Realizing value through an ERP center of excellence

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The case for an ERP center of excellence

Enterprise resource planning (ERP) implementations over the last decade have generated significant value for companies. Yet only a portion of this value comes from the initial implementation; because of the magnitude and complexity of the effort and the immediate change that results, the rest of the value generally comes later, as the company learns how to take advantage of the new system's capabilities.

Companies should establish a new organization that allows for continuous improvement of the ERP solution and the processes it supports to realize the entire value of their investment. This organization, or center of excellence (COE), forms a crucial link between the business, the ERP solution, and the information technology (IT) department to achieve the company's goals and performance objectives.

Despite the significant value that COEs can provide, many companies struggle to implement them effectively, running up against challenges that include:

- Lack of clarity on the COE's scope and boundaries
- Inability of leadership to overcome a historical IT-centric support model
- Limited accountability due to unclear reporting relationships
- Lack of governance to promote and rationalize enterprise business priorities
- Limited accountability for shared performance improvement metrics
- Failure to retain top talent and knowledge as the ERP implementation ramps down

We detail in this paper what a COE is, discuss why an organization implementing ERP should consider a COE, and explore what other companies have done to address the challenges above.

What Is an ERP COE?

An ERP COE is an organization established to accomplish the following three main objectives:

- Improve business efficiency — Share responsibility with the business for achieving process improvements based on business goals and needs
- Enhance tools and capabilities — Deliver new and improved solutions based on business priorities and approved projects
- Sustain existing ERP solutions — Operate and maintain integrated ERP solutions

The COE contains multiple types of expertise to meet these three objectives, including project management, business process, solution architecture, technical development, quality management, and change and learning experts, among others. Standing up the COE and transitioning resources to it just after the first major ERP launch (in a wave of launches) is typically recommended. This approach maintains continuity of knowledge and experience and provides an organization structure to support COE resources reassigned from the implementation.

The COE needs leadership, accountability, and focus to meet its objectives. Leadership is the most critical factor. The integrated, multifunctional composition of the COE requires strong leadership that will drive cross-functional integration and create a culture that attracts top talent. Companies that establish effective COEs have joint accountability with the business for achieving performance targets. This shared metric responsibility is important to maintain accountability and focus and to get the most benefit out of the ERP system. Also, in most instances, the COE should focus on the ERP space and not seek to replace the IT department or encompass all enterprise solutions. This focus allows the COE to work toward desired results while not creating an organization that becomes too unwieldy to manage.

Why establish a COE?

There are three primary reasons why companies should set up a COE:

- To provide the structure and culture for continuous improvement and benefit realization
- To support the integrated and cross-functional complexity of the ERP solution
- To create a mechanism for ERP knowledge retention and management

Provide the structure and culture for continuous improvement and benefit realization. As we stated at the outset, companies need ERP COEs because original implementations often only achieve a portion of their expected total benefits. For many companies, moving to ERP presents a significant change from siloed legacy systems and processes. The sheer magnitude of change and the learning curve that comes along with it limit the company’s ability to incorporate the change and realize all the benefits at the same time. Post-implementation focus on continuous improvement and benefit achievement, driven by a COE, is critical to getting the most out of the ERP investment.

Support the integrated and cross-functional complexity of the ERP solution. The historical approach of separating IT and business does not work with ERP. This is true for implementations — where cross-functional, integrated teams are used to develop complex solutions — and for maintaining and improving the ERP solution. The ERP solution and work related to the solution will continue to require collaboration between cross-functional business and IT professionals to:

- Analyze and design integrated ERP business solutions
- Deliver process efficiencies that include both technical and business changes
- Provide rapid response to new critical business requirements
- Manage requirements and changes impacting multiple functions
- Represent a single point for ERP collaboration across the business
- Maximize the efficiency of integration across solutions within and outside the COE

The COE will not be effective if it separates IT and business ERP roles as IT departments have done historically. Maintaining a cross-functional, multi-disciplined team similar to the implementation team will allow the COE to continue to deliver enterprise value.

Placing the COE within IT with a direct reporting line to the chief information officer (CIO) is the most-commonly used approach to support integration and cross-functional collaboration. The COE should report directly to the CIO because the CIO is best positioned to drive continuous ERP improvement and value delivery. The CIO leads a function-neutral service organization and owns both the overall system architecture and the technical resources needed to deliver results.

