

**ENTERPRISE RESOURCES PLANNING (ERP) SYSTEM
IMPLEMENTATION:
A CASE STUDY IN YEONG CHAUR SHING PAPER MILL SDN BHD**

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APPROVAL

I/ We hereby declare that I/ we have read this dissertation, and, in my opinion, this dissertation is sufficient in terms of quality and scope as a partial fulfilment of the requirements for the award of Bachelor Degree in Technopreneurship with Honours

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This thesis is submitted in partial fulfilment of the requirements for the award of
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DECLARATION

ENTERPRISE RESOURCES PLANNING (ERP) SYSTEM IMPLEMENTATION:

A CASE STUDY IN YEONG CHAUR SHING PAPER MILL SDN BHD

I hereby declared that this thesis entitled
“Enterprise Resources Planning (ERP) System Implementation: A Case Study In
Yeong Chaur Shing Paper Mill Sdn Bhd”
is based on my original work except for quotations and citations which have been
duly acknowledged. I also declare that this thesis has not been previously and
concurrently submitted for any other degree or award at UTEM or other institutions.

SIGNATURE :

NAME :

DATE :

DEDICATION

This thesis is dedicated

To my parents, Mr Lui Eng Lee and Mrs. Kuek Soo Moi whom has always been there supporting me through my ups and downs and giving me the extra boost that I always needed to finish up my thesis.

My best friends, Miss Teo Khai Chin who always has been such a supportive person for me to finish what I have started.

Next, Prof. Madya Dr Chew Boon Cheong, my supervisor that has been guiding me and giving me the motivation to finish my thesis.

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ABSTRACT

Enterprise Resource Planning (ERP) system is one of the new technology that is sought-after among the enterprises as it could enhance their employees and improve their productivity. In the past, the ERP system was only practised by large enterprises. However, this trend is shifting as small and medium enterprises (SMEs) also have begun to utilize the ERP system in order to increase competency, enhance responsiveness to business demands and improve operational performance. However, the mentality of reluctant to change in sunset industry has made the ERP system adoption become more difficult. Therefore, it is vital to know the ERP system adoption in sunset industry such as Yeong Chaur Shing (YCS) Paper Mill Sdn. Bhd. in order to encourage other similar industry to use ERP system to increase their competency. Thus, this research is to investigate the factors that affect the ERP's system adoption in YCS and to identify the challenges that occur during ERP's system implementation in YCS.

ABSTRAK

Sistem Perancangan Sumber Daya Perusahaan (ERP) merupakan salah satu teknologi baru yang dicari di kalangan perusahaan kerana ia dapat meningkatkan pekerja mereka dan meningkatkan produktiviti mereka. Pada masa lalu, sistem ERP hanya diamalkan oleh perusahaan besar. Walau bagaimanapun, trend ini berubah kerana perusahaan kecil dan sederhana (PKS) juga telah mula menggunakan sistem ERP untuk meningkatkan kecekapan, mempertingkatkan tindak balas kepada permintaan perniagaan dan meningkatkan prestasi operasi. Bagaimanapun, mentaliti yang enggan menukar dalam industri terbenam telah menjadikan sistem ERP menjadi lebih sukar. Oleh itu, adalah penting untuk memahami penggunaan sistem ERP dalam industri terbenam seperti Yeong Chaur Shing (YCS) Paper Mill Sdn. Bhd. bagi menggalakkan industri lain yang serupa menggunakan sistem ERP untuk meningkatkan kecekapan mereka. Oleh itu, kajian ini adalah untuk menyiasat faktor-faktor yang mempengaruhi penggunaan sistem ERP di YCS dan untuk mengenal pasti cabaran-cabaran yang berlaku semasa pelaksanaan sistem ERP di YCS.

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CHAPTER 1

INTRODUCTION

1.1 Introduction

The first section of this research paper will portray the background that revolves around this research as well as the problems that this research has identified regarding the topic of Enterprise Resources Planning (ERP) system implementation. Moving on, this section also will highlight the research questions that are addressed as well as the objectives that the researcher is attaining through this research. Next, the scope and key assumption of this research are elaborated, and significance of this research is discussed.

