

Financial Regulation in context to Enterprise Resource Planning: Impact on Trade and Business

Dhaarna Singh Rathore, Dr. (Ms.) H.S. Oza

¹Assistant Professor, Auro University, Hazira, Surat, Gujarat.

²Associate Professor, SPB English Medium College of Commerce, Surat, Gujarat.

Abstract: *With the era of globalization, ERP development and implementation has taken a massive step. In last few decades ERP has given an advantage in different industries for their day to day work and has gained worldwide acceptance. In India, major players in ERP market are SAP, Oracle and Microsoft Dynamics. While implementing an ERP in any country, a vendor has to keep in mind the **Financial Regulations** of that country as such. In India, most of the software implemented is developed abroad; hence it becomes difficult at times for the vendors to implement certain financial regulations, most commonly "Taxation". With every passing year, the software upgradation cost and end users training cost are thrown on the customer in the name of change in Financial Regulations of the country. For example as soon as the union budget/ finance budget is presented by the Finance Minister of India every year, there is a change in the tax slabs and different financial regulations within the country. Most of these changes are covered by or say addressed by our ERP software providers, but there are always expected gaps which need system upgradation or customization cost. This paper studies these gaps which hampers the day to day working of a company with change in financial regulations and puts a negative impact on the trade and business.*

Keywords: *ERP (Enterprise Resource Planning), Financial Regulations, Implementation, Taxation, Trade and Business,.*

I. Introduction:

Financial regulations of a country are the regulatory framework which helps it to deal and cope up with World's economic conditions. There are so many financial regulations in any country, which help it to control not only its monetary stability but its economic, political and global conditions as well. In India, Financial Regulations have been diversified from RBI to SEBI, Forward market commission to IRDA, etc. Along with these, the Ministry of Finance, issues finance bill every year which takes into account all the changes / updation required in financial regulations of our country.

One of the major portions of this finance bill issued every year in the union budget is taxation. Taxation may be Direct or Indirect, subsidies, Octroi and Duties etc. These changes or say updation in tax structures may be due to the current global economic requirements, brings all kind of assesses on a common platform of changing their accounting entries, sometime retrospectively to suffice the changes brought into by the union budget.

Enterprise resource planning (ERP hereafter) has been an important tool in last decade for maintaining a harmony in different accounting policy set up and a business organization for successful day to day trading. ERP has gained a rapid acceptance due to the resources and easily availability of Information as and when required from the system.

Though ERP has been an important tool in recent past for accounting, data processing, data handling and decision making, still it has many loop holes which makes it extremely necessary to analyze, understand and know what it could lead to future, a curse or a boon.

Every ERP has a set of package which consist of General Ledger, Accounts payable, Accounts receivable, BOM, Production, Cash and Bank module, SCM, HRM, CRM, Projects etc. all these modules are directly or indirectly relates to General Ledger module, which maintains the final books of account. Any change, in tax structure will definitely brings a negative impact on the ERP as a whole. Hence considering the fact that, even a single upgradation of ERP calls for a huge cost to the company, every year changes in financial regulations, especially taxation part of it, brings a disharmony in procedural framework carried out in a company with the help of ERP.

II. Background:

Financial regulations; especially tax structure has been a flexible components since independence in Indian economy. With announcement of union budget, the tax slabs, its implications and other treaty's do change, which brings an impact on the trade and business a lot.

Recently world has seen many ERP disasters due to many critical failure factors. Failure to implement/ accept the software so implemented, failure to meet deadlines of implementation, failure to bring best use of ERP, failure to upgrade the software may be due to high cost. Some of these major failures like: Hershey's, Nike, HP, and Whirlpool. Many factors such as, low estimated cost, lack of training to end users, underestimated Gaps, high customizations etc. have been involved in such ERP disaster. Along with these, many ERP has not been used by end users over a long period of time because they do not support certain financial regulations which changes over every year and hence calls ERP for and updation/ upgradation.[1]

As the economy becomes more globalized, approaches practiced in enterprise software product development and enterprise resource planning (ERP) system implementation must cope with increasingly complex situations induced by contemporary supply chain and regulations. Compliance with regulations in the market is one aspect of the requirements that enterprise software must meet. Recent research of KPMG IT Advisory has confirmed that where little attention is being paid to the Value Added Tax (VAT) issues during large ERP projects, there is a higher VAT-risk exposure. In a design-oriented approach, we first identify the stakeholders and their interests in the VAT compliance of ERP systems. Enterprise architecture and model driven engineering in a multi-level perspective serve as the source of solution patterns. The efficient solution of compliance problems builds upon stakeholders utilizing a set of interdependent models and methods that are suitably allocated to the public and proprietary domains.[2]

ERP solutions are revolutionizing the way companies produce goods and services. They are a dream come true in integrating different parts of a company and ensuring smooth flow of information across the enterprise quickly. ERP systems bring lot of benefits to organizations by tightly integrating various departments of the organization. Even though ERP solutions have been popular in Europe for some time, North American companies have been using them for only about five to six years. Some of the factors that have contributed to ERP growth are the trend towards globalization, Year 2000 problems, and mergers and acquisitions.

