



# ERP or Third-Party:

## Which is Best for Employee Appraisals?

**Y**our enterprise is looking into performance appraisal software, often called Employee Performance Management (EPM).

And your company already uses an ERP system such as SAP or Oracle. So isn't it natural for you to go with the ERP vendor's add-on module for that purpose? Not necessarily, as this white paper will show.

### **Who do you listen to?**

Speak to any ERP software vendor, and they'll say they have the perfect fit for you (even if they don't know the difference between a survey and an appraisal).

Speak to any IT consultant who makes his living tweaking ERP systems, and they'll say they can integrate that module for you, no problem.

Then speak to a third-party vendor that designs software for employee appraisals or 360 reviews, and they'll say they can give you a more powerful, flexible system in far less time for less money.

So who's right? Who do you listen to? Is it better to extend your ERP system with the original vendor's module, or to

bolt on a third-party system specifically designed for that purpose?

To help you make an informed decision, this white paper examines the key considerations in implementing an employee appraisal system, including:

- ◆ Project speed
- ◆ Project cost
- ◆ Project risk
- ◆ Range of features
- ◆ Access to employee information
- ◆ Autonomy of your HR team
- ◆ Flexibility during any changes in ERP platform, mergers, or acquisitions.

On every count, there's a powerful argument in favor of third-party software.

Using purpose-built third-party software for employee appraisals or 360 reviews can save you time, money, and risk.

It can give your HR team more information on employees, more autonomy from your IT department, and more flexibility during any future ERP platform changes.

For all these reasons, it's a wise choice to consider.

	Plan A: Extend ERP System with Original Vendor's Module	Plan B: Third-Party Software that Links to ERP
Project Speed	~ 26 to 52 weeks	~ 2 to 4 weeks
Project Cost	~ \$200,000 to \$400,000 on consulting + ERP license? + annual support fees? + ongoing costs for changes	\$45,000 to \$250,000 (depending on number of employees) + 20% annual support fees
Project Risk	More than Plan B?	Less than Plan A?
Range of Features	Less than Plan B	More than Plan A
Access to Information on Employees	Limited to data in ERP system	Flexible access to any data in any enterprise system
Autonomy of HR team	Less: IT required to do most changes	More: HR can do most changes without IT
Flexibility during any ERP changes or M&A	Less: data conversion and learning curve required for any ERP changes	More: transparent to any new ERP platform or future M&A

**Table 1: Extending ERP with Vendor's Module vs. Using Third-Party Software for Employee Performance Appraisals and 360 Reviews**

Table 1 sums up the comparisons between these two options. On each of these seven points, there are clear benefits to using appropriate third-party software.

Of course, this third-party software must be carefully selected to be most effective. Not just anything will do.

For our third-party example, we use Blue from eXplorance. Blue has special modules for doing performance appraisals (Blue/Appraisals) or 360 reviews (Blue/360). And it provides deep integration with your existing IT infrastructure through easy-to-use Web forms that require no expertise in coding and no knowledge of the innards of any particular ERP system.

The following discussion illuminates each point from this table in more detail.

### ***Speed: Extending ERP is slow***

To extend a complex ERP system with a new module will take six to 12 months, perhaps longer.

Assuming your business and technical requirements are already defined. Now consider the many steps in this process:

1. You bring in an ERP consultant to lead the project.
2. You engage two developers for at least three months, more likely six months.
3. Your IT department sets up security provisions for handling such sensitive employee data.
4. Your staff tests numerous prototypes and interim releases, and the developers debug them. This eats up another two to three months.

5. You train your HR team on how to use the new module. This will take another few weeks.

By the time the system is up and running, it will be six to nine months after project kickoff. It could easily be a full year.

And these estimates depend on this project being a high-enough priority for your IT department to address it quickly.

What if it lands well down their list of priorities, and isn't even addressed for three to six months? Can you afford to wait that long?

### ***Speed: Implementing third-party software is much faster***

To add in existing software specifically written to handle performance appraisals or 360 reviews is a much faster process.