1.2 Background of the Study

Malaysia has been a successful developing country and is forging ahead to become a developed nation in its own mould according to PM Dato' Seri Abdullah Ahmad Badawi (2014). One of the factors that made Malaysia a successful developing country is the contribution from manufacturing industries. The manufacturing industries play a vital role in the global economy and they have been fundamentally contributed towards fortifying the economy of numerous countries including developing countries. In 2017, the Gross Domestic Product (GDP) of manufacturing

industries Malaysia has growth 5.95% to RM 67574 million from the previous year (Trading Economics, 2017). In order to increase growth and competitiveness, manufacturing industries started to implement advanced manufacturing technology such as Enterprise Resources Planning (ERP) system.

In the past, the Enterprise Resources Planning (ERP) system was only practised by large organizations. However, in order to increase competency, enhance responsiveness and improve operational performance, small and medium enterprises (SMEs) also have begun to utilize the ERP system (Deep et al., 2008). There is an increasing number of SMEs implementing ERP in their business practice and the SMEs would have a significant growth by using the ERP system (Buonanno et al., 2005). According to Equey and Fragnière, (2008), ERP system merchants have started to compete in marketing and developing ERP systems that could fulfil the needs of SMEs when the marketplace for ERP systems for big enterprises has become drenched.

Enterprise Resource Planning (ERP) system is one of the new technology that is sought-after among the enterprises as it could enhance their employee and improve their productivity. According to Hwang and Min (2015), ERP system is a procedure by which a corporation (often a manufacturer) integrates and manages areas such as inventory, planning, sales, purchasing, marketing, human resources and finance into one manageable system by making a solitary vault of the database that can be shared by the whole association and its partners. Commonly, every department would have its own particular system for that division's job. With ERP system, each department will have its own system, yet it can interconnect and share data less demanding with others in the organization.

Implementing the ERP system could bring benefits to the SMEs; however, it is also accompanied by some risk. According to Malhotra and Temponi (2010), due to knowledge and resource restrictions, ERP system was rarely used by SMEs in the past. The ERP system may not able to be adopted by all the enterprise especially SMEs. A statistic from Panorama Consulting (2015) found that 21% of enterprises that had implemented ERP system had defined their projects as a failure and only 69% of the enterprises claimed that they would have chosen the same ERP system vendor again

if they could do it all over again. This implied that the enterprises are struggling to select and implement ERP system in a way that they consider as a success.

This research paper is aiming to understand the factors that have the potential to influence the adoption of ERP system in SMEs. An understanding of the respective factors will be able to provide researchers and ERP system developers with a better insight that will be of assistance during the development and distribution of ERP systems specifically for SME environment. Furthermore, this research will also focus on the challenges that will occur during the implementation of ERP system. The identification of the challenges that will arise due to the ERP system implementation will be able to help SMEs to prepare themselves for the adoption of ERP system.

1.3 Problem Statement

Previous studies (McGinnis and Huang, 2007) and (Bansal and Agarwal, 2015) have demonstrated the significance of ERP system in organizations' effectiveness, this is on account of the ERP system has turned out to be one of the main integrated IT infrastructure for some organizations, empowering them to compete in the local and global marketplace (Rashid et al., 2002). However, there are some SMEs that could not conduct the ERP system in a successful way. Among the 21% of enterprises which implemented ERP system have defined their projects as a failure and only 69% of the enterprises claimed that they would have chosen the same ERP system vendor again if they could do it all over again (Panorama Consulting, 2015).

Besides, the private endeavours particularly Chinese enterprises frequently have restrained access to formal budgetary due to the tight government regulatory toward the private division. (Shin et al., 2007; Wang and Yao, 2002). Having constrained resources prompts numerous small Chinese firms to sacrifice execution for lesser IT expenses. The stripped-down nature of the system will lead to overall integration and compatibility issues. The Chinese SMEs have limited financial support from the government. This lead to most of the Chines SMEs could not implement a customized ERP module that really fit into their business practice.