Create a mechanism for ERP knowledge retention and management*.* ERP implementations are typically multiyear efforts. Employees working on the implementation have gained new skills and knowledge related to both the ERP system and the supporting business processes. They have used this knowledge on multiple launches and increased proficiency over time. Some of these resources may return to their home organizations or other IT projects, but others will need to remain so that their knowledge can be leveraged for future improvements and support of the ERP solution. Establishing a COE provides a formal home and structured career path for these resources. The COE provides the optimal vehicle to grow ERP talent organically and to retain business process, IT, and system configuration knowledge gained during the implementation.

How do leading companies establish an effective COE?

There are six primary areas companies focus on to establish an effective COE (see figure below). COE leadership at the executive level is critical to properly structuring these areas. Leadership is followed by a focus on mission, scope definition, organization design, and governance. These areas form the foundation for planning how to attract and retain top business and technical talent needed to run the new organization.

Figure: *Primary areas for establishing an effective COE*

COE leadership

The CIO and COE lead roles are the most critical for an effective COE. The CIO is responsible for driving the COE's mission definition and structure, ensuring business integration at the executive level, and promoting a business-focused vision. The COE lead, reporting directly to the CIO, is responsible for leading the COE organization and for achieving process improvements and savings, managing investment projects, and sustaining the ERP solution.

The CIO: Historically, CIOs led their IT organizations as IT-centric service departments. Today, most CIOs are more business-centric and are responsible for working closely with the business to achieve business goals and meet performance targets together. They also serve as enterprise change agents for large integrated systems and process improvements. The COE's focus and metrics should cascade down from the CIO's focus and metrics, both of which should be driven by the overall business strategy. The CIO's business-centric vision for the COE and ability to partner with the business are both critical factors for COE effectiveness.

The CIO’s role related to the COE includes:

- Ensuring the COE mission and concept of operations are adopted and embraced by the whole company
- Driving definition of shared goals and metrics and alignment with the business
- Ensuring the COE delivers business improvement results
- Interacting regularly with business executive leadership to promote collaboration and cross-functional solutions
- Making sure that investments and projects are properly prioritized across the enterprise
- Governing the overall enterprise IT solution architecture
- Driving integration between ERP solutions and other enterprise solutions

The COE lead: While the CIO plays the primary role in setting strategy and gaining alignment, the COE lead is accountable for executing the strategy and delivering business results. Unlike with historical IT-centric models, business leadership is the primary focus of effective COE leads. A business and process improvement background are more important for a COE lead than technical IT experience. This does not imply that the individual cannot come from within IT; but their business background should be a key criterion to filling the COE lead role. The leadership from the COE lead needs to transcend functional organizations and focus on delivering value to the enterprise.

Effective COE leads perform the following:

- Demonstrate experience and build credibility with senior business leaders
- Promote an enterprise view over a specific-function view
- Lead integration between process and system and across functions and business units
- Deliver business value and process improvements
- Manage large investment projects, performance metrics, and service level agreements (SLAs)
- Interact well with business managers, IT support and infrastructure managers, super-users, and end-users, governance boards, and vendors
- Attract and retain the required business and technical talent
- Develop career paths and progression for COE members
- Manage external vendors and contracts
- Develop and promote understanding of ERP application functionality and processes

For many IT departments, the idea of placing an individual with a strong business background in this role will take some adjustment. Doing so, even though it may run counter to the department’s culture, signals to the business that IT is serious about keeping the COE focused on business and results.

Without this type of leadership from the CIO and COE lead, it will be difficult to realize many of the benefits of ERP. Companies that fail to provide this level of leadership often become technology and system-focused. They struggle to develop real partnerships with the business and are unable to attract talented resources. These companies tend to be isolated by function and fail to leverage ERP to solve strategic enterprise issues.

Establish the COE mission

The COE mission statement articulates the purpose of the COE and has to fit within the overarching business and IT strategies. The mission is fundamental to guiding how the COE is organized and how it operates. As organizational inertia tends to push the COE back into traditional models that separate IT and business in solution development, the COE mission serves as a kind of "north star" for maximizing the return of the ERP solution and driving collaboration. The mission should highlight the COE's business alignment and partnership strategy and include the goals of continuous improvement and ongoing benefit realization. COE scope, organization, governance, success measurements, and required skills will all be influenced by the mission. Executive business leaders must agree with and fully support the mission statement given the tight partnership required between the COE and the business.

