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Enterprise Resource Planning Systems:
Requirements Analysis, Evaluation and System Choice -
ERP Decision Analysis Using a Game Theory Approach

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Abstract

Historically, using legacy software, each major branch of a company could have their own system that met their particular needs. Unlike, legacy software, enterprise resource planning (ERP) software requires that the same software be implemented in each branch or office. As a result, now branches must somehow come to agreement on software choices. A number of firms have employed ranking mechanisms where branches or their representatives effectively vote, via their rankings, to determine which software is used. Unfortunately, this can mean the introduction of gaming behavior as branches try to get the software that they think best meets their particular needs. The purpose of this paper is to review some of those games and investigate the impact of certain behaviors in the ERP requirements analysis process, ERP evaluation process and with ERP system choice, based in the context of two real world cases.

Enterprise Resource Planning Systems Requirements Analysis, Evaluation and System Choice - A Game Theory Approach

1. Introduction

This paper investigates the game playing behavior that can manifest itself in the requirements analysis process, evaluation process and choice of enterprise resource planning (ERP) software, based on three real world cases and two sets of requirements analysis software. Unlike legacy software that could be chosen to meet local needs, ERP software ultimately requires potentially disparate branches or offices of the same firm to choose the same software. Since some software differentially impacts each branch, branches have incentive to execute behavior that can result in the choice of software that they think best fits their individual branch needs.

Historically, since computing has been done locally, different branches of firms have been free to choose the software that best met their needs. As a result, legacy software was chosen to conform to local requirements. However, with global competition, and the ability to link together different branches, firms have increasingly turned to enterprise resource planning systems to link the branches together. Accordingly, in contrast to legacy systems, at some point, different branches and offices must come to agreement in their choice of an ERP system. Getting agreement may take a dictatorial central choice or branches or companies may vote on it. For example, recently ABB Group announced that SAP is the preferred software choice for the thousand companies that are a part of it. Alternatively, other firms such as Chesapeake, discussed below, apparently vote on different choices.

The findings in this paper are important since they provide insights as to the types of game playing that can take place in ERP selection. These insights can be critical for project management and possible mitigation of their impact.

ERP Software

Although, perhaps the best known ERP software is SAP, within ERP software there are the "big five" vendors, that include BAAN, JD Edwards, PeopleSoft, Oracle, and SAP and. Different ERP systems are seen has having different strengths and weaknesses, thus appealing to different groups differentially.

Typically, ERP software includes purchasing, production, financial accounting, management accounting, materials handling, treasury functions and a wide range of other activities. ERP software is process-based, rather than function-based. Further, ERP systems integrate those processes across different branches or offices of the company. Accordingly, much of the benefit of ERP systems is in their ability to integrate a firm.

Although ERP systems facilitate integration and provide substantial overall benefit to a particular firm, the individual branches may benefit differentially from different ERP systems, or from an ERP altogether. As a result, in some settings, firms may find themselves divided between different branches as to which ERP system they should chose.

Outline of this Paper

This paper proceeds in the following manner. Section 2 briefly summarizes three companies that have done requirements analysis, evaluated and chosen between different ERP systems. Those cases are used to illustrate various potential games that can be played. Sections 3 summarizes some requirements analysis software and characteristics of that software, such as a single feature can "kill the deal." Section 4 investigates ERP requirements analysis and resulting game playing behaviors, such as making use of "deal killing" requirements or altering their priorities on requirements in order to influence system choice. Sections 5 and 6 analyze how firms evaluate different ERP systems and some of the game playing behaviors that can result, such as changing branch evaluation weights to influence the system choice. Section 7 investigates some issues that can occur in system choice through agenda setting in different branches, in order influence system choice. Section 8 investigates "stacking the deck," i.e., choosing members of the evaluation team to get the answer that you are in search of. Finally, section 9 briefly

summarizes the paper, its contributions and reviews some potential extensions.

2. Sample Firm Cases ¹

In this paper, three cases are used to illustrate the gaming concepts inherent in choosing between three different ERP systems: Chesapeake Display & Packaging, Financial Services (an alias) and Timberjack. This section provides a general overview of the three companies and their requirements analysis. .

