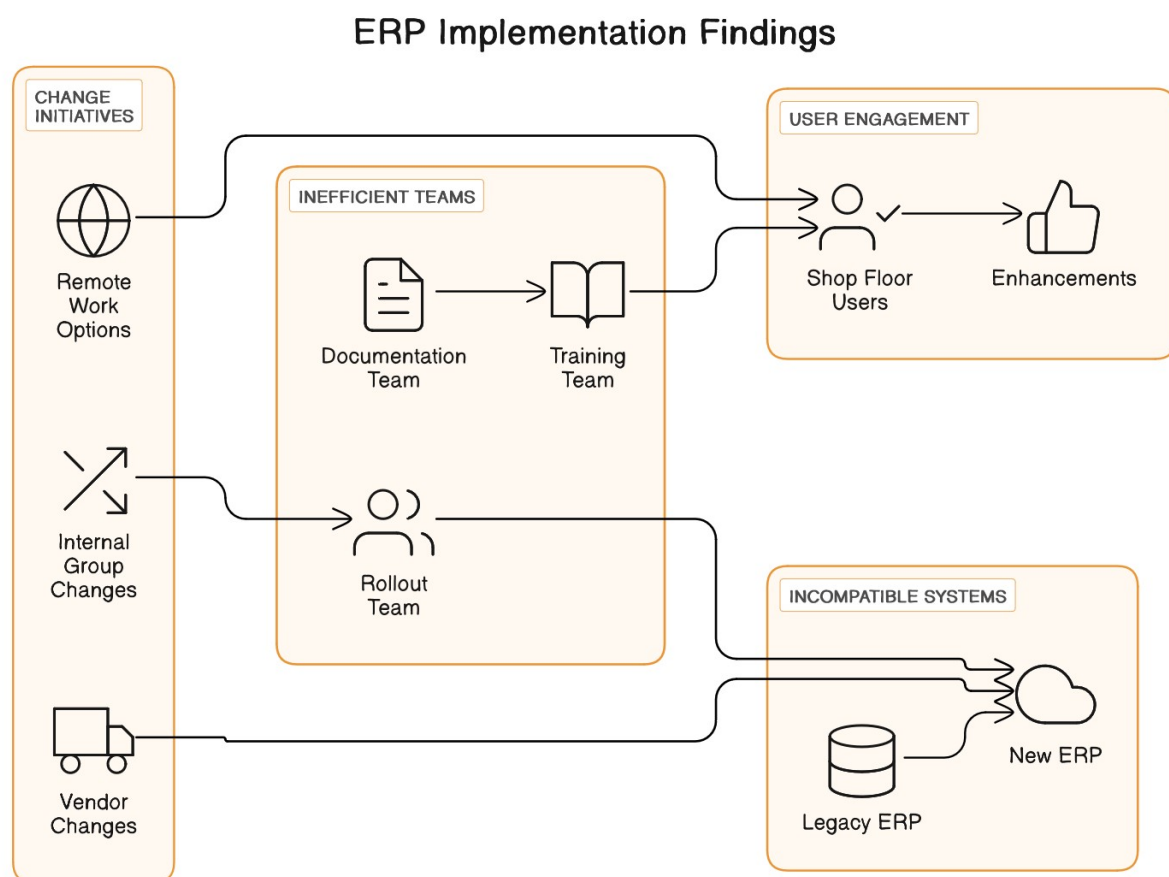


Figure 1: The role of leadership in ERP implementation

4. Conclusion

This paper has explored the dynamics of a failed ERP implementation within a UK manufacturer, to uncover leadership approaches either enabling or restricting technology investment success and productivity gains. The case analysis reveals initial rollout challenges

Lessons from a failed ERP implementation: The Role of Leadership

tied to restrictive mindsets, poor change leadership, and inadequate system-user alignment that manifested in quantified revenue, profit and engagement declines.

This paper presents the narrative of one case study from this mentoring project. At the main conference, results from the wider project will be shared, giving more detailed insights into the productivity and technology investments outcomes and responses to the research questions.

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Lessons from a failed ERP implementation: The Role of Leadership

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