Consider the steps that are NOT needed in this process:

1. You will NOT need to hire any ERP consultant to lead the project.
2. You will NOT need to hire any ERP developers.
3. Your IT department will NOT need to set up any special security provisions. An effective third-party system will leverage all existing security systems.
4. Your IT department will need to install the system and make sure it is running smoothly. For a well-architected system like Blue, this will require only one or two weeks of effort from IT.
5. You will need to train your HR staff on the system, which will take one or two weeks of support from the third-party vendor for training.

So the entire third-party system can be up, tested, and running within two to four weeks, saving an estimated five to 10 months of project time.

And since the process is so light on your IT department, it will be much easier for them to complete without delay.

### ***Cost: Extending ERP is expensive***

Based on the real-world project outlined above, we can extrapolate the typical cost of extending an ERP system with another module.

An ERP team leader and two ERP developers earning programmer's salaries will likely run at least \$65,000 a quarter.

Employee overhead could easily push this number to \$100,000 a quarter; it would cost even more to hire contractors.

Two to four quarters at this rate will run from \$200,000 to \$400,000. It's difficult to imagine any project of this scope coming in for any less money.

On top of this cost, there could be extra licensing fees and annual support costs from the ERP vendor. And there will likely be ongoing charges to make any changes that are beyond the scope of your IT department.

These costs will push the total project cost much higher, in a very unpredictable way.

### ***Cost: Third-party software saves money***

Assuming that the third-party software is quick and easy to implement, like Blue from eXplorance, this option saves a substantial amount of money.

A one-time license for Blue/Appraisals or Blue/360 costs between \$45,000 (for 1,000 employees) and \$250,000 (for 40,000 or more employees).

This license provides for an unlimited number of appraisals or 360 reviews, as often as you choose to do them.

Beyond that, there is a 20 percent annual fee for support and upgrades.

This project budget is completely visible and predictable; there are no hidden costs or any chances of any over-run.

***Risk: Extending ERP is not without risks***

While the big ERP vendors are established companies in their own right, these projects are not without a certain risk.

“Stories of high-dollar, long-term enterprise IT projects (especially ERP projects) failing spectacularly abound in the news.”<sup>1</sup>

And in a recent survey, more than half the executives with an ERP system in place were dissatisfied with the success of their implementations.<sup>2</sup>

In fact, ERP and other large-system projects are notorious for running over-schedule and over-budget, creating a painful transition period between the old and the new.

Despite what the vendor and your IT staff may tell you, there are risks in any large project, especially ones involving ERP.

***Risk: Third-party software may be less risky***

Because of the lower cost and shorter time frame, choosing a third-party system for performance appraisal is inherently less risky.

Make sure to look for a vendor that has designed a system specifically to link to ERP systems. Make sure they have numerous reference sites, and that they can demo it to you in advance.

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1: Dave Rensin, “The Universal Law of Technology Project Failure,” June 13, 2005, [Computerworld](#)

2: “ERP Survey Results Point to Need For Higher Implementation Success” press release from Robbins-Gioia LLC, January 28, 2002

Picking a third-party vendor that meets these criteria, like eXplorance, will significantly reduce your risk.

***Features: Extending ERP limits choice of HR features***

It’s not realistic to expect an add-on module for any ERP system to offer a wide range of innovative features for HR.

It’s far more likely the ERP system will offer a limited range of basic features that force HR teams to compromise on things like flexibility, usability, and results.

That’s because no ERP system is designed specifically to support employee appraisals or 360 reviews. No ERP vendor, consultant, or IT shop has their future invested in rolling out leading-edge features just for HR teams.

These features will always be an after-thought, an add-on created to satisfy the demand from enterprises that are “locked in” to one ERP vendor.

***Features: Third-party software can give best-of-breed features***

A vendor focused on any one particular application will always out-do a more horizontal ERP application that tries to be all things to all people.

Any leading third-party system designed specifically to support employee appraisals or 360 reviews will offer the latest features being sought by HR professionals.

If you select an innovative system, such as Blue/Appraisals from eXplorance, your HR team will have access to a wide range of best-of-breed features, all of them well thought-out and well-implemented.

This type of purpose-built system will offer more powerful features for HR teams: features that are easy to learn, flexible to use, and far more likely to produce strategic results.

### Employee data: Extending ERP limits access to other systems

Of course, any ERP module can access any data contained within the same system. But many enterprises have employee data in other systems as well: perhaps payroll, security, CRM, or even a Learning Management System (LMS).