Chesapeake

Chesapeake Corporation (CC) is a multidivisional company, that includes Chesapeake Display and Packaging (CD&P) and Chesapeake Packaging Corporation (CPC). As seen in the companies names, Chesapeake focuses on packaging and displays. Cheimis (1999), Vice President and Chief Information Officer for CD&P, set up a five step process for choosing enterprise software for CC:

1. Form small blue ribbon team
2. Contact vendors to arrange demos
3. Ask the vendor for proof of rapid implementation capability
4. Vote
5. Make the Choice, based on the vote.

The group of voters spanned each of the two participating divisions and Chesapeake Corporate. The voters and the result of the voting is summarized in table 1.

Table 1

Software Preferences at Chesapeake

Who	Division/Position	Best Functional Fit			Best Implementation Personnel		
		BAAN	JDE	SSA	BAAN	JDE	SSA
Gary Cheimis	CD&P VP CIO3	2	1	2	3	1	
Elvis Brannam	CD&P IS Mgr	2	3	1	3	2	1
Linda Witter	CD&P Sales Support	3	2	1	3	2	1
Ted Samoits	CD&P Prodtm Mgr	2	3	1	2	3	1
Jack Kirk	CD&P VP CFO	2	3	1	2	3	1
John Polgar	CD&P Sr. Analyst	2	3	1	2	3	1
Carl Wilcox	CD&P Design Adm	3	2	1	3	2	1
Richard Hastings	CD&P Oper Mgr	3	2	1	3	2	1
Mary Gene Simmions	CC Dir Shrd Svc	2	3	1	2	3	1
Dick Fuss	CC Analyst	3	3	1	2	3	1
Randy Graham	CC Internal Audit	1	3	2	1	3	2
Bill Tolley	CC CFO	2	3	1	2	3	1
David Spencer	CPC Engr Mgr	2	3	1	2	3	1
Ann Walsh	CPC IS Mgr	2	3	1	2	3	1

The software with the highest average vote is chosen. In this case it is clear that the vote yields a choice between BAAN and J.D. Edwards, and ultimately, J.D. Edwards.

Financial Services, Inc. ²

"Financial Services" (FS) is an alias name for a large financial services firm. FS choose and implemented SAP in the mid 1990's. FS ultimately choose between SAP and Oracle. FS had five branches that were to use the same software. FS issued a request for proposals with a list of over 1200 requirements that they had determine were important. Features were assigned a number from 1 to 5 indicating the importance of the feature, where 5 meant that the 5 had to be in the software or that the software could be easily modified to accommodate that feature. For each requirement FS decided to either have it be required for the software (a "deal killer" if the software could not accommodate) or a requirement rated for its importance. A single branch could indicate that lack of a requirement was a deal killer, resulting in choice of alternative software. Beyond, critical, deal killing requirements, the importance of each requirement's was rated as high (3), medium (2) or low (1). For each branch impacted by the requirement, consensus was sought by averaging across the branches.

Timberjack (Romanov 1998)

Timberjack is a company faced with the choice of the same ERP system in two locations, one in the United States (USA) and one in Sweden. Each of the two offices has substantially different needs, and the software differentially meets the needs of the two branches. Timberjack first issued a request for proposals with a list of over 1,000 requirements. Timberjack developed over 1,000 individual requirements for modules including sales order processing, a dealer system, sales analysis, inventory management, warehousing, accounting and master file data. Requirements were categorized as either "must," "comply," "enhance," "custom," and "N/A." After receiving the proposals, Timberjack created a short list, where the USA branch was given Oracle and Computer and Associates to evaluate, whereas the Swedish branch was given the Lawson and QAD software to evaluate. Ultimately, the USA branch chose Oracle and the Swedes chose QAD, and then the two branches had to make the final choice. The Timberjack case provides an excellent illustration of some of the most critical issues that can be involved in multiple branch ERP system choice.

3. Requirements Analysis for ERP Systems

Requirements analysis for ERP can range from a small general set of requirements to a long list of requirements, detailing specific data capabilities, e.g., whether the human resources data captures country of citizenship. It can include what subsystems are supposed to interact with what other subsystems and a range of other issues. Given the set of requirements, each is then rated for its importance. This rating approach is well-known. In particular, there are firms that specialize in software that can be used to generate the importance ranking of different requirements and compare the requirements to existing software. However, integrating the views of multiple branches has not been addressed by these developers. Typically, it is assumed that firms can specify the priority or importance of each requirement, a priori.

