



THE ROAD TO BOTTOM LINE BOOST WITH EFFECTIVE GLOBAL ERP

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THE ROAD TO BOTTOM LINE BOOST WITH EFFECTIVE GLOBAL ERP



UNPACK YOUR CORPORATE DNA INTO AN ERP

Your challenge: “The company needs to improve the financial management in order to get a better overview of the situation in local markets. Therefore, we want centralized cash flow, standardized reporting and common, harmonized workflows. We want to introduce a single business management system (ERP system) to resolve unused synergies in the areas of inter-company integration and to achieve a better control of collaboration within and outside our organization. We want you to lead the project “. You have just been given the responsibility to implement the desired international ERP project. What do you do?

This scenario is common for many companies because the markets (and therefore the actors in the markets) have become increasingly global, feeding a need for increased central control of international corporate finance. After more than 25 years marked by the expansion of decentralized ERP systems, the rapid pace of technological and economic development (among other things in the field of broadband) has made it possible for companies to achieve an increased central control and therefore being in a better position to compete globally.

There are many internal and external factors that stimulate the need for a standardized solution for an organization’s foreign subsidiaries. In addition, there is a general need for better, faster and more accurate information because the requirements for cost management and process optimization is constantly increasing due to the increasing global competition.

ERP implementations in subsidiaries require a high degree of mobility from the head office, as well as from its leading suppliers and there are many factors that are very different in an international ERP project compared to a local project. Compared to local ERP projects, international projects require much greater preparation and understanding of local requirements, and stronger communication and management of the project in order to reap the benefits from a harmonized implementation of accounting systems across borders.

Harmonization is a key word, because it creates potential operational synergies after implementation of optimized and consistent processes. Faster, more flexible consolidation and reporting are often named as essential arguments for starting an ERP project, but when you dive a little deeper into the reasoning, there is often an unspoken need to gain control over the

company's foreign subsidiaries. Looking back at the period from 2001-2003 and even since 2009, many companies have had to learn to adapt to an uncertain world economy – and in order to do that, having control over the company's resources is vital.

In some organizations the simplified reality was and can still be that the headquarters make all decisions regarding the future of the subsidiaries based on information that the local management has entered into a spreadsheet. When there is a common ERP system for all affiliates, there is a much better possibility for comparing accurate information across countries and companies.

In order for a successful ERP implementation to live on in the years after deployment, it requires a centralized management of the total solution - regardless of whether the company has chosen a central or de-central solution strategy. And a basic prerequisite for creating a successful project is that the headquarters shows interest in the relevant local requirements and makes an effort to integrate these in the solution. It is often such differences that make the company competitive locally and it is therefore something that needs to be analyzed and implemented carefully to ensure that the local subsidiaries are competitive, achieve good results and increase their bottom line.

WHERE DOES THE BOTTOM LINE LIFT COME FROM?

There is a great potential in most international companies to achieve greater operational efficiency, better customer service, lower transaction costs and savings around reporting and consolidation by deploying an integrated ERP system.

The most common objectives are the following:

- **Simpler, faster and more accurate reporting from subsidiaries**
- **Enhanced consolidation and Business Intelligence**
- **Implementation of unified and optimized processes across borders**
- **Updated information to make business-critical decisions more qualified**
- **New functionality in the software to implement tasks more efficiently**
- **Elimination of manual re-entries by integrating enterprise systems**
- **Anchoring of a performance behavior in the organization that supports the company's strategy**
- **Lower operating costs**

ERP - THE BACKBONE OF THE COMPANY'S INTERNATIONALIZATION

Open borders, removal of customs barriers, much better and cheaper infrastructure and communication, internet and IP telephony have made the world much more available, much easier to reach and simpler to integrate into the company.

As a starting point, it is very positive that the world has opened up and offers countless opportunities whether you are a newly established company or a mature organization and well-established on a domestic market. It can provide access to new markets, it can provide a basis to start or move production or service in other countries, that offer more favorable conditions, and can be cheaper, better, or closer to your target audience.