Moreover, the change management of SMEs is poor according to the Rushton (2011). Traditional SMEs that built up an organizational attitude that hesitant to improve and therefore have a little involvement in huge scale organizational change. The little involvement in a vast-scale organizational change made ERP system appear an intimidating project. Hesitate to change become obvious when workers found that the new system which is complex does not bring any enhancement.

Therefore, it is important to understand the ERP system adoption in SMEs such as YCS in order to encourage more SMEs to use ERP system to increase their competency. Human-intensive, ineffective usage of ERP system, lack of top management support, semi-auto technology, cultural misfit problem, low education level of an employee will lead to ERP system implementation failure. This result will prevent other SMEs from implementing ERP system and eventually will cause the decline of competency of SMEs with the global market.

1.4 Research Questions

Based on the issues discussed in the problem statement, this research will address the following questions:

- i. What are the factors that affect ERP system's adoption in YCS?
- ii. What are the challenges in ERP system's implementation in YCS?
- iii. What are the innovative suggestions to enhance the ERP adoption in YCS?

1.5 Research Objectives

To answer the outlined research questions, the following objectives have been specified for this research:

- i. To investigate the factors that affect the ERP's system adoption in YCS.
- ii. To identify the challenges that occur during ERP's system implementation in YCS.

- iii. To propose innovative suggestions to enhance the ERP adoption in YCS.

1.6 Research Scope, Limitation & Key Assumptions

This research used the medium manufacturing enterprise, Yeong Chaur Shing Paper Mill Sdn Bhd as a subject for this case study for the purpose of investigating the factors that influence the ERP systems adoption and to identify the challenges in ERP system implementation. The Small and Medium Enterprise (SME) definition is undertaken in 2013 and at the 14th NSDC Meeting in July 2013, a new SME classification was endorsed. The sector covered by SME definition is namely services, manufacturing, mining and quarrying, agriculture and construction. The new SME definition is used since first January 2014 and all statistics compiled prior to 2014 will remain status quo and will not be affected by the new definition.

The number of full-time workers and sales turnover are the two measures used in defining the classification with the “OR” basis as the following pinpoint. First, for the manufacturing sector, SMEs as firms with sales turnover more than RM15 million and not more than RM50 million OR a number of full-time workers starting from 75 to 200. Second, went for the services and other sectors, SMEs are definite as organizations with sales turnover from RM3 million to RM20 million OR a number of full-time employees not exceeding 75 persons. A business can qualify as an SME if it meets either one of the specified criteria which is sales turnover or full-time employees, whichever is lesser. In this research, Yeong Chaur Shing Paper Mill Sdn. Bhd. is fall under the medium manufacturing enterprises because it’s employees is not exceeding 200 people.

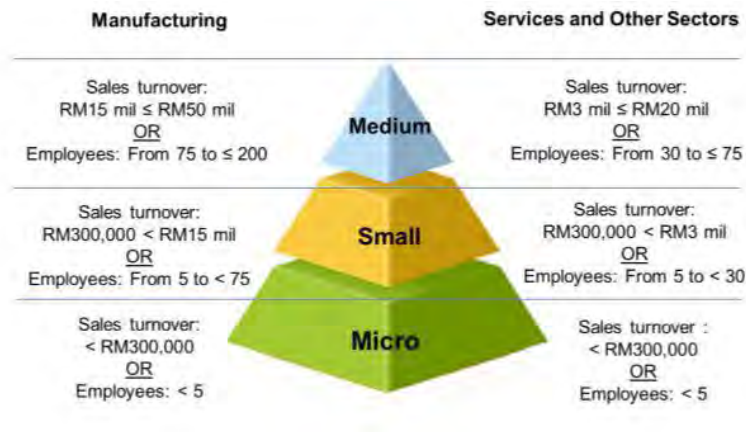


Figure 1.1: Detailed Definition of Category, Namely Micro, Small and Medium

The sales turnover is total revenue including other incomes. Briefly explains, full-time employees include all paid workers working for at least six hours a day and 20 days a month or at least 120 hours a month. However, active business partners, unpaid family members or friends and working proprietors who are working in the corporate and do not obtain consistent wages are excluded from the definition. For statistical purposes, all business establishments that fulfil SME definition will be classified as SMEs.