Establish the COE scope

Companies that have ERP solutions that cover more than three-quarters of their IT landscape and have very few other IT applications will benefit from creating a large COE that spans all IT business solutions. Companies with a large number of non-ERP, best-of-breed applications should create a COE based on logical subset of ERP-related applications.

Establishing the COE scope helps provide an appropriate balance between breadth of coverage and integration and organizational flexibility to meet the company's needs. COEs with too small a functional footprint cannot make an impact at the enterprise level; COEs with too large a footprint struggle to focus their efforts and create tight integration. Three primary criteria for determining the right size of the COE are:

- Application integration: Applications that are tightly integrated with the ERP solution should be included in the scope. Breaking tightly integrated solutions leads to sub-optimization and redundant staffing.
- Value chain: A logical and sequential subset of the enterprise value chain centered around the ERP solution should be included in the scope. Breaking the value chain creates siloed solutions and limits the COE's ability to make strategic improvements (e.g., shop floor execution should not be separated from production scheduling and inventory management).
- Enterprise span: Solutions that span the enterprise (e.g., information analytics and reporting) should not be in the scope and will often have separate COEs. Consolidating all enterprise solutions into one COE typically dilutes the effectiveness of the COE.

The COE scope will likely evolve over time as the enterprise solution landscape changes. The COE should modify its scope accordingly to maintain a tight solution focus that best serves the business. Establishing a COE roadmap and regular scope reviews that align with major implementations is a good way to anticipate changes and plan for potential growth.

Establish the COE organization design

COE organizations have many similarities with ERP implementation project teams in that they require similar disciplines (i.e., business process, technical, change, and learning) and similar team structures (i.e., process teams, technical teams, project management offices). One critical area where COE design may differ from an ERP project is in reporting relationships. ERP projects are temporary entities and traditionally have ad-hoc or nontraditional reporting relationships. COEs, on the other hand, are permanent sustaining organizations and should have formal and structured reporting relationships. Achieving clear accountability through the reporting structures is an important design consideration when defining the COE. There are two types of reporting structures that can be used for the COE: assignment to the COE (dotted-line reporting) and reporting directly to the COE (solid-line reporting).

Dotted-line reporting relationships present several challenges to clear accountability. The strongest factor influencing accountability is the ability of the direct supervisor to assess performance and determine pay increases. In many matrixed organizations, direct supervisors are only connected to their direct reports by dotted lines and can only informally influence performance ratings. If the solid-line reporting manager does not give sufficient weight to the direct supervisor's input, employees have limited accountability for day-to-day performance. When managers do not have adequate control over their team's performance reviews and pay changes, it limits their ability to set priorities, balance enterprise goals, and deal with performance issues.

Dotted-line models in a COE promote a strong allegiance back to the home functional organizations and weak commitment to the COE's strategic goals and projects. Many process team members in the COE will be responsible for supporting broad enterprise priorities that may have little or no impact on their home process areas. Managing priorities across process areas within a COE can be very difficult if team members' accountability is to a single function.

Solid-line reporting relationships create the most effective top-down accountability. In this model, managers in the COE will be responsible for assessing performance of a multi-disciplined team (technical and functional). The manager that is responsible for setting priorities and assigning tasks has the tools (performance ratings, raises, etc.) to hold employees accountable for carrying out those tasks.

While this model dramatically increases accountability, it brings with it several weaknesses that need to be managed. The increased accountability that comes with solid-line models in a COE can alienate people from their home organizations. They can become too focused on the broader COE goals at the expense of their primary purpose in the COE: providing business process skills and knowledge from their home organization. The formality of a solid-lined model may make it hard for the COE to attract talent, as employees may be worried about leaving the stability of their existing jobs for a tenure with a new organization where new relationships and networks will be needed.

The solid-line reporting structure typically does a better job of defining accountability and aligning goals both within a COE and across the company. The challenges of the solid-line model can be mitigated by developing and communicating clear career paths, establishing rotational assignments for business roles to make sure they stay connected with functions, and developing formal repatriation processes for those resources that go back to the business.

