

ENTERPRISE RESOURCE PLANNING

Preamble:

Enterprise Resource Planning is the latest high end solution, information technology has lent to business application. The ERP solutions seek to streamline and integrate operation processes and information flows in the company to synergize the resources of an organization namely men, material, money and machine through information. Initially implementation of an ERP package was possible only for very large Multi National Companies and Infrastructure Companies due to high cost involved. Today many companies in India have gone in for implementation of ERP and it is expected in the near future that 60% of the companies will be implementing one or the other ERP packages since this will become a must for gaining competitive advantage.

In the present business environment, role of a Chartered Accountant is considered to be very important and inevitable. Chartered Accountants as managers, consultants, advisors or auditors play an important role in controlling, managing, and supporting the business. As the business needs are very complex in nature, the implementation of an ERP package needs Chartered Accountants with functional skills for evaluation, Business Process Reengineering (BPR), Mapping of Business requirements, Report designing, ensuring Business controls, customization of the package for the specific requirements, Documentation etc., Sooner or later a Chartered Accountant without the knowledge of ERP may feel as if he is a fish out of the bowl. By this article it is attempted to highlight various aspects of ERP and specific areas of ERP that are relevant for Chartered Accountants.

Evolution of ERP

In the ever growing business environment the following demands are placed on the industry :

- Aggressive Cost control initiatives
- Need to analyze costs / revenues on a product or customer basis
- Flexibility to respond to changing business requirements
- More informed management decision making
- Changes in ways of doing business
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Difficulty in getting accurate data, timely information and improper interface of the complex natured business functions have been identified as the hurdles in the

growth of any business. Time and again depending upon the velocity of the growing business needs, one or the other applications and planning systems have been introduced into the business world for crossing these hurdles and for achieving the required growth. They are:

- Management Information Systems (MIS)
- Integrated Information Systems (IIS)
- Executive Information Systems (EIS)
- Corporate Information Systems (CIS)
- Enterprise Wide Systems (EWS)
- Material Resource Planning (MRP)
- Manufacturing Resource Planning (MRP II)
- Money Resource Planning (MRP III)

The latest planning tool added to the above list is Enterprise Resource Planning.

NEED FOR ERP

Most organizations across the world have realized that in a rapidly changing environment, it is impossible to create and maintain a custom designed software package which will cater to all their requirements and also be completely up-to-date. Realizing the requirement of user organizations some of the leading software companies have designed Enterprise Resource Planning software which will offer an integrated software solution to all the functions of an organization.

Features of ERP

Some of the major features of ERP and what ERP can do for the business system are as below:

- ERP facilitates company-wide Integrated Information System covering all functional areas like Manufacturing, Selling and distribution, Payables, Receivables, Inventory, Accounts, Human resources, Purchases etc.,
- ERP performs core Corporate activities and increases customer service and thereby augmenting the Corporate Image.
- ERP bridges the information gap across the organization.
- ERP provides for complete integration of Systems not only across the departments in a company but also across the companies under the same management.
- ERP is the only solution for better Project Management.
- ERP allows automatic introduction of latest technologies like Electronic Fund Transfer(EFT), Electronic Data Interchange(EDI), Internet, Intranet, Video conferencing, E-Commerce etc.
- ERP eliminates the most of the business problems like Material shortages, Productivity enhancements, Customer service, Cash Management, Inventory problems, Quality problems, Prompt delivery etc.,
- ERP not only addresses the current requirements of the company but also provides the opportunity of continually improving and refining business processes.
- ERP provides business intelligence tools like Decision Support Systems (DSS), Executive Information System (EIS), Reporting, Data Mining and Early Warning Systems (Robots) for enabling people to make better decisions and thus improve their business processes

Components of ERP

To enable the easy handling of the system the ERP has been divided into the following Core subsystems:

- Sales and Marketing
- Master Scheduling
- Material Requirement Planning
- Capacity Requirement Planning
- Bill of Materials
- Purchasing
- Shop floor control
- Accounts Payable/Receivable
- Logistics
- Asset Management
- Financial Accounting

Suppliers of ERP

There are many numbers of ERP suppliers who are very active in the market. Some of the companies offering renowned international ERP products include:

- Baan
- CODA
- D&B
- IBM
- JD Edwards
- Marcarn
- Oracle
- Peoplesoft
- Platinum
- Ramco
- SAP
- SMI
- Software 2000
- EVOLVE

BPR and ERP

Business Process Reengineering is a pre-requisite for going ahead with a powerful planning tool, ERP. An in depth BPR study has to be done before taking up ERP. Business Process Reengineering brings out deficiencies of the existing system and attempts to maximize productivity through restructuring and re-organizing the human resources as well as divisions and departments in the organization

Business Process Engineering evolves the following Steps:

- Study the current system
- Design and develop new systems
- Define Process, organization structure and procedure
- Develop customize the software
- Train people
- Implement new system