A modern ERP system is designed to create a structure of information that is important for a company and ensure that the relevant information is readily available to the persons in a company's value chain.

ERP is at the same time, the flexible framework that supports the company's infrastructure, business model and processes. A modern ERP system integrates or often also includes BI, CRM, Supply Chain Management, Big Data management, e-Business, etc. and is the backbone of the company's operations and transactions.

ERP can also structure and facilitate a company's internationalization process, if you choose the right ERP system and design it to support the company's international ambitions. "The right ERP system" in an international context is a system designed for international use and that therefore includes localizations (language and local legislative requirements) in the countries where the company expects to establish themselves. It is also important that it includes local payroll modules, bank-modules, etc. that can be integrated with the ERP system and moreover that it supports the local business practices.

At the company's headquarters level, it is also important that the ERP system allows for consolidation of data so that, for example, the Finance Department can monitor the company's international results on an ongoing basis.

So regardless of whether the company is looking at starting new operations abroad or has bought a foreign company, having the right ERP solution allows to immediately deploy the entire enterprise infrastructure, business model and best practice in the country concerned. It gives a tremendous strength for a company to be able to implement "its own DNA" to new subsidiaries growing abroad. It minimizes risks while saving costs.

While selecting a relevant international ERP system is vital, it is of course also essential to design it so that it can support the company's international ambitions. For example, when an organization is building its chart of accounts and its reporting routines the future international organization and growth should be taken into account.

When a company has invested time and money in a good ERP platform, it has a fully developed tool on the shelf that can be immediately put into use when a new international opportunity turns out. If, at the same time, the solution has been maintained with the upgrades provided by the provider, you have a platform that is up-to-date, which contains the latest functionality, business practices and legislation across all regions!

Increased competition: Internationalization or globalization also creates a number of challenges such as increased competition on both end-product/ services and resources. Many companies will be challenged on their home market and have recognized the need to implement an internationalization process if they are to survive on long term. But how do you go ahead with it?

Visibility: Another challenge is the greater visibility due to open borders and the open information sharing that takes place today. Decision makers are far more knowledgeable today than ever before. It has professionalized the markets, increased availability, increased competition and it is vital that market players can find and apply timely and relevant information.

Peace Of Mind: A third challenge is the speed with which the world changes. Where you once making large solid, long-term plans, many leaders today have accepted that this makes no sense. The Canadian management guru Roger Martin names this "long term planning behavior: "The strategic planning big lie" as it creates a false sense of security!

There is nothing to suggest that the above trends will diminish, on the contrary there are indications that this development will escalate in the coming years. Structure is a key-word in a world of many possibilities! Ability to rapidly adapt is also key. This makes the ability to find, handle, process and use information centrally and critical for businesses! And it will create another type of "security", by making the company agile and able to respond and react adequately to a changing world. To create the previously mentioned security today you need to have a structure that allows for quick changeovers and enables the company to react immediately to changes!

FIND COMMON DENOMINATORS WITHIN THE COMPANY

The ability to access local data is the prerequisite for exploiting common denominators across an organization and thereby achieve optimization gains. The price to access local data depends on whether the company's processes are harmonized across borders. The higher the degree of harmonization of business processes in an organization, the lower the price to access local data.

If a given global process is the most effective way to accomplish a task, both the central and the local organization benefit from the process. If the global process adds extra complexity locally, having a single process that covers all parts of your organization's needs, it will primarily benefit the central organization. Should you decide to deploy a central process that increases local complexity, there is a risk that you will meet local resistance to change which decreases your chances of succeeding with the ERP project. A local process which cannot be used anywhere else in the organization has only value locally. Local processes often meet central resistance, because these local uniquenesses challenge the foundation and motivation for having an ERP project, namely the desire for a higher degree of process harmonization across borders.

Harmonization is therefore about finding "process denominators" from a defined process value concept. If there are many common denominators, there is basis for a centrally managed ERP system, and if it is not the case, one should opt for a more decentralized and thus more flexible model.

WHAT IS BEST: BEST PRACTICE OR BEST FIT?