Excelo Corporation

Excelo Corporation (2000, p. 1), provides a questionnaire that can be used to help select software. The questionnaire has 1850 questions that are scored between 1 to 9, in order to facilitate the ranking and selection process. As noted in their documentation,

If a feature, function, or report is of interest, indicate the degree of interest with a weighting factor from "1" indicating a low and "9" (critical) in the position provided. Remember to use 9's sparingly as TAL (name of the questionnaire) rejects all systems that do not have the feature covered by the 9 you are using. We suggest that you weight features you really need with 8's and reduce the weighting of all other less significant questions.

As a result, use of an extreme value could result in disqualification of some software from consideration.

The Requirements Analyst

The Requirements Analyst - TRA (e.g., <http://www.ctsguides.com/accounting/index.html>.) also provides a questionnaire that can be used to help select software. TRA also has more than a 1000 requirements to choose from. Unlike the questionnaire available from the Excelo Corporation, it has an easier to use user interface. Further, rather

than ranking from 1-9, TRA uses rankings from 0-3. As an example, consider the illustration given in Table 2.

Table 1: Requirements Rated by Importance

Job Cost		
General Features		
Integration with ...		
Accounts payable	2	
General Ledger	2	
Payroll		3
Accounts Receivable		3
Progress Billing		
Time and Materials		
Inventory		1
Equipment		1
Purchase Orders		
Service Management		
Estimating		
Scheduling		
Industry Standard codes		
Detailed Transaction		

4. ERP Requirement Analysis Games

Perhaps the most critical ERP requirements analysis game is the “deal killer game,” where a branch can kill adoption of a particular ERP system through requiring a particular requirement available in some, but not all systems. In addition, there is an “requirement averaging game” where branches use their ratings on requirements to influence the importance of a requirement.

Deal Killer Requirements

As we saw with the software from Excelo, if a single requirement is put in as a 9, then if some software does not have that requirement then that software will be eliminated from consideration. Further, as seen with FS, companies do build deal killer capabilities in their software selection processes at the branch level.

Assume that the requirements are established as the result of a joint effort of two branches. If one branch is more interested in implementing software package A as opposed to C, potentially it can influence the choice by changing its evaluation of a requirement. For example, if a branch 1 wants software package A rather than C, then it can facilitate that choice by finding some requirement B-j ($j = 1, 2$) that is in A, but not C, and label it as a necessary requirement. The inability of C to meet the requirements would then be viewed as a “deal killer.”

In the game layout in figure 1, the tuples capture respectively, the first and second branches strategies, where U indicates that the branch (office) j falsely indicates that B-j is a deal killer, when it is not, and F indicates that the “fair” strategy is taken, not indicating the requirement is a deal killer, when it is not.

		U	F	
Office 1	(B-1 Required, B-2 Required)	1	2	U
	(B-1 Not Required, B-2 Required)	3	4	F
		Office 2		

Figure 1: "Deal Killer" Strategies Game

Conceivably, both branches could find requirements that would be deal killers, ultimately resulting in the choice of a third package D that meets all the "deal killer" needs, but is not preferred by branch 1 or branch 2. Branches (players) would have utility payoff's in blocks 1-4.

Consider the payoff matrix in figure 2. As an example, if the utilities were such that the payoffs became, $p=0$, $q=6$, $t=-2$ and $r=4$, then the payoff matrix would represent a prisoner's dilemma. The Nash solution for this game is where both branches or offices choose U as a strategy. As noted by Morrow (1994) communication alone cannot solve the dilemma, instead the players need a binding agreement or some way to enforce a deal. If players pursue their own goals they will end up with an inferior solution. Branches must cooperate. Accordingly, an ERP system choice should have to account for this finding as part of the project management.