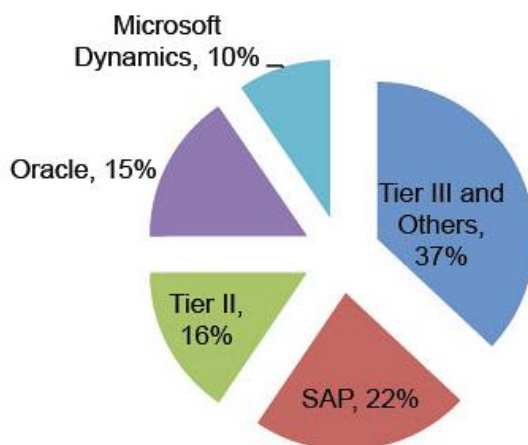
ERP systems are very large and complex and warrant a careful planning and execution of their implementation. They are not mere software systems; they affect how a business conducts itself. How a company implements an ERP system determines whether it creates a competitive advantage or becomes a corporate headache. The top contributor for a successful ERP implementation is strong commitment from upper management, as an implementation involves significant alterations to existing business practices as well as an outlay of huge capital investments. The other important factors are the issues related to reengineering the business processes and integrating the other business applications to the ERP backbone.

Upper management plays a key role in managing the change an ERP brings into an organization. Organizational commitment is paramount due to possible lengthy implementation and huge costs involved. Once implemented, an ERP system is difficult and expensive to undo. Since no single ERP solution can satisfy all the business needs, organizations may have to implement custom applications in addition to the ERP software. Integrating different software packages poses a serious challenge, and the integration patchwork is expensive and difficult to maintain[3]. Apart from these ERP once implemented needs continuous monitoring on the part of an expert, so that any bug, disconformity, or application crash can be addressed by the client without paying anything to the ERP vendor. This makes it very compulsory on the part of companies implementing ERP to hire a technical as well as a functional expert who has to work day in an out for smooth running of the software in the organization.

III. How Financial Regulations affects ERP Implementations:

As stated above, to comply with complex and ever changing financial regulations, ERP has not been a complete fit over last decade. This has majorly affected the working of trade and business which are involved in ERP implementations or have already implemented ERP. Direct taxes like Income Tax, corporation tax, Property Tax, gift Tax etc. and Indirect Taxes like Customs Duty, Excise Duty, Service Tax, Sales Tax, Value Added Tax, and Securities Transaction have major impact on trade and business. As any change/ alteration in these financial regulations, bring changes in day to day working of a company, and if such company is following ERP system of accounting, they also have to update their software to cope up with the legislature requirement. As most of the software needs technical help for such upgradation, ERP brings a hammer of cost on the companies following it.

ERP's are built globally: As we know, that major players in the name of ERP are SAP, Oracle, and Microsoft. These products are mainly built in my companies stationed in US, UK and Japan and they keep in mind the procedures and accounting concepts of those countries. As and when implemented here, though the implementers do customize the product as per Indian requirement, still those customization are not as good as the original product and face a lot of difficulties post Go-live.



“Fig.1 : global ERP proportion ”

Selection rates. Given SAP's market share, it is no surprise the company often appears on procurement short lists, as indicated in this chart:

“Table 1”

Rates of Being Short listed	
Vendor	Frequency
SAP	35%
Oracle	24%
Microsoft Dynamics	17%

Although SAP achieves the top spot in short lists, both Oracle and Microsoft are more frequently chosen than SAP. As the survey report states: the study suggests that after "assessing the available information, organizations is not easily convinced that SAP is the best option." It is possible that SAP's reputation for being expensive and complicated to implement scares potential buyers [4].

Depending upon the above chart, though SAP, Oracle and Microsoft have a tough fight, still all of these are non-Indian software's and as a result, their compatibility with Indian **Financial Regulations** is little difficult.

IV. Conclusion and areas of further research:

To conclude, though a lot of research has been done in the area of ERP implementations, but impact of ever changing financial regulation is still a dark horse to watch. Research can be done on different types of financial regulations, including taxation, and its impact on the ERP so implemented in an organization. Being a functional consultant in a leading company in my past, I have seen projects/ implementations being failed due to frequent changes in the financial regulations by the government and statutory bodies. Bringing such kinds of loopholes in highlight, future failures can be avoided by different organizations as well as vendors. As of now, some ERP's do support changing financial regulations, but need technical support for them. And there are others, which need upgradation or heavy customization to suffice user's statutory needs. As no prior research has been done keeping financial regulations of India as a critical area of ERP implementations, this paper could be considered as a contributor to first step of this finding.

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