Many fall into the "Best Practice-trap". A Best Practice-trap is the situation where a company adopts a given process based on the belief that it is the best way to carry out a number of concrete actions. Unfortunately, the qualification of the process was inadequate so it later in the process also proves to be inadequate – and therefore only a "Best Known Practice". This is an expensive situation. It creates mistrust in the project and takes time to straighten up. If we extend the concept of Best Practice for "Best Global Practice" there are additional factors taken into account. Some processes are more suitable for deployment across borders than others. We distinguish between "Best Practice" and "Best Fit".

“Best practice” is a process which is chosen as the best way to implement a given action on, whereas a “Best Fit” process is what works best in the given situation. Internally-oriented processes, for example, administrative processes, will often be able to fit in a “Best Practice” scenario while market-driven processes often require a “Best Fit” approach, since these are processes that typically falls outside the company’s control area:

- **INTERNAL PROCESSES: BEST PRACTICE**
- **EXTERNAL PROCESSES: BEST FIT**

A good rule of thumb is that if it is not possible to formalize a process under either as “Best Practice” or “Best Fit”, then eliminate it.

Best Practices require global process owners, which is a major challenge for most organizations. A global process owner is accountable for defining the most suitable processes to implement in the company, and it is also the global process owner who is responsible for continuously optimizing and anchoring the process.

Think about whether your company is willing and able to delegate this responsibility and decision-making power to the global process owners, and if so, which organization and processes are needed to ensure the anchoring of this responsibility. If processes ownership and leadership is missing, internal fights and resistance will occur, the benefits of the ERP system will be reduced, a gap will be created between the different parts of the organization and you may lose business.

INTERNATIONAL ERP STRATEGY

Implementing an ERP system across borders requires a certain degree of process harmonization. And the better the company succeed with this harmonization, the better the new common ERP will be able to exploit the synergies brought by a common ERP system.

Harmonization of processes and data are important parameters in any ERP-project, but defining a strategy for a new system is a lot more comprehensive.

The strategy should make sure that there is consistency between:

- **Strategic, tactical, and operational business goals (business and IT)**
- **Local and global processes**
- **Various business needs in different companies**
- **Other IT systems/platforms**
- **Local and international industry-specific legislation**
- **Local and global data**
- **Central and de-central resources**

You may have a firm ambition to achieve full harmonization, but in practice there might be limitations to what is possible to achieve. Some of the typical trade-offs could be:

- **Need for a local account plan with a specific structure**
- **Formatting of external documents**
- **Electronic payments via bank (always)**
- **HR & Payroll (always)**
- **Infrastructure**
- **Functionality to be included**
- **Local resources (internal and external)**
- **Other local formal requirements (typically within tax, VAT, authorities reporting requirements)**

HARMONIZATION IS NOT ALWAYS AS SIMPLE AS IT SEEMS

Banks in different countries previously used their own file format to receive information about a company's electronic payments. From February 2014 SEPA has been implemented as a general standard for payments between the countries of the European Union. But in the rest of the world banks are still using different formats. This means that the organization has a need for local processes and integrations to the banking systems in those countries in which payments shall be done through bank integration. In addition to that, the local payment traditions in some countries could challenge the possibility to have a harmonized payment process. In the United States, you must be able to make payments with checks, in Spain Exchange and promissory notes (debt securities) are often used in transactions. This payment method is locally called Cartera. Most often, however, most ERP local requirements are about taxes, fees and reports to the state.

LOCAL COUNTRY IMPLEMENTATIONS

There are a number of typical pitfalls, which specifically relates to ERP implementations in subsidiaries. The pitfalls we mention here are based on the experience accumulated over the years in working with more than 300 international companies.

- **The Head Office defines processes for subsidiaries**
- **Underestimation of local requirements**
- **Lack of readiness from the main office/subsidiary**
- **A lack of cooperation from subsidiaries**
- **Roles and responsibilities are not clearly defined**

It may seem surprising that there is not a single direct IT-related pitfall in the top 5. In other words, we do not see technology as among the most frequent reasons why ERP implementations across borders are being challenged. In our experience, it is mainly in the organizational and procedural challenges that are the greatest risks for ERP projects. In the end, it may be that machines after all are easier to control than humans and cultures.

