Organisational Culture and Its Effects on Innovation within ERP Systems

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ABSTRACT

Enterprise resource planning (ERP) systems have become the de facto standard for large and medium organisations to run their major functional and process operations. Since a significant percentage of organisations have already implemented them, the introduction of a new ERP system might no longer be considered the source of competitive advantage that it once was. Indeed today, ERP systems are sometimes described as merely the price of entry for running a business.

Innovation, on the other hand, continues to play its traditionally important role in sustaining competitiveness. Although ERP systems are sometimes perceived as constraining and inflexible, to the extent that ERP systems may even seem incommensurate with the notion of innovation; this is not the case in real life. It is argued that innovation capabilities can actually be improved by ERP systems and vice versa, because of improved transparency and better information flow. Innovation may occur either from within an organisation or externally. ERP implementations have traditionally used a form of open innovation in their use of both ERP vendor and implementation partners. In this chapter the authors discuss the links between ERP and innovation and how this combination might help organisations regain that elusive competitive advantage.

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INTRODUCTION

In today’s modern business environment, companies try to provide customers with goods and services faster and cheaper than their competitors; often the key is having more efficient information systems. Increasing the efficiency of information systems generally results in more efficient management of business processes, and when companies have more efficient business processes they can be more competitive in the marketplace, (Monk & Wagner, 2006). Continuous organizational adaptation, innovation, and efficient execution are imperative for sustained success in today’s rapidly changing economic environment, (Sambamurthy, Bharadwaj, & Grover, 2003). It has been noted by Rouse, (2006) that an organization must often fundamentally transform its business practices and organizational culture to fully align with and realize the value of product and process innovations.

To recall the notion of ERP systems Evans, (1997) defined them as follows,

“Enterprise resource planning promises one database, one application, and one user interface for the entire enterprise, where once disparate systems ruled manufacturing, distribution, finance and sales. Taking information from every function it is a tool that assists employees and manager’s plan, monitor and control the entire business.”

Implementing their ERP system may be the largest and most complex project many organizations will ever encounter, entailing considerable potential benefits but also involving considerable risks, (Chang & Gable, 2003, p4). “An ERP implementation is not merely a ‘computer project’, it is strategic and must be approached as such”, (Aloini, Dulmin, & Mininno, 2007, p559). ERP systems are, in effect, information systems that enable organisations to make decisions from the principle perspective of the enterprise, rather than from a principle perspective of a single or group of departments belonging to that organisation. Having its foundations in MRP, ERP extends the concept of integration of supply chain management into areas outside the manufacturing cycle and into such areas as HR and Sales/Marketing. An ERP system is a software application to improve the performance of an organization’s resource planning, management control and operational control. ERP is multi-module application software that integrates activities across functional departments, from product planning, parts purchasing, inventory control, and product distribution, to order tracking. ERP software may include application modules for the finance, accounting and human resources aspects of a business.

Conner & Prahalad, (1996) have suggested that for many firms, an ERP system is critical to ongoing operations of the company while possibly also representing their largest IT investment. For these same organizations, knowledge capabilities (generation, combination-recombination and exploitation of knowledge) is able to provide a clear source of competitive advantage, (Conner & Prahalad, 1996; Grant, 1997; Kogut & Zander, 1992). Decisions to implement ERP systems have thus (generally) initially been taken in order to help provide competitive advantage in a marketplace. However, when all competitors in a marketplace have access to the same information systems, the previous competitive advantages gained over competitors without access to such advanced systems, is certainly less visible. It might be postulated in such circumstances that though no competitive advantage exists in installing an ERP system, clear competitive disadvantages might be evident if any organization chooses not to implement what is now a standard item within its competing marketplace.

There have been many who have argued that ERP systems, especially the mega-systems such as SAP, because of their size and complexity are difficult to adapt to a particular organisation’s needs. Davenport, (2000) for example states that the common views of ERP systems are that they are like cement... highly flexible in the beginning,