Many SMEs are opposed with the test of tracing production and procurement costs and the expenses related to these exercises. To fulfil customer demands with precise quality, quantity, cost and time, the manufacturing enterprise also needed to be agile with the regularly changing requests of customers (Kettunen, 2009). Due to ERP systems are broadly utilized in larger enterprises, SMEs may not believe the ERP system will benefit their enterprise. Hence, it is essential to deliver the issues associated with the acceptance and adoption of ERP systems in SMEs enterprise.

This research is to investigate the factors that affect the adoption of ERP's system within YCS which is mature technology-based manufacturing industry and identify the challenges of ERP's system implementation in YCS. The scope of the study will be the ERP's system users; the management department staffs only. Besides, this research will focus on the pre-implementation and implementation stage only. The limitation and key assumptions of the study are the researchers assumes that the respondents are honest, and they have adequate knowledge of the topic research.

1.7 Significance of the Study

The purpose of the study is to investigate the factors that affect the ERP's system adoption and identify the challenges to ERP's system implementation in YCS. The SME especially mature manufacturing industry could take this study into consideration before they implement the ERP system to increase the success rate of the ERP system implementation. On the other hand, it is crucial to identify the factors that will affect adoption of ERP systems for the ERP developers. This study could help the researchers and ERP system developer to develop and produce more appropriate ERP systems which are suitable to the SMEs sector through understanding the factors that influence the adoption of ERP systems in SMEs. YCS experience in ERP adoption could let the researcher to understand the factor and the challenges perceived by YCS, where this valuable experience would be helpful to understand how the SME perceive ERP, accept ERP, adopting ERP and allow the ERP developers to get ready with the handy technical assistance when a new SME wishes to adopt ERP in the near future.

1.8 Summary

This study will be concentrated on the factors that affect the ERP's system adoption in Yeong Chaur Shing Paper Mill Sdn Bhd, a traditional tissue manufacturing factory. ERP system is a system that helps to increase the efficiency and effectiveness of manufacturing operations, but with a high cost. Therefore, the study of compatibility of the ERP system to enterprises is crucial. The challenges of ERP system implementation in YCS will be studied and innovation suggestion will be suggested to increase the adoption of ERP system implementation in YCS.

CHAPTER 2

LITERATURE REVIEW

2.1 Entrepreneur Resource Planning (ERP) System

Entrepreneur Resource Planning (ERP) system is a process by which a company (often a manufacturer) manages and integrates areas such as planning, purchasing, inventory, sales, marketing, finance, and human resources into one manageable system by creating a single depository of the database that can be shared by the entire organization and its trading partners. Typically, each department would have its own system optimized for that division's task. With ERP system, each department still has its own system, but it can communicate and share information easier with the rest of the company. (Hwang and Min, 2015)

The beginning of ERP system in manufacturing was restrained only to production planning. The system extended to more area such as human resources management, financial management, assist management and order management in the mid of 1990s. Recently, the ERP system functionality has further extended to include e-commerce, supply chain systems, marketing automation and sales.

Typically, selection of the modules that fulfil the company needs is the first decision when the companies decide to implement ERP system. This is because most of the companies will select some modules that provided specific functionality that fit the company requirements. The companies would not implement all modules of ERP system because of the huge amount of money that the company needs to pay. The highly costed ERP system is not affordable to most of the companies and they do not use all the functionality in the system. (Parr and Shanks, 2000; Sheikh, 2003).

Therefore, companies normally implement some modules of ERP system only despite on implement all the modules in the system. The company will select the modules depends on the requirement of the company and based on the functionality of the modules. The specific modules that been selected should fulfil the particular requirements of the company and satisfy the business objective. (Parr and Shanks, 2000; Sheikh, 2003; Rolland and Prakash, 2001).