THE HEAD OFFICE DEFINES PROCESSES FOR SUBSIDIARIES

In almost all type of organizations international ERP projects are a top-down decision originating from the head office. And because the main office often is the entity in an organization that has the best overview of the subsidiaries, it often happens that a person or a group of persons from the head office is delegated to define “best practice” processes and the functional delimitation of the ERP system.

In reality, however it is rarely a lack of overview that is challenging. It is the knowledge and understanding of the small details. The challenges and surprises do not lay in the main processes, they are always hidden in the details. And it is often the details that, despite their apparent insignificance, can challenge even the best planned ERP project.

There are different methods to tackle this type of challenges. The most obvious is to involve local, future power users. It should preferably be the persons who have the potential to be local change agents, who are able to understand and defend the company's best practice processes from the pressure that inevitably will come from some of the other users who consciously or unconsciously resist change and do the work "as they have always done".

In order to qualify for the role as local agent of change, the person should:

- **Be good at formalizing and anchoring a process**
- **Have in-depth knowledge of the local sub**
- **Be at least Middle Manager or be a professionally respected colleague**
- **Be a good at communicating**

LOCAL REQUIREMENTS MAY BE A PREREQUISITE FOR LOCAL BUSINESS

Global organizations that seem well harmonized from the outside, can operate very differently when they are acting on local markets. In the Coca Colas museum in Atlanta you can explore over 60 different soft drinks, broken down according to geographical origin. No need to draw further parallels to Coca Cola to see that there will always be additional local requirements for an ERP-system in the subsidiaries. There are local regulatory requirements for financial statements, accounting practices and market requirements that must be met in order to do business in the local market. These "localizations" will be discussed later in this article.

There are always sub-specific local requirements that are underestimated, or that are not known, when the project is initiated. A business area can have local characteristics, products and services that are unique, and is adapted to the local market. It can also be cultural requirements and local standards that are as natural locally as to say "Hello". An example may be that, at a local market needs to provide customer rebates in the form of "trade marketing" or bonus agreements. The local office needs these discount types in order to remain competitive in the local market. The difficulty about local requirements is to determine whether or not a requirement is necessary to comply with, or whether it is a historical reminiscence.

Local knowledge and expertise are essential ingredients in the definition of local requirements, but the timing of the involvement of local stakeholders also has a significant impact on the success of the project. By involving local stakeholders too early in the ERP project you risk to complexify the company's overall processes and solutions, and too late involvement could create unhappy local users who consciously or unconsciously work against the project goals. A good way is to involve the local users to review the solution description and make comments instead of letting them participate in the initial functional definition.

Regardless of the approach you choose, the local requirements need to be identified, processed and defined before the system is implemented locally.

THE RELATIONSHIP BETWEEN HEAD OFFICE AND SUBSIDIARY

A lecturer at an ERP Conference once said:

“An ERP implementation is a more complex and more extensive task than a heart transplant, and it requires careful planning and preparation of both the patient and the surgeon”.

Suppliers of ERP-systems are expected to perform a defined task and they have time set aside for the project. As a customer this means an increase in project-related work. Next to the project-related work, there is also the normal workday for the project team, which must also be taken care of. This increased work pressure is often underestimated. It means that the quality of decisions may decrease during the project, with the risk of seeing problems emerge later.

A project plan should include all activities in a project – whether it's internal or external activities – so that you can make a realistic readiness assessment of your own organization, which will also include an analysis of the general understanding of the purpose, objectives, resources and expectations for the project and process. A premature start will have negative consequences throughout the entire project.

A competent local manager will make objections to the decisions that do not support the local business. It is necessary to have a respectful approach to the local subsidiaries and their requirements, even if the project is centrally managed, and there is a desire to get the project completed “as quickly as possible”. Management must continuously assess whether the necessary resources are allocated in order to achieve success goals. Those who are protesting today are those who will have to be the supporters and evangelists of the system tomorrow.