		U	F	
Office 1	(p,p)	1	2	U
	(t,q)	3	4	F
		Office 2		

Figure 2: Payoff Matrix for Deal Killer Strategy

The situation where both branches play the deal killer strategy can also be viewed as a "crossing game" (Moulin 1986). In the crossing game, two motorists approach an intersection simultaneously. If both stop (F,F) then both get a payoff of say $p=10$. If one stops and the other does not then say $t=20$ and $q = 9$, since their pride may be injured. If neither stop then the strategy (U,U) results in an accident with a cost of say $r = -20$. Similarly, if one branch creates a false deal killer but the other does not then $t=20$ and $q=9$. While if both create a false deal killer then the cost may be another package that is worse for both resulting in a cost of $p = -20$. Finally, if neither use the false deal killer then both go with the consequences and get a benefit of $r = 10$. The game can be generalized by moving from a general p to p_1 and p_2 , where the two are not equal, and the other payoffs are also generalized.

Requirement Averaging Game

If requirements are averaged, as was done at Chesapeake, then a branch can either over or under represent the

weight on a requirement in order to push the requirements analysis in the direction of its preference. For example, suppose a branch O_1 has a preference for one ERP package over another, say A over C. However, suppose that there exists some requirement in C, but not in A. In this case, O_1 can rank the requirement as not important. Then when the branch rankings are averaged, the importance will be minimized. A similar situation occurs with evaluation weights and is discussed further in the next two sections.

5. Evaluating ERP Systems

Sometimes after requirements analysis, addition evaluation is done. Requirements analysis would be used to trim the number of options, and then evaluation would be used to account for factors other than functionality. As noted by Anderson Consulting, (Flaatten et al. 1992, pp. 260-261) a common way of evaluating software is to use different "scoring methods, where criteria are assigned weights and ranges, and the evaluation process consists in assigning values to the criteria by consensus of the evaluators." Then, the software with the highest total weight is chosen. Both Timberjack and FS ultimately used evaluation criteria and weights as part of the evaluation process.

Timberjack

In order to illustrate the use of evaluation criteria and weights on ERP systems, the following table summarizes a set of evaluation criteria and weights used in Timberjack's comparative evaluation of QAD and Oracle (Romanov 1998, p. 21), summarized in table 2. In that case, Timberjack's offices in Sweden and the US had to choose a single system. Ultimately, the choice was between QAD and Oracle. Timberjack employed the evaluation criteria and weights to facilitate their choice process. A representative from Coopers & Lybrand, the large consulting firm, helped them with their analysis. Using the numerical approach, they had to achieve consensus with choice of a single system.

Evaluation Criteria and Weights -- Table 2

Factor	Weight	QAD	Oracle
Support	20		
Functionality		30	
User Interface		10	
Flexibility		20	
Future Prospects	10		
Reliability		20	
Integration		30	
Platform	20		
Total		160	

Evaluation at "Financial Services"

Evaluation at FS was very similar to that at Timberjack. As part of the choice process for their ERP software, FS developed evaluation criteria and allocated points in order to help the firm decide which ERP system would best fit their needs. Unlike Timberjack, FS was to choose between SAP and Oracle, rather than QAD and Oracle. In addition, their choice criteria included some different categories, e.g., Maintenance Requirements. Maintenance requirements are those requirements designed to facilitate system maintenance after implementation. Like Timberjack, FS worked with a large consulting firm. In addition, one of the project leaders had previous experience with a large consulting firm. Exploiting its consulting background, FS was very systematic and forward looking in its ERP choice and implementation processes. Consensus on the choice of the weights was attained by averaging

the weights of the multiple branches.

6. ERP Evaluation Weight Games

ERP evaluation weight games depend, in part, on the approach used to gain consensus for the choice of the ERP system. As part of the development of the ERP evaluation and choice analysis, FS decided that they would averaged the weights of the different branches. Thus, each branch was given the set of criteria and asked to assign weights to each criteria.

Game Assumptions

It is assumed that the "fair" solution is the allocation of points that is optimal for the firm. It is assumed that each branch knows the fair solution. It also is assumed that there are two branches and a set number of points are being distributed across two categories. Although, the results can be extended to multiple players and categories, the two player and two category allocation more easily illustrates the game playing activity of different branches.

