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ERP Is Not a Time-in-Grade Investment – Demand an ROI

Hospitals and health systems ramped up investments in automation in the past year, with triple the number of hospitals automating their corporate services function (50%) compared with in Spring 2020, a Guidehouse/HFMA survey shows. Yet organizations still face obstacles fully leveraging their technology assets—and it's working against them.

It's one reason why, as one-in-four healthcare organizations prioritize investment in enterprise resource planning (ERP) technologies over the next year, they need to approach these investments not as technology initiatives, but as transformation projects, supported by the right people and processes to achieve the value they seek.

Shifting the Mindset Around ERP

The pressure for healthcare organizations to transform financial and operational performance intensified with the pandemic—and technology alone won't solve the problems they face. Instead, organizations must wrap better processes and structure around the solutions they choose to drive efficiencies in day-to-day business operations that strengthen resilience.

For instance, most ERP initiatives focus solely on the ways in which ERP software can reduce corporate services expenses. When this happens, organizations miss vital opportunities to dig deep into the ways in which technology can enable business strategy to deliver the outcomes they desire.

Breakdowns in value also occur when organizations continue to bolt on new solutions to their existing ERP. This commonly occurs as health systems that have undergone mergers and acquisitions layer on new technologies instead of replacing old ones. It's an extremely expensive approach that results in high maintenance costs and underperforming or underleveraged assets. It can also significantly slow down operations and diminish business performance and employee satisfaction. At one large system, 68 technologies play a role in ERP.

As a result, Gartner predicts that by 2023, 40% of ERP initiatives will be viewed as disappointments by key stakeholders.

However, when healthcare organizations approach ERP not as a "lift and shift" project, but as a transformational initiative—gathering the organization's future-state requirements and creating processes and teams that optimize use of technology to solve business challenges—they gain a holistic perspective that fuels sustainable improvement.

Keys to a More Strategic Approach

How can healthcare leaders most effectively mitigate the risk associated with ERP and attain the desired results? Our experience points to six tactics.

No. 01 Expand your perspective

Include a range of key stakeholders on the ERP team, from the CIO to the CFO to leaders in human resources and supply chain. Doing so will ensure the processes developed to support ERP are streamlined and grounded in best practices. It also provides insight into the areas of the organization that could be reconceptualized to provide greater value.

No. 02   Determine the business case for change

For example, recent federal accounting changes allow organizations to apply the same criteria for capitalizing implementation costs of a cloud computing arrangement as they would for an on-premises software license. As a result, moving data, applications and platforms to the cloud may create substantial business benefits by enabling healthcare organizations to reduce capital expense outlays while maintaining a more flexible IT environment. However, leaders should consider the financial reporting implications as well as the broader tax and IT considerations of the FASB standards update in determining their path forward.

No. 03   Evaluate the organization's capacity for change

What are the gaps in change management and communications that could threaten to derail an ERP transformation initiative—and how can leaders most effectively address them? In what ways might support from an outside partner enhance capacity, and what types of support would best position the organization to close critical gaps?

No. 04   Dedicate a portion of the organization's professional services budget to independent risk management

By devoting funds for an independent risk management adviser to oversee the ERP design and implementation process, healthcare organizations can ensure that their ERP transformation program is introducing leading practice processes by maximizing the full capabilities of their modern ERP investment as well as avoid timeline delays that lead to costly project budget overruns.

No. 05   Demand and measure return on investment (ROI)

Establish key performance indicators (KPIs) and service level agreements (SLAs) that enable the organization to assess the comprehensive impact of ERP across functions, from human resources to finance to supply chain. These might include days to hire, days to close books, dollars saved through group purchasing contracts and improvements in employee satisfaction. With a path for measuring ROI, leaders become empowered to assess whether ERP truly resulted in transformational change.

No. 06   Focus heavily on workforce process optimization

Workforce processes (i.e. recruitment, retention, and open enrollment) are emerging as the #1 challenge for health systems. Allocate enough time to modernize workforce management processes to meet the digital demands of both the workforce and external candidate population. For example, is the organization automating manual performance management processes? Has it consolidated job codes, benefit plans, and PTO plans? Is the job application process intuitive and mobile device-enabled? These considerations are table stakes for the workforce and external candidate population. Over-investing in these areas should be non-negotiable.

By shifting their mindset around ERP, healthcare leaders can go beyond technology implementation toward strategically redesigning, revitalizing and transforming their operations, creating a more sustainable future.
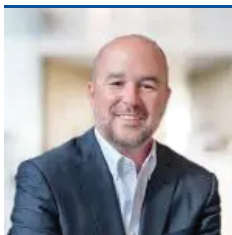
About John Whitham

Whitham is an industry-leader who has developed national HIT consulting practices with broad expertise in advising providers, IT vendors, payers, and the public health sector on IT effectiveness, ERP modernization, digital transformation, advanced analytics, revenue cycle optimization, operations improvement, and consumer access.