It is becoming more and more common to apply agile and iterative methods to complete the projects faster. It makes the results visible and motivates the project participants to embark on the next phase of the ERP project. In general, it is more manageable for users when the individual activities are well-designed and linked with realistic milestones.

MAKE SURE YOU KNOW WHO IS DOING WHAT

It is essential that the tasks and responsibilities of the various components of the project are clearly defined and agreed upon. It is also the case in a regular national ERP project, but if the company wants to preserve the advantages of having a uniform platform, it also requires that it is maintained as a uniform platform, where there is strict control of extensions and customizations to the solution.

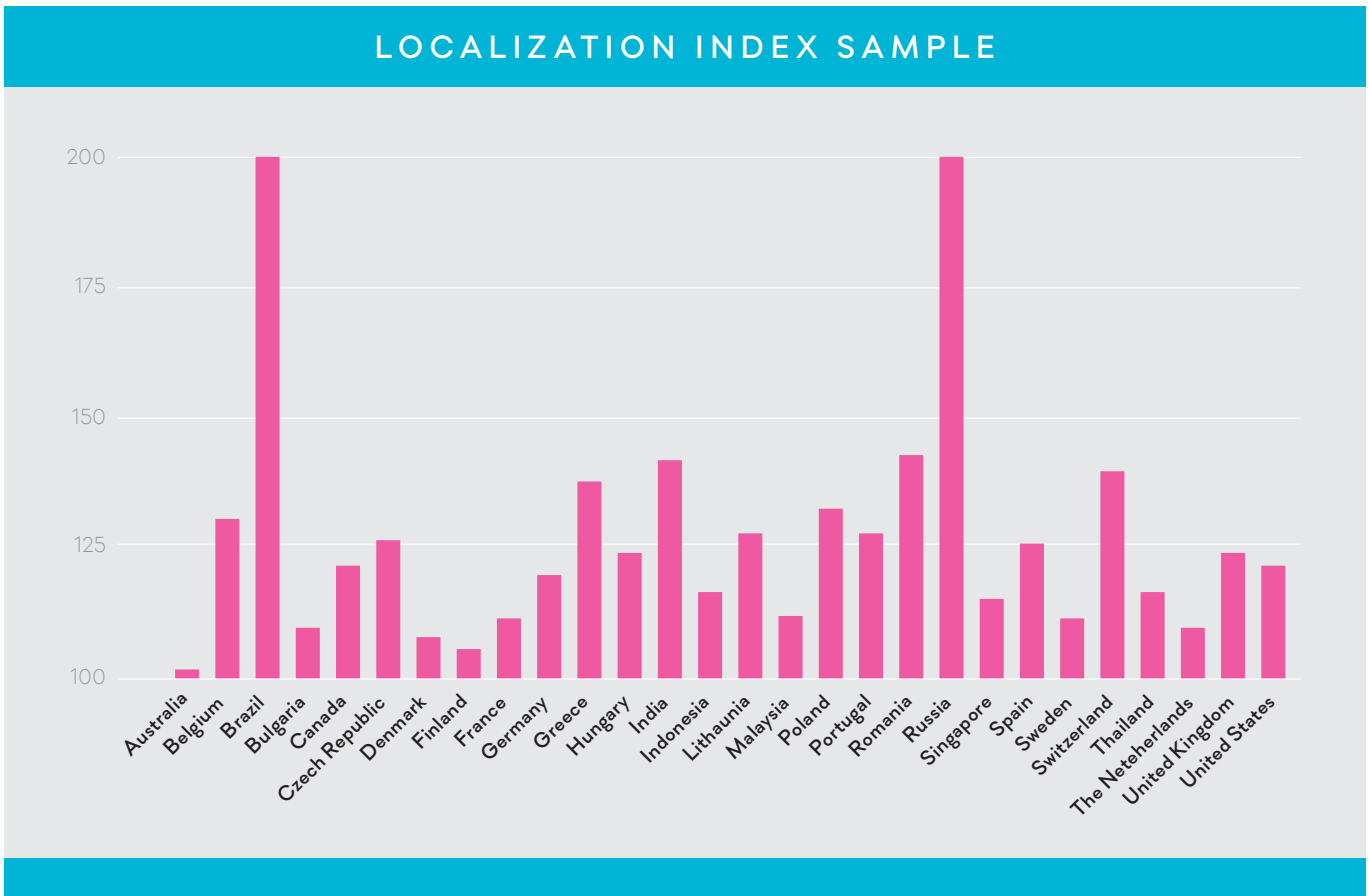
In order to get a good flow, it is necessary that the solution strategy is explained and reconciled with the subsidiaries, as well as it is important to clearly define how to handle, approve and implement change requests. There are many more stakeholders in a project covering several countries, and if roles and responsibilities are not clearly defined, it can slow down the progress of the project and be the cause of misunderstandings and increased costs along the way.

