State and Local Government ERP Implementation Risks

Manage these risk domains to increase implementation confidence and likelihood of project success.

Managing a successful Enterprise Resource Planning (ERP) implementation requires a thorough understanding of the business case, the ability to select the right vendor and implementation partner, and a quantifiable return on investment. It is composed of multiple critical phases, including data migration, integration, testing, end-user training, and go-live support. Given the complexity of many public sector organizations and current outdated systems in need of immediate replacement, many public sector ERP implementations flounder. According to Gartner, 75% of all ERP implementations fail and 50% of public sector implementation fail (Note: Public Sector implementations are about 20% of all ERP implementations annually). Common failure points include a lack of executive leadership, insufficient planning, budget overruns, lack of change management support, improper staff training, and excessive customizations. Hence, risk management and controls can no longer be an afterthought.

State and local government ERP failures can be wide-reaching and impact entire departments, municipal functions, or even the public. Therefore, it is critical to have a clear understanding of factors that increase the likelihood of project failure, insights into why projects fail, early identification strategies for project risks, and the implementation of active risk response and mitigation strategies.

For state and local governments, citizen engagement, providing public services, and securing data are crucial aspects of everyday business. To effectively manage risk, public sector organizations need a comprehensive understanding of risks across all project dimensions and early insights into areas that pose the most significant risk to the ERP implementation success. **These risk dimensions are:**

Strategy

The implementation strategy is based on a clear, unified future-state vision supported by stakeholders. Program benefits are clearly defined and aligned with organizational priorities. Protocols monitor and anticipate the impact of changing priorities and external market factors.

Risk & Controls

Impact on existing reporting and statutory / regulatory controls, including opportunities to enhance the current control environment, have been applied and designed into the system. Risk management is integrated into the overall delivery of the program.

Risk Dimensions — Strategy, Governance & PMO, Business Adoption, Technology, Risk & Controls
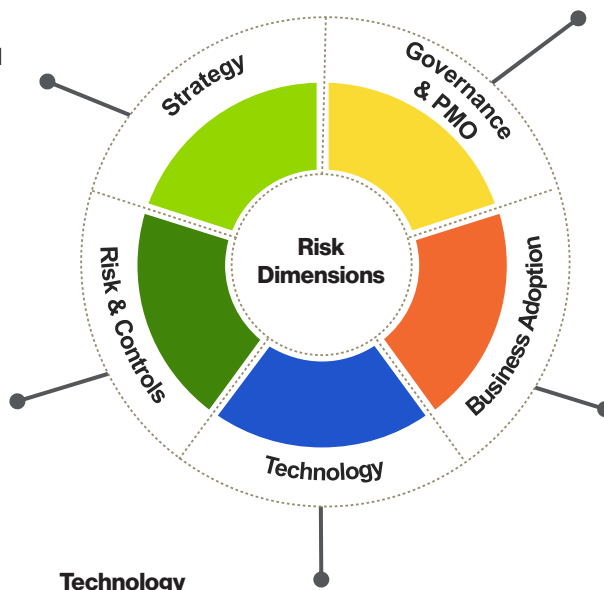
Governance & Project Management Office (PMO)

The governance structure ensures that decisions are made at the right level at the right time. The solution is delivered within the planned timeline, on budget, and to the agreed specifications.

Business Adoption

Impact of people and process changes required to support the new solution is communicated and understood, maximizing effectiveness, and enabling continuous improvement from the very beginning.

Technology

Data and infrastructure supporting the new solution are thoroughly validated, establishing an environment that can be efficiently supported immediately after go-live.

Responding to Risks

The following is a summary of each risk dimension and viable mitigations.

1. Strategy

Practical ERP implementations require a clearly defined and communicated vision and strategy. To ensure an ERP project is delivered on time, within budget, and in a manner that advances the state and local government's goals and objectives, an effective implementation strategy is critical. This strategy should demonstrate a unified future-state vision and articulate a comprehensive understanding of how the solution will deliver value to the organization. If stakeholders are not aligned on a clear future-state vision and project implementation roadmap, then it can lead to cost overruns, delays, and the implementation of a system that fails to meet the needs of its users.