It is assumed that either a branch plays "fair" by using the fair solution, or uses an unfair strategy to have it gain maximal self benefit. Branches are assumed to use an "extreme point" assignment of weighting points. For example, if there are x points and the branch will be unfair, then it will assign x points to one criteria and 0 to the other. Criteria 1 is assumed to be more beneficial for branch 1, while criteria 2 is assumed to be more beneficial for branch 2.

In the presentation of the weights in game form, the top line will represent the evaluation point distribution by office 1 and the second line will be the evaluation point distribution by office 2. The third line is the average of the two distributions.

Fair Solution Is Equal

First, we consider a two branch firm, where the "fair" solution is for each of the two branches to equally distribute evaluation criteria points among two different criteria. We find that if both departments choose either the fair or unfair allocation that the same solution will be arrived at. Differences occur only if one chooses the fair allocation and the other does not. Each branch's extreme point assessment of self interest is off-set by the other branch. An example game is given in figure 3, where two offices must distribute 20 points to two different criteria.

	U	F	
Office 1	20,0 0,20 (10,10)	20,0 10,10 (15,5)	U
	10,10 0,20 (5,15)	10,10 10,10 (10,10)	F
	Office 2		

Figure 3: Equal Weight Values

Fair Weights Are Not Equal

If the fair weights are not equally distributed between two options, then the greatest distance from the fair solution is not the case where neither submits the fair solution, but is a setting where one of the offices presents a fair and the other does not. Again, a solution closer to optimal can be obtained when neither present a fair solution. An example is given in figure 4 where two offices must distribute points to two different criteria.

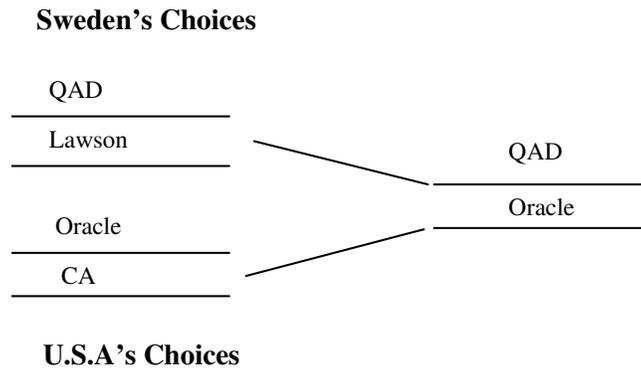
	U	F	
Office 1	20,0 0,20 (10,10)	20,0 15,5 (17.5,2.5)	U
	15,5 0,20 (7.5,12.5)	15,5 15,5 (15,5)	F
	Office 2		

Figure 4: Unequal Weight Values

7. System Choice Through Agenda Setting

In some firms, e.g., Timberjack, the choice of an ERP system has been done using "decentralized paired comparisons of systems," not unlike winner take-all sports tournaments designed to choose a "champion." In particular, in these decentralized paired comparisons, the ERP choice process is broken into pieces where one branch chooses between one pair of ERP systems and another branch chooses between another pair of ERP systems. Then the two branches each bring the "winning" ERP system from their branch comparison for further competition as to which is preferred for the company overall.

The decentralized paired comparison approach was used by Timberjack (Romanov 1998). In that set of comparisons, the Swedish branch compared QAD and Lawson, while the USA branch compared Oracle and CA, as illustrated in figure 5.



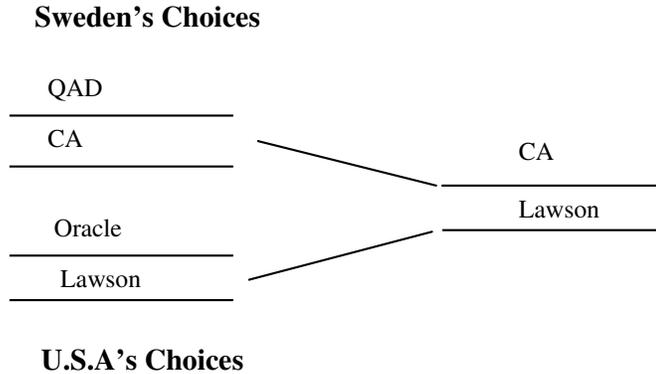
Timberjack's ERP Choice Process

Figure 5

In these kinds of branch comparisons of ERP systems, the order in which system choice is structured can play an important outcome in which ERP system ultimately is chosen by the firm. As a result, the "agenda" (order and pairs of choices) that are set can influence which ERP system is chosen.