Establish the COE governance model

Although there are many aspects to implementing an effective governance model — including risk management, change controls, etc. — two areas that merit specific focus are: establishing an enterprise COE business council and measuring performance.

Establishing an enterprise COE business council. Having the COE business council established and engaged during the COE design lets companies operationalize the mission and maintain an enterprise view through the transition from implementation to sustainment. The COE business council is made up of executive stakeholders, the CIO, and the COE lead. The council's roles and responsibilities are very similar to those of an executive steering committee overseeing an ERP implementation, including:

- Ensuring adoption of the COE mission
- Ensuring there is an active partnership and collaboration between the COE and the business
- Aligning the goals of the COE with business needs and priorities
- Determining investment prioritization based on the business priorities
- Supporting resource deployment and repatriation
- Reviewing progress against defined shared business metrics
- Arbitrating cross-functional issues

A nonexistent or ineffective COE business council increases the risk that the COE will become technology-centric, functionally siloed, and focused on tactical issues rather than strategic enterprise solutions.

Establishing performance metrics. Historically, IT-centric support organizations focused on system performance metrics (i.e., the health of the system). Because of the integrated and strategic nature of ERP systems, COEs need to focus on business metrics as well as system performance metrics to increase the likelihood that business improvement objectives align and the return on the ERP investment is being achieved.

Business performance metrics and their associated targets are defined by the business; yet it is the joint responsibility of the COE and the business to meet these targets in areas where the ERP capabilities impact results. Business performance metrics should be an input into the definition and prioritization of the COE initiatives. The CIO and COE lead's evaluation and compensation, at a minimum, should be partially based on achieving these metrics.

Attract and retain COE talent

No matter how compelling the mission, how strong the governance process, and how meaningful the metrics identified, the COE will only be as effective as its people. Staffing the COE with top talent is essential. COEs face the challenge of having to attract and develop both permanent and rotational resources. For rotational resources, the COE and the business share the additional burden of managing the repatriation process smoothly. Four areas are key to attracting, retaining, and repatriating employees.

Internal brand: The internal brand represents the perception of the COE in the company. It is a significant factor in determining whether employees want to join the COE and remain in it. The brand should emphasize that although the organization sits formally in IT, it is not an IT-maintenance organization. Early process improvement wins and individual success stories (e.g., "Tom got his LSS black belt on a COE project") should be publicized. Employees who have returned to the business will have the greatest influence on the COE's internal brand. Regardless of what the pamphlets say, it is what the people say that will determine how the organization is perceived.

Competency models: Competency models identify a specific set of skills and behaviors required for effective COE candidates. The COE should have separate competency models for business and technology resources. Clearly articulated requirements make it easier to select the right candidates and provide them with a view of the areas they can expect to develop in their rotations. Carefully chosen candidates with the right competencies are more likely to be engaged and effective, increasing the chance that they will stick around and help build a compelling internal brand.

Employee development: Employee development describes the mechanisms, both formal and informal (e.g., training, mentorship, stretch assignments, etc.), that improve employee capabilities. For business employees, the COE rotation should be viewed as a stretch assignment and a development opportunity that includes formal and informal learning opportunities. For permanent IT employees, development opportunities should support competencies required to advance into management or specialist roles.

Career paths: Effective career paths are flexible and form a lattice, enabling employees to choose assignments that lead in the directions they want to go. In some cases, paths ultimately move upward into management, but IT employees have historically shown interest in technical specialist roles without a management component. Business employees need to understand how a rotation on the COE fits into their career paths. IT employees need to understand the career path within the COE. The COE should not be viewed as a dead-end or an assignment that will require candidates to find jobs at its conclusion; rather, as a meaningful career in itself or as a key developmental opportunity that can lead to advancement.

Additional consideration: Using application management services as part of the COE design

CIOs may look at what is required to set up an ERP COE and determine that outsourcing application management is an effective solution to lower costs and secure the right ERP skills. Application management services (AMS) is an outsourcing arrangement that historically focused on technology or application management in order to minimize IT costs, reduce the need to recruit and maintain specialized skill sets, improve resource utilization (i.e., address partial FTE usage for specialized skills), and apply industry-standard support and maintenance processes. Yet AMS is now evolving to include a broader strategic and business focus on top of the traditional technology focus, thereby placing more emphasis on creating business value.