2.2 Enterprise Resource Planning (ERP) System Implementation

Typically, an ERP implementation is considered as a large project, that the enterprise did not experience before. Consequently, according to Bendoly & Schoenherr (2005), enterprises need to understand their own capability such as provided maintenance, their ability to use the system effectively and to take advantage of system opportunities in terms of innovation and development before the ERP implementation. Throughout the implementation of ERP processes enterprises might have some changes in their own business practices, and this might lead to improving the entire supply chain. Therefore, competitive advantage in the marketplace is gained.

Loonam and McDonagh (2005) claimed that the enterprise must pass through three stages when they wish to implement ERP system.

2.2.1 Pre-implementation Stage

This is the stage where enterprises need to decide what is the objective of implement the ERP system and the expectation of the enterprises towards the ERP system. They also need to know what they should prepare before initiate ERP implementation, and what are the critical success factors that could help them to accomplish successful implementation. According to the Herold et al. (1995) and (Abdinnour-Helm and Lengnick-Hall, 2003), there are three stages of technology implementation. When the organization has decided on an option, the result is an adoption and this adoption point marks the beginning of the pre-implementation stage.

2.2.2 Implementation Stage

Implementation stage is the stage which requires the company to anticipate and be prepared for the coming challenges and problems expected during this phase. During this stage, organizational and technical issues will usually arise.

2.2.3 Post-implementation Stage

Post-implementation is the last stage in the implementation where companies need to keep up-to-date with the latest technology. The company will have certain strategies to sustain the latest technology.

In this research, the researcher focused on the pre-implementation and implementation stage. The post-implementation stage is not considered in this research because the post-implementation stage with the effect would take a long time which might turn this research into a longitudinal study.

2.3 Factors Affect ERP System Adoption

It is hard to distinguish and define the idea of technology acceptance from technology adoption when the acceptance of information systems within the diversity of technology acceptance field is so successful. Technology acceptance can be recognized as ‘an attitude towards a technology’ which affected by several factors according to Renaud and Van Bilion (2008). When a user of the technology becomes alert to the technology and has an intention to use that technology, it can consider as an initiated process in technology acceptance.

On the other hand, According to Premkumar and Bhattacharjee (2008), technology adoption diverse from technology acceptance which technology adoption is the actual use of the technology. The user’s intention to utilize the technology may change through the process of adoption which will influence both the adoption and acceptance of the technology. Therefore, various technology acceptance and adoption models have been put advanced after some time.

Unified Theory of Technology Acceptance and Use of Technology (UTAUT) model framed by Venkatesh, et al. (2003) is one of the most prominent in the acceptance and adoption models. UTAUT combined a total of eight previous models and theories such as technology acceptance model (TAM), theory of planned behaviour (TPB), combined of TPB and TAM, theory of reasoned action (TRA), model of personal computer utilisation, social cognitive theory, innovation diffusion theory and motivational model that cover technology acceptance and technology adoption,

The purpose of the UTAUT model is to understand the factors that will affect the individual's acceptance of new technology in an organization. In this research, the UTAUT model was used to determine the factors that affect the ERP system adoption. According to Venkatesh et al. (2003), UTAUT defines four factors that influence intention of the technology usage and behaviour.

2.3.1 Performance expectancy

According to Venkatesh et al. (2003), performance expectancy is 'the degree to which an individual has faith in that using the system will help him or her to achieve improvements in job performance'. It is a factor of workers' intention to utilize the ERP system to increase their job performance.

2.3.2 Effort expectancy

Effort expectancy refers to 'the degree of ease associated with the use of the system' (Venkatesh et al., 2003). In this research, the effort expectancy was used to determine the degree of ease associated with the use of ERP system.

2.3.3 Social influence

Social influence refers to 'the degree to which an individual perceives that important others believe he or she should use the new system (Venkatesh et al., 2003). In this research, the social influence was used to determine the degree of the value chain allies or competitors influencing the workers to utilize the ERP system.

2.3.4 Facilitating Conditions

Facilitating conditions refer to ‘the degree to which an individual believes that an organisational and technical infrastructure exists to support the use of the system’ (Venkatesh et al., 2003). The degree of workers believes that the organization and technical infrastructure exist to support the use of ERP system is determined in this research.