Key strategy risk themes include:

- **Undefined Vision, Strategy, and Stakeholders:** ERP initiatives too often pay little heed to strategy, with stakeholders managing projects purely according to budget and schedule targets.

- **Inability to Adapt to Changing End-User Needs:** ERP projects frequently fail to consider the business end-users' needs and instead focus on delivering a solution that meets pre-specified requirements, technology trends, or organizational agendas.

- **Poorly Managed Project Scope:** Many departments in public sector organizations work in silos and have different expectations from a new system implementation project. Without a clear future-state vision, ERP projects experience scope creep as stakeholders adjust the project scope to meet changing requirements.

- **Poor Understanding of Value Drivers:** A lack of understanding of how the ERP solution can add value makes it difficult to realize benefits and manage expectations.

Viable solutions to mitigate these risk themes include:

- **Align Stakeholders:** Ensure all stakeholders have a clear understanding of the future-state goal, how the project will deliver value to the organization, and the implementation roadmap.

- **Measure Impact:** Use realistic, measurable key performance indicators or goals to measure the new system's benefits.

- **Plan:** Establish essential departmental resources to assist with supervising, testing, and training on the new system, while also developing an implementation roadmap that is realistic and attainable.

2. Governance and PMO

State and local entities need a fit-for-purpose ERP governance structure that ensures decisions are made at the right level at the right time. It is critical that the PMO established to carry out the ERP implementation excels at core project-management practices, such as short delivery cycles and rigorous quality checks.

If the project team (i.e., implementation vendor, project mangagement vendor, organization staff) does not have a clear escalation path for critical decisions and removing impediments, it can cause excessive delays or other implementation problems.

Key governance and PMO risk themes include:

- **Ineffective Project Governance:** A vague understanding of who is responsible for making decisions makes it difficult for issues to be addressed in a timely manner.

- **Immature Program Management:** A lack of program management experience and infrastructure can lead to delays in escalating risks or roadblocks to the appropriate parties. Immature program management can lead to confusion surrounding roles, responsibilities, and methods.

- **Lacking Vendor Strategy and Management:** The vendor's best interests are not necessarily aligned with the project's goals. The vendor is focused on executing against a contract instead of the end users or project needs.

- **Ineffective and Dysfunctional Project Team:** Project teams are impeded by organizational structures; they typically rely heavily on technical resources and are not cross-functional.

Viable solutions to mitigate these risk themes include:

- **Develop Clear Processes:** Develop pathways for communicating risks and escalating issues to the project management team. This team should be empowered to make quick decisions to address any risks or issues.

- **Leverage Best and Leading Practices:** Whenever possible, leverage best and leading practices to create a sense of familiarity and minimize barriers to engagement. Tailor practices that are suitable to the organization's culture and methods.

- **Delineate Roles and Responsibilities:** To minimize confusion amongst team members and promote accountability within the project team, all team members should have a clearly defined role within the project team. This also helps ensure expectations are aligned.

3. Business Adoption

An ERP implementation initiative is a high-risk, high-profile, and high-value endeavor that will be heavily scrutinized. How well state and local entities prepare for the change and how it impacts both employees and citizens will be significant predictors of success.

Confusion can prevail over purpose and commitment if project team members and end users do not understand the project objectives. This increases resistance to change and reduces the likelihood of success.

Key business adoption risk themes include:

- **Under-Estimating Change Scope:** As with most significant ERP undertakings, success frequently requires more resources and time than initially expected.

- **Strategic Shortcomings and Poor Communications:** A lack of a shared understanding of why the organization wants to change, expected outcome(s), and whom it will impact can dramatically affect the ability of the organization to prepare for adoption.

- **Unprepared Operations and Management:** A lack of planning on transitioning to the future-state operating model may lead to staff being unprepared to use the new system upon go-live.

- **Delayed Culture and Change Management:** Often, organizational change management (OCM) is an afterthought and is not implemented until the ERP project implementation is well underway.