The principle followed for BRP may be defined as USA principle(Understand, Simplify Automate)

i.e., Understanding the existing practices, Simplifying the Processes and Automate the Process. Various tools used for this principle are charted below:

Understand Simplify Automate
Diagramming Eliminating EDI
Story-boarding Combining ERP
Brain storming Rearranging

Selection of ERP

Once the BPR is completed the next task is to evaluate and select a suitable package for implementation. Evaluation of the right ERP package is considered as more crucial step. Evaluation and selection involves:

- checking whether all functional aspects of the Business are duly covered
- checking whether all the business functions and processes are fully integrated
- checking whether all the latest IT trends are covered
- checking whether the vendor has customizing and implementing capabilities
- checking whether the business can absorb the cost
- checking whether the ROI is optimum

Implementation of ERP

Implementing an ERP package has to be done on a phased manner. Step by step method of implementing will yield a better result than big-bang introduction. The total time required for successfully implementing an ERP package will be anything between 18 and 24 months. The normal steps involved in implementation of an ERP are as below:

- Project Planning
- Business & Operational analysis including Gap analysis
- Business Process Reengineering
- Installation and configuration
- Project team training
- Business Requirement mapping
- Module configuration
- System interfaces
- Data conversion
- Custom Documentation
- End user training
- Acceptance testing
- Post implementation/Audit support

Benefits of ERP

The benefits accruing to any business enterprise on account of implementing are unlimited. According to the companies like NIKE, DHL, Tektronix, Fujitsu, Millipore, Sun Microsystems, following are some of the benefits they achieved by implementing ERP packages:

- Gives Accounts Payable personnel increased control of invoicing and payment processing and thereby boosting their productivity and eliminating their reliance on computer personnel for these operations.
- Reduce paper documents by providing on-line formats for quickly entering and retrieving information.
- Improves timeliness of information by permitting, posting daily instead of monthly.

- Greater accuracy of information with detailed content, better presentation, fully satisfactory for the Auditors.
- Improved Cost Control
- Faster response and follow up on customers
- More efficient cash collection, say, material reduction in delay in payments by customers.
- Better monitoring and quicker resolution of queries.
- Enables quick response to change in business operations and market conditions.
- Helps to achieve competitive advantage by improving its business process.
- Improves supply-demand linkage with remote locations and branches in different countries.
- Provides a unified customer database usable by all applications.
- Improves International operations by supporting a variety of tax structures, invoicing schemes, multiple currencies, multiple period accounting and languages.
- Improves information access and management throughout the enterprise.

CA and ERP

A pertinent question one Chartered Accountant may ask is "How does an ERP matter for me?". As mentioned earlier the role of a Chartered Accountant in any business either as a Consultant, Auditor, Advisor or Manager is inevitable.

CA as a Consultant:

Implementation of ERP solutions is one of the largest drivers of growth in the consultancy business. The introduction of such a large and complex software like ERP, which enables an organisation to integrate their manufacturing, finance and marketing operations at all levels, is in itself a challenge, since it calls for technical and functional skills and a change in user mindsets. And therein comes a role of a consultant. CA as a Consultant will play a major role in implementation of an ERP solution.

CA as an auditor:

Assuming a situation where the client has implemented an ERP solution. If the auditor is aware of ERP he can make use of the features of ERP and thereby:

- ensures that the internal controls and checks are consistently maintained.
- ensures that the provisions of Income tax or other fiscal laws are not ignored e.g., one can control the payment of cash in excess of Rs.10000 for expenses or Rs.20000 as loans and advances, The TDS deductions and payments are automated etc.,
- ensures that the Accounting Standards are consistently followed across the company.
- Improves the quality of the reporting.

CA as an Advisor:

As an advisor to a company a Chartered Accountant can participate in various stages of ERP implementation. It goes without saying that advising without the knowledge of the current trends and modern management techniques will prove to be a wrong advice and may have a negative impact on the growth of the client.

CA as a Manager:

By now one should be knowing that the ERP is a high end sophisticated software solution that reduces the pressure and work load of the Managers and provides accurate, timely information for taking appropriate business decisions. Chartered accountants as managers with knowledge of ERP will be able to achieve their targets and goals by proper implementation of ERP system in their organization. In fact Managers are expected to translate the business rules and requirements for Mapping them into ERP software. Managers as representatives of the Organization have to coordinate with Vendors, Consultants, Auditors etc., for a proper implementation of ERP package.

Conclusion

The growing information needs of an enterprise make it imperative to improve or replace old systems. Especially under the present Indian business environment, where the globalization has been initiated, full convertibility is coined, Infrastructure Projects are nearing completion, and it is expected that the whole business system will undergo a major shift. Thus by being a proficient ERP consultant, Chartered Accountants will prove their commitment to the business world and modern management.