It is a good idea to carry out a stakeholder analysis and describe the communication and responsibilities that will be applicable in the ERP project.

LOCAL REQUIREMENTS: LOCALIZATIONS

There are really big challenges associated with implementing ERP systems across borders. There are the basic regulatory requirements around, among other things, VAT, taxes, regulatory requirements. There are various options for internet access, language can be a barrier and finally culture plays a major role – or rather the difference between different cultures – also within the same company.

We have analyzed the degree of diversity in regulatory requirements between different countries. We have set the global common denominator (Localization Index) as index 100.



CROSS LOCALIZATION INDEX COMPARED TO DENMARK

If a country has a localization Index of 110 and another country an Index of 105, the cross-localization index of the two countries will be at 115 (100 + 10 + 5). The Cross Localization Index shows how much gap there is between the two countries' local legislative requirements in a business management solution perspective. In the above graph Denmark has a Cross Localization Index of 109, meaning that our Cross Localization Index in relation to, for example, Turkey is 130.

We have a subjective limit around index 125. If the index is under 125 it is simple while indexes over 125 are complex.

If the solution includes several countries you can use the Cross Localization Index to calculate the multiple Cross Localization Index between the countries calculated.

Example. A company wants to implement a core ERP system in Denmark, Germany and Malaysia. We want to calculate the multiple cross localization index to assess the complexity of the task.

100 +	Denmark	Germany	Malaysia
Denmark	0	29	23
Germany	-	0	34
Malaysia	-	-	0

Cross Localization Index = 186, so a complex task

ASSESSMENT OF IMPLEMENTATION COMPLEXITY

You can also work with the index to define the complexity of local implementations. See below an example of how a scorecard can be built: (a company can build its own model to fit the specific situation)

- **Language:** English-speaking resources locally. Can they work in English?
- **IT infrastructure:** accessibility, Internet access, power, risk of theft, etc. (0-3)
- **Localization:** complexity of localization (0-3)
- **Transparency:** we know what is going on, is there a local partner we can trust (0-5)
- **Culture:** we work with the same efficiency and standard (0-5)

Area/Country	Denmark	Germany	Malaysia
Language	0	1	1
IT Infrastructure	0	0	2
Localization	0	1	1
Transparency	0	0	0
Culture	0	0	1
Total (Risk)	0	2	5

MANAGEMENT OF CHANGE REQUESTS

When there are local differences, there will also be a need to raise change requests along the way in the project. When an ERP implementation is highly dependent on the consistency of processes, there is a need to analyse the consequences of a desired change before it is approved and implemented, since mistakes can result in significant costs and a loss in productivity. Suppose that a country wants that their salespeople should be able to manually give a discount on a sales order to match local competition, while the other countries should always maintains a fixed predetermined customer/item discount structure. In this case, you should carefully consider:

- **Should we be able to block the functionality for some users and is it per country or individually?**
- **What if the need arises in other countries later on, how can the functionality be reused?**
- **What will it cost to implement now and in future updates?**
- **Will this change require an update of training materials and other documentation?**
- **Will it require additional user training and support organization?**
- **Are we talking about a global or local process, and who is the owner of the process?**
- **Does the company have a specific policy about pricing that should be accessed/consulted?**
- **It is a necessary requirement, what is the consequence of failing to comply to it?**
- **What is the consequence of enabling manual discounts?**
- **How do we secure against manual error in pricing – for example, that DB is not below a certain level?**

The complexity increases when there are several countries and thus several stakeholders involved in the process. Users may find that it takes longer to get changes implemented, especially if they have been used to working with a local supplier who has acted more quickly to change requests.