Viable solutions to mitigate these integrated risk themes include:

- **Define the Scope of Change:** Take adequate time to define the scope and resources needed to ensure the change is successful.

- **Communicate the Vision:** Start communicating early and often on why the change is needed and the risks to the organization if they do not make the transformation. Communications should be focused on heavily impacted departments.

- **Define the Need for Change:** Develop a clear future state and outcomes the organization will realize from the project.

- **Implement OCM Before ERP Implementation:** Develop a phased plan to introduce changes over time rather than overloading the organization with massive changes on the day of go-live.
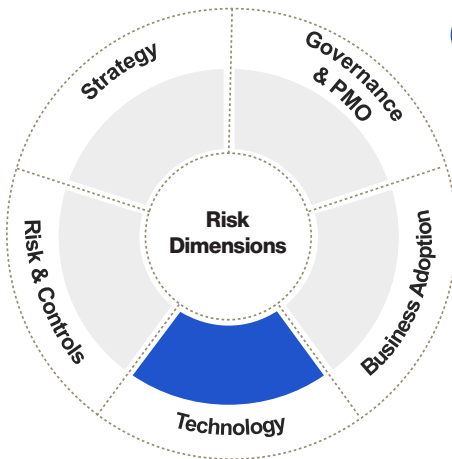
4. **Technology**

Given the wide range of users leveraging the ERP platform, the implemented solution must put the user experience and needs front and center while integrating seamlessly into the state and local entity's existing technology portfolio and workflow. This can only be done by selecting a solution that meets the entity's needs, holding vendors accountable, and conducting sufficient testing to minimize post-implementation issues.

When acquiring a new system, procurement departments must avoid the intrigue of flashy new features and select a system that best meets the end-users' needs. It is important to note, the vendor and the procurement department's interests are not necessarily aligned. Additionally, if the system is not rigorously tested before go-live, post-implementation issues can erode the end users' confidence in the new system.

Key technology risk themes include:

- **Not Considering Customer Experience or Value:** ERP projects frequently fail to consider how the user will use the system, instead implementing a technically elegant, over-simplified, or over-engineered solution.

- **Misaligned Technology and Data Standards:** State and local governments often overlook how an ERP system integrates into their current, frequently disparate technology portfolios, along with considering how data can be shared and governed across that portfolio.

- **Insufficient Testing:** There are costs and labor involved in performing ERP system testing, and, often, this testing is minimized to save costs or speed up delivery.

- **Data Conversion Efforts Underestimated:** Legacy systems have different database systems, varying levels of transactional details, and typically require data cleansing and clean-up. Data conversion is often planned late, with insufficient resources and time allocated.

Viable solutions to mitigate these integrated risk themes include:

- **Define the Customer:** Focus on defining the end user, using the solution, and customer needs. This is crucial in a state and local government setting where the internal staff, as well as citizens, are important customers.

- **Evaluate Vendor Options:** Determine the vendor that holistically meets the defined organizational need, instead of selecting the lowest cost or easily implemented solution. Similarly important is the management of the vendor to ensure sufficient oversight.

- **Develop a Shared Testing Plan:** Develop a testing plan that shares the testing responsibilities between the technical and business teams. It is also best to test early and often to ensure the functionality of the system and build confidence.

- **Plan Data Conversions Early:** Perform planning and execution activities early in the project and continuously execute activities (cleansing, data preparation, reconciliation, etc.) throughout the project.

5. Risk and Controls

Given the highly integrated data and systems with any modern ERP solutions, it is critical to manage risks effectively. Sufficient controls must be in place to deliver, operate, and maintain a secure, reliable, well-controlled integrated system.

ERP systems carry inherent risks, and without a well-designed control infrastructure, these risks can give rise to both financial and operational issues for the organization. The implementation, configuration, and maintenance of internal controls are crucial for managing these systems and their data.

Key controls risk themes include:

- **Unauthorized Access to Users:** One challenge to the integrity of ERP systems is granting inappropriate access to users. As many state and local entities have confidential or privileged information, preventing unauthorized access is critical. Adopting a user-based access model instead of a role-based access model is a common cause of this issue.