The impact of these four key factors is influenced by age, voluntariness, gender and experience. In this research, all the determinants will be dropped because of the ERP system is implemented in YCS and all the workers in YCS are compulsory to use the ERP system. Therefore, all the workers that grouped by different gender, age and experience will be included in this research despite their voluntariness in using this ERP system.

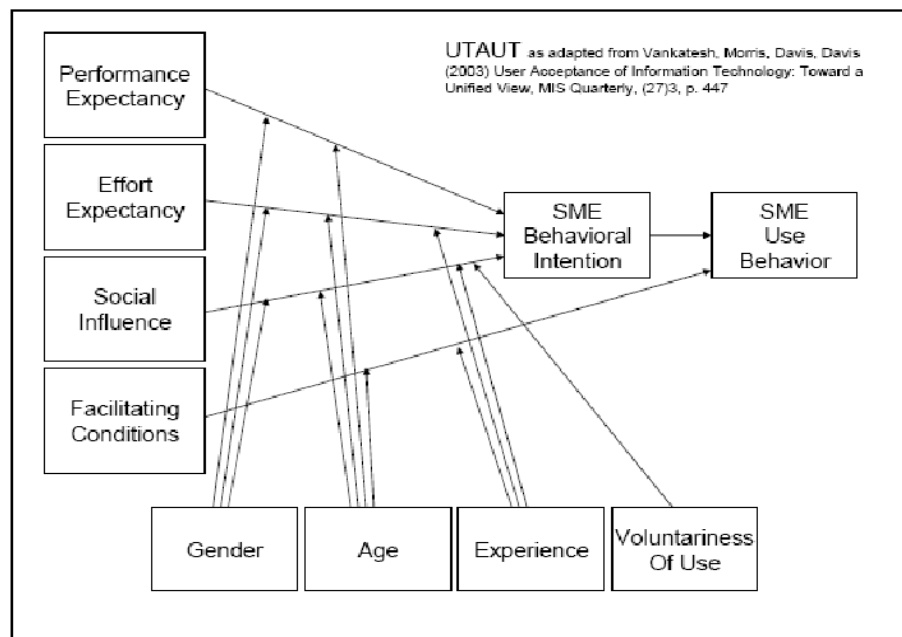


Figure 2.1: UTAUT model (Venkatesh et al., 2003).

2.4 Challenges of ERP system implementation

There are some challenges to ERP system implementation that will be faced by the SMEs. According to Rushton (2011), there are eight challenges such as cultural impact, resources availability, technological capability, support from top management, project management, change management, employee training and vendor support.

2.4.1 Cultural impact

Cultural impact can significantly impact on the business world. This statement is significant true when it concerns the enterprises that tend to be family-run. Decision making in such firms relies on owner knowledge and insight, which runs counter to the formal nature that characterizes software applications like ERP. When settling on an imperative business decision, local managers would rather have confidence in their own judgment without truly alluding to the information produced by the ERP system. They had the anxiety that ERP would deny their benefit associated with data possession and their prompt status would be evening out with the lower status representatives.

On the other hand, according to Zhu et al. (2005), organizational members in traditional SMEs prefer face-to-face communications rather than communicate or exchange information through ERP systems. There are a few business issues with the outer accomplice was really settled in supper parties outside the workplace. The estimation of correspondence effectiveness achieves by ERP system will be lessened by such personalism-based business condition.

2.4.2 Resources availability

According to Kwahk and Ahn, (2010) and Chang et al. (2008), in spite of the fact that ERP ventures are esteemed costly by any endeavouring enterprise, private ventures are under the more prominent weight of resources shortage. Besides, the private endeavours particularly Chinese enterprises frequently have restrained access to formal budgetary due to the tight government regulatory toward the private division. (Shin et al., 2007; Wang and Yao, 2002). Having constrained resources prompts numerous small Chinese firms to sacrifice execution for lesser IT expenses. The stripped-down nature of the system will lead to overall integration and compatibility issues. The traditional SMEs have