It is beneficial to define a change process and a strategy for handling change requests. It helps to manage expectations about future wishes, it provides the ability to communicate more effectively and at the same time, it is the model to ensure the evaluation and prioritization of the various change requests.

10 TIPS FOR ERP ACROSS BORDERS

1. ESTABLISH AN IMPROVEMENT CULTURE:

The shorter the phases of a project can be divided into, the greater is the chance of success. Prioritize what is most important first, and always have a future phase planned, where you can park unresolved tasks or change requests. This way you will be able to maintain a direction without losing momentum.

2. FIRST YOU UNDERSTAND, THEN YOU SIMPLIFY:

If you automate a process which is complex, or that you do not fully understand, you will get a complex system that you don't understand. That is why you should follow this flow: create understanding, simplify, automate. You cannot build systems before your processes are optimized. In other words, start in good time.

3. THINK QUALITY AND OWNERSHIP TOGETHER:

Quality assurance outside a process is overhead. Quality assurance incorporated in a process is proactivity. Processes that have built-in quality assurance provide the best basis for innovation and consistency in implementation.

4. DO NOT UNDERESTIMATE LOCAL CONDITIONS:

Whenever you assume something about ERP systems across borders, assume you're wrong. The surprises are always hidden in the details, not in the main processes. Never underestimate local complexity and make sure to involve local stakeholders.

5. CLEAN UP PROCESSES:

The implementation of a new system is hard work against habitual thinking and old action patterns. Some deviations are necessary, others are simply a reminiscence from previous workflows. Clean up the processes and requirements. If they are not formalized, then eliminate them. It is a much bigger task to implement and embed a global process, than it is to define it.

6. MAKE SURE THAT THE PERSPECTIVE IS ANCHORED:

Most users automatically think functionality when a new system is evaluated. They are thinking; how can I make my current work in the new system. It can result in the optimization of parts of processes, but more often there is greater value in an evaluation against a future state scenario.

7. CHANGE MANAGEMENT:

There will always be changes. Therefore, think of change as something good, as something that creates new possibilities, translate the need for change to a language the various stakeholders understand and you will gain greater organisational support for the change.

8. INTERNATIONAL IMPLEMENTATIONS HAVE GREATER POTENTIAL:

Increased structure and fixed processes are not necessarily the right model for all. A company can run on principles and values alone without a single formalized process. But when it comes to international ERP implementations structure is necessary to guarantee a bottom line lift. And because many processes are repeatable from one country to another, you can achieve great synergies by having an appropriate structure that can be reused widely within the organization.

9. SURPRISES LIE IN THE DETAILS:

In practice, the plan never fits 100%. There will always be ongoing fine-tuning of the project caused by internal or external changes. Plans are only worth something if they can be adapted to the changed conditions for success. And changes within a project may actually be something you continuously are searching for in order to be able to identify and realize new potentials and synergies, but make sure there is a formalized process for managing change requests, so you ensure a realistic process and functional definition of the project.

10. IT IS A COLLABORATION:

You cannot just enter into a fixed-price contract with a supplier and transfer all responsibility to them. An agreement alone cannot guard the company against mistakes – such agreements can, in some cases, turn out to have the opposite effect. A good and professional communication is far more productive for the project.

WHAT'S NEXT?

The PIPOL logo is displayed in white, bold, uppercase letters on a solid blue square background. The letter 'O' in 'POL' is stylized with a horizontal line through its center.

If you would like to hear more about how to use ERP to increase your bottom line, contact us at MarketingTeam@pipol.com

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