It's never easy to configure an ERP system to access information from another system, and tie it together into a meaningful employee record. Once again, this will be a costly, slow, and risky project to undertake.

### Employee data: Third-party software can give flexible access

Any third-party software that integrates deeply with your existing infrastructure, such as Blue from eXplorance, can overcome this access problem.

As shown in Figure 1, Blue can quickly access information from any enterprise

system and pull it together into a complete employee record.

As shown on the left, these could include:

- ◆ User names and login credentials from a security system, like LDAP
- ◆ Employee demographics, positions, and hierarchies from an ERP system, like SAP, Oracle, or PeopleSoft
- ◆ Customer feedback for 360 reviews from a CRM system, like Siebel
- ◆ Training records from a Learning Management System (LMS).

All this data can be merged into a more complete employee record stored in Blue's own database.

As shown on the right, the same Web form interface used to set up access to an ERP system can also pull employee information from any other system. And this can be done within a few hours, instead of many weeks or months.

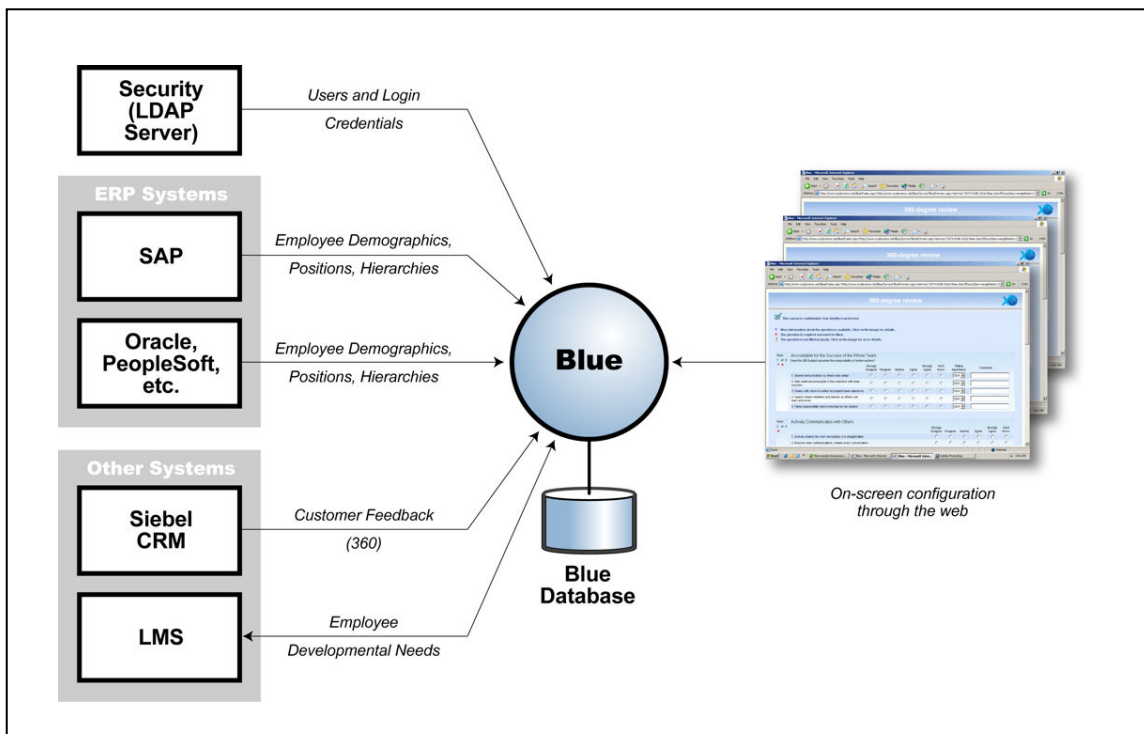


Figure 1: Blue Provides Flexible Access to Employee Data from Other Enterprise Systems

### **Autonomy: Extending ERP leaves HR dependent on IT**

Over time, HR will surely need to make changes in the employee appraisal system.

For instance, an HR team may want to modify the questionnaire to add, remove, or change questions. HR may decide to move from evaluations held on the hiring anniversary of each employee to the same date for every employee. HR may want a second-level manager to sign evaluation forms before generating reports. HR may want multiple raters for each employee.