Indicate a preference for system A over system B as $A \rightarrow B$. Suppose that Oracle \rightarrow CA and QAD \rightarrow Lawson, but

that Lawson → Oracle and CA → QAD. If Oracle and CA are paired and QAD and Lawson are paired then we will have the same result summarized in figure 4. However, if the agenda is changed the results can change substantially. If instead, the systems are paired for comparison as (Oracle, Lawson) and (QAD, CA) rather than (Oracle, CA) and (QAD and Lawson) then the choice will be substantially different than if the choice as, is summarized in figure 6. Agenda pairing makes a difference in the ERP software that can be chosen.



Alternative Possible Agenda

Figure 6

8. “Stacking the Deck”

In those settings where votes are gathered from a number of voters, another game can be played: stacking the deck. In this game the choice of who votes becomes a critical concern. For example, at Chesapeake, there were fourteen voters. How do firms decide who becomes a voter? Is there any gaming that stacks the deck in favor of a particular candidate system? This section investigates the possibility of such gaming behavior. However, this section does not imply that any of the three companies would ever participate in such gaming behavior.

Assume a setting with two divisions, or that the voters can be set in two different groups, A and B. Let |A| be the cardinality of A. Assume that there are two choices. Assume that within group voting for group A is the same. Assume that for group B, that voting is split. One approach to getting the solution desired by group A is to increase the number of voters in A so that even if there is a minority in group B interested in the same system that system will be the system chosen. Similarly, if the minority group in B wanted its choice actualized, then it would need to choose A large enough. In general,

$$|A| + |B_{\text{Minority}}| \geq |B_{\text{Majority}}|$$

As an example, in the case of Chesapeake, the two groups could be A = (CC,CPC) and B = (CD&P). Since there was only one vote for SSA, assume that the choice is between JDE and BAAN. $|A_{\text{JDE}}| = 6$, $|B| = 8$, $|B_{\text{JDE}}| = |B_{\text{BAAN}}| = 4$, which implies JDE would be chosen. Analysis of those two groups reveals that group A voted J.D Edwards as the top choice, while group B was evenly split between BAAN and JDE.

9. Summary, Contributions and Extensions

ERP systems differ from legacy software in that multiple branches must now choose the same software, rather than choosing software to meet local needs. As a result, this paper examined some of the game playing behavior that can take place in a multi-branch firm that is implementing the same ERP software in each location. The paper anchored the example behaviors primarily in two case studies of ERP system requirements analysis, evaluation and choice.

Contributions

This paper has a number of contributions, each couched in analysis of potential ERP system evaluation and choice, driven by the need to have the same system in multiple branches. First, branches can use game playing behavior to push the software that they prefer in order to meet their specific needs. In particular, "deal killer" requirements can force the choice of software preferred by a particular branch, unless other branches also pursue the same strategy. Second, using strategies designed to influence the averages of requirement priorities or ERP weights, branches can manipulate the ratings in order to push the software that they prefer. Third, agendas can be set by branches in order to facilitate positive evaluation of software that they prefer. If ERP software is compared on a pairwise basis to other ERP software, then the order and pairing can influence the ultimate ERP system choice.

It is important to determine where such game playing might take place. Project management could then be used to mitigate such behavior, to the extent possible, by establishing appropriate rules up front.

Extensions

The results can be extended in a number of directions. First, the focus of this paper has been on two branches, but these games and other analyzes can be extended to three or more players (e.g., Rapoport 1970, and others). In addition, in the analysis of evaluation weights, this paper focused on two requirements at a time. However, that analysis can be extended to multiple requirements. Further, although in some cases the payoff weights are presented as equal for different branches, that will not always be the case. However, the results can be extended to different weights for different branches.

Footnotes

1. The use of these cases does not imply that each game playing behavior reviewed here was actualized in the cases. However, the cases do show that firms potential face the entire range of behaviors discussed here.
2. Unfortunately, I am not able to disclose the name of the firm. Although a great deal of information about the company has been gathered in anticipation of doing a case study, because of the firm's concern for privacy, I am unable to disclose the firm or write about them in any greater detail.

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