- **Process:** Not assigning roles to business processes, but individual users or jobs can threaten business operations.

- **Regulatory / Statutory Compliance:** A lack of planning with evolving compliance needs can be a growing concern, especially for entities with specific auditing and compliance requirements (e.g., National Institute of Standards and Technology, Payment Card Industry, Criminal Justice Information Services).

- **Data Quality:** Irregular data quality reviews or lack of verification of interfaces could lead to security breaches.

- **Project Risk:** Risks are poorly managed for projects that have significant financial investments and far-reaching organizational impacts.

Viable solutions to mitigate these integrated risk themes include:

- **Identify Risks:** Identify risks and controls and integrate them into the system design and configuration as a mitigation strategy.

- **Automating Manual Processes:** Leverage the automation and artificial intelligence potential of modern ERP systems and other business platforms to automate processes and institute controls that minimize errors and benefit business performance.

- **Segregation of Duties:** Creating rules and policies around user access and carefully granting user authorizations for restricted transactions is imperative for ensuring the system's security.

- **Conducting an Independent Risk Assessment:** Periodic reviews can be designed to assure a standardized risk framework. The assessment should be focused on forward-looking risk identification and evaluation to provide confidence when progressing to the next stage of the project.

These risks will manifest at various stages during the project. Your project can start to organize and categorize project risks and issues using these domains. Go beyond the risk log and identify executive-level risk champions to own each domain. Make it a priority to regularly evaluate the risks, not just with the core project team, but with the executive steering committee and executive sponsor. Actively manage risk and make each member of the project team responsible to identify and help manage risks.

As more state and local governments look to modernize their ERP platforms by leveraging cloud-based solutions, the risks of moving to these innovative solutions include costs, deployment strategies, user adoption, change management, and many more. Hence, ERP vendors and implementation partners need to ensure that they construct a transparent roadmap of their implementation plan, discuss the complexities, costs, and risks associated with relevant stakeholders in advance, and put forth a practical future-state vision for their clients. Finally, public sector clients need to conduct a thorough current-state assessment of their systems and processes to understand their readiness to move to an unfamiliar environment.

How Can Guidehouse Help?

Guidehouse is uniquely capable, as it can leverage its deep experience in state and local consulting with its hands-on, results-oriented ERP implementation knowledge. We have a team of highly qualified consultants and ERP experts who have worked closely with various state and local governments to design and conduct detailed current-state assessments of the client needs across a comprehensive set of dimensions. Guidehouse has provided clients with key findings, current state capabilities fit-gap analyses, future-state visions, and roadmaps that have led to actionable recommendations and identified/mitigated risks associated with each implementation option.

Our thorough understanding of the public sector landscape, the challenges of legacy public-sector systems, and specific knowledge of various ERP solutions possessed by our subject matter experts can help clients seamlessly navigate and choose an ERP solution that is best suited to their strategic objectives. Guidehouse has successfully implemented ERP solutions, established PMOs, stood up governance structures, and conducted change management activities for our public sector clients. Our approach is human-centered at its core and seeks to analyze, re-examine, and optimize based on key touch points with users and stakeholders while maintaining an eye toward future technology changes and business needs.

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Guidehouse is a leading global provider of consulting services to the public sector and commercial markets, with broad capabilities in management, technology, and risk consulting. By combining our public and private sector expertise, we help clients address their most complex challenges and navigate significant regulatory pressures, focusing on transformational change, business resiliency, and technology-driven innovation. Across a range of advisory, consulting, outsourcing, and digital services, we create scalable, innovative solutions that help our clients outwit complexity and position them for future growth and success. The company has more than 16,500 professionals in over 55 locations globally. Guidehouse is a Veritas Capital portfolio company, led by seasoned professionals with proven and diverse expertise in traditional and emerging technologies, markets, and agenda-setting issues driving national and global economies. For more information, please visit **Guidehouse.com.**

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