These are all valid and important refinements that should be done promptly. But who will make these changes?

Making changes to any ERP system requires deep technical knowledge beyond the scope of any HR department. Your IT department itself could be out of its depth in dealing with any requests for changes; they might have to call back those costly ERP consultants.

And since these change requests are not as strategic to IT as they are to HR, they may not reach the top of IT's priority list for weeks, or even months.

That's a lot time to wait for any natural ongoing refinements to the system.

And it leaves HR totally dependent on IT to tweak the system to perform the way they need it to.

### **Autonomy: Third-party software enables HR to serve itself**

A properly designed third-party system places the power to make changes where it belongs: in the hands of HR.

For example, with Blue any authorized HR person can change a questionnaire, add an extra step in a process, change appraisal dates, change signoffs, change

where forms are routed, or add more raters for employees.

And they can do all this through an easy-to-use Web form with no intervention required from IT.

This means your HR team can control their own system. They can make all the tweaks and refinements they want, when they want.

And they can do it independently, without taxing IT resources with tasks that are not in line with IT's strategic mission.

### **Flexibility: Extending ERP produces "vendor lock-in"**

What about if your company changes ERP systems, or becomes involved in a merger or acquisition?

Suppose company A acquires another business, or merges with another firm, company B. Both will likely have an ERP system in use. The merged company A+B will want to move to a single ERP platform, often the one company A uses.

This will involve a major IT project of consolidating all user names, passwords, security provisions, and employee data from company B to the ERP platform used by company A.

This will create a tremendous learning curve for company B's HR team.

And throughout the conversion, which can easily take six months to a full year or more, it will be difficult to apply the same HR policies and standards across the new enterprise, because of the lag time to get the two ERP systems brought into sync.

Worst of all, if at some point in the future, the merged company A+B acquires company C with yet another ERP platform, the entire process must be carried out all over again.

## ***Flexibility: Third-party software supports ERP changes or M&A's***

Using third-party software that can integrate deeply with your existing IT infrastructure will greatly reduce the time lag for data conversion during any switch between ERP systems or any merger or acquisition.

For instance, Blue from eXplorance requires no programming expertise, and no coding to integrate with any ERP system. All the integration can be done by regular IT staff in a few hours, through straightforward Web forms that require no knowledge of the innards of any ERP system.

After any M&A, the entire lengthy data conversion process can be avoided, and consistent HR policies extended across the merged enterprise in a few days.

What's more, this same integration can be completed any time in the future for any other ERP system.

So if merged company A+B acquires company C with yet another ERP platform, the same simple integration process can be repeated and the same results achieved... no matter which ERP platform the merged company A+B+C selects. That means that through any future M&A's, IT can smoothly switch to

any other ERP platform without handing HR a lengthy learning curve.

As well, all performance appraisal and reviews processes that are established will remain intact. You will never be "locked in" to any one ERP platform.

## ***Conclusions***

This white paper has shown how using third-party software like Blue for employee appraisal and 360 reviews can:

- ◆ Save time getting up and running
- ◆ Save money
- ◆ Reduce risk
- ◆ Provide better HR features
- ◆ Access more employee data
- ◆ Free HR to make its own changes, without relying on IT
- ◆ Support any future change in ERP platform or M&A.

As well, the purpose-built design of modules like Blue/Appraisals and Blue/360 provide more powerful, best-of-breed capabilities than any ERP module.

With all these advantages, it makes sense to consider adopting Blue from eXplorance to achieve an HR system that is ultimately less expensive, less risky, and more satisfying to use.

## ***What about building your own employee appraisal system?***

Some ambitious IT managers or consultants may suggest "building our own solution" instead of buying either an ERP module or a third-party software product.

Be careful; this is the riskiest option of all. In fact, industry figures compiled by the Standish Group since 1992 reveal that only 29 percent of all IT projects are ever completed on time, on budget, and with all the promised features. Choosing the wrong path can lead to delays, cost over-runs, perhaps even a total failure.

For a discussion of the key factors to consider before building your own system, see the white paper **To Build or To Buy? Seven cautions on procuring enterprise software** available from eXplorance at [http://explorance.com/editorial/Build\\_vs\\_buy.pdf](http://explorance.com/editorial/Build_vs_buy.pdf).