During the design of a COE organization, leaders should figure out which competencies should be maintained internally and which can be performed through an AMS partnership. (For instance, some companies may outsource all development and change management, but keep solution configuration as an internal core competency to meet business requirements more effectively.) Once leadership has determined what to keep in house and where AMS will provide the most benefit, they can then use AMS as a way to fill talent gaps — obtaining top talent while minimizing recruiting, training, and other overhead expenses. AMS resources can be used not only to meet baseline maintenance needs, but also as a flexible staffing pool that can ramp up and down as new, incremental ERP projects are executed. Defining the AMS strategy in conjunction with the COE organization design provides COE leaders with additional delivery resource flexibility and control.

The result of an increased emphasis on business value has been the evolution of AMS to include a broader lifecycle focus. AMS now encompasses everything from development and implementation activities to change management, solution integration, quality management, and performance monitoring. AMS contracts historically have included SLAs focused on the technical support services provided (e.g., calls answered in a certain time, issues resolved in a timely manner, application up-time, etc.). SLAs should and will remain table stakes to play on the AMS field. But a better approach is to shift to a focus on business results and outcomes, in addition to SLAs. That requires an AMS delivery model that is designed from the ground up to uncover value opportunities and put in place improvements throughout every phase of the application lifecycle. Incentives that foster partnering on business improvement recommendations and solutions that meaningfully improve business performance are critical.

Using AMS to help improve business value will change the type of AMS talent required and services sought by the company. The business improvement focus of the COE will require additional senior or specialized resources to help drive improvement and maintain alignment with enterprise objectives. AMS evaluation considerations, including internal talent supply and demand, types of resources available to the company, and breadth of services offered should be key elements of selecting a potential AMS partner.

While AMS allows the COE to focus on ERP strategy, business alignment, and performance metrics, it should not be viewed as a substitute for the COE or an attempt to transfer ERP ownership. Using AMS as part of the ERP support solution requires a talented and focused COE team. This team, while smaller and more focused when using AMS, will still require highly skilled ERP resources to manage the AMS work according to business needs, drive business improvement, and facilitate collaboration between business and technical resources.

Conclusion

An ERP implementation is a significant investment and, for most companies, is just the starting point for achieving the desired benefits. The COE provides the organizational focus and level of integration needed to fully realize the benefits that the ERP solution allows.

Recruiting the right COE leadership is absolutely critical to achieving the desired results of the COE. Effective COE leadership will drive a clear mission with a defined scope, implement an organizational structure that is accountable through clear reporting relationships, and deploy a governance model that holds the business and IT jointly accountable for performance improvement.

Attracting and retaining the right talent is just as important. The value proposition for being part of the COE must be communicated clearly and repeatedly. And a formal competency model and process for repatriation back into the business are key to making sure people understand the impact to their career trajectories.

Finally, companies that leverage AMS as part of their organization strategy should engage in a partnership where the AMS provider has shared responsibility for business improvement.

The challenges to standing up a COE are tough and often complex in companies that have a history of operating in a different way. But companies that address these challenges can more effectively realize the value of their significant investment in ERP.

Amy Wolbeck is a principal with Deloitte Consulting LLP and is based in the Minneapolis office. Amy serves in the aerospace and defense industry and specializes in value delivery from ERP package implementations. She has over 15 years of experience analyzing, designing, developing, and managing SAP implementations for global manufacturing companies. She can be reached at awolbeck@deloitte.com.

David Jantzen is a director with Deloitte Consulting LLP and is based in the Atlanta office. He serves in the consumer and industrial products industry and specializes in managing and delivering value from large supply chain SAP implementations. He has more than 25 years of IT project management experience, focusing solely on SAP transformation projects for the past 15 years. David can be reached at djantzen@deloitte.com.

Jared Larrabee is a manager with Deloitte Consulting LLP and is based in the Houston office. He served in the Strategy & Operations practice in the energy industry and specializes in assisting clients at the intersection of business and technology. He has managed process improvement, technical implementation, portfolio management, and strategy projects and has over 10 years of industry and consulting experience. Jared can be reached at jlarrabee@deloitte.com.

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