Open Source ERP for SME

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Abstract. There are huge barriers for small medium enterprises (SME) to adopt enterprises resource planning (ERP) into their systems. Open source ERP is one of the solutions to overcome it. This paper describes the reason of SME to apply open source ERP, examines seven open source ERPs, and highlight critical success factors for implementing open source ERP in SME.

Keywords: Open Source, ERP, SME, Critical Success factors

I. INTRODUCTION

There is a long process before goods are received by customers. The process begin from raw materials are procured; goods are produced by manufacture, shipped it to distribution channel, store in warehouse and then sent to customer. Many parties are involved in this chain: supplier of raw material, manufacturer, distributor, wholesaler and retailer. Each of them has their own business process. As general, it consists of three processes: purchasing from supplier, selling to customer and internal business controlling. These processes are complex and cost a lot. It needs e-commerce application to support this business process.

E-commerce is ‘the conduct of business communication and transaction over networks and through computers or as buying and selling of goods and services, and the transfer of funds through digital communications’[1]. It contains all inter-company process such as supply chain management and customer relationship management and intra-company functions such as marketing, finance, manufacturing, and human resource. Integrated application for manage intra-company function as unified system rather than separated system is called enterprise resource planning or ERP [2].

There are three aspect of supply chain that will be affected by e-commerce, physical flows, Information flows and financial flows [1]. Companies will avoid physical flow of information. Thus, Order, transaction and any other process will be build online for efficiency and reduce error. Furthermore, information flow can be accessed 24x7x365 hour per year to non-stop service for customer and electronic payment services provide automatic financial flow between parties.

The first adopter of supply chain management (SCM) and ERP system are big companies. They need it to make efficient process of transaction among many parties, simplify procurement process to gain lower prices, opening new market, stock efficiency and feedback for customer for product design. Small medium enterprises (SMEs) also want to gain benefit from SCM and ERP but different with big companies goals, SMEs motivation are observing new market, strategic for competition, faster operation, long term partnership, faster successful entry, benchmark competitive position, procurement cost saving [3].

![Fig. 1 SME Main Motivations For Electronic Commerce](image)

However, many barriers inhibit SMEs to adopt SCM. List below explain some obstacle for SMEs to entry SCM base on research in Czech [3]:

1. SMEs have higher susceptibility so they more careful to use new and unproven concepts. They cannot afford the experiment too much.
2. SMEs have a unique business style, commonly based on individual connection and community links
3. SMEs have considerably higher cost awareness and ROI priority
SMEs have higher risk awareness – one failure might be the last one (which is not as true for large corporations, at least in the area discussed).

SMEs have more difficult access to verified success-story information and also have a attitude cannot trust anyone.

SMEs have different characteristics of competitive pressure (large enterprises are expected to be at the forefront).

SMEs lack confidence and trust in new technologies.

SMEs usually using low bandwidth Internet dial-up connections, as their understanding of the connectivity value does not justify more expensive fixed line or broadband technologies.

SMEs face little pressure to drive down their operational costs (typically reasonably low), but show a more careful approach to investments.

SMEs lack experience/education/understanding of the e-Commerce opportunity.

In order to overcome the barriers, some solutions had been identified by [3]. Table below summarize the solutions.

<table>
<thead>
<tr>
<th>SME Requirements/Needs</th>
<th>Service Response</th>
<th>Condition</th>
<th>Commentary</th>
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<tbody>
<tr>
<td>Outsourced application services</td>
<td>The source code must be available to user.</td>
<td>The software distribution must include the source code (i.e., the original programming language), or else the code must be made available by free, public Internet download.</td>
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</tr>
<tr>
<td>eCommerce services providing new business contacts</td>
<td>The software must be redistributable.</td>
<td>The user of an OSS release is given full rights to reproduce and redistribute the software, on any medium, to any party, either gratis or for a fee.</td>
<td></td>
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<tr>
<td>Business process management services</td>
<td>The software must be modifiable, and the creation of derivative works must be Permitted</td>
<td>All users are given the right to modify the software or produce derivative works. There is considerable variation among licenses regarding whether or not modifications must also be released publicly under an OSD compliant license.</td>
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<tr>
<td>Targeted effort to ensure security of both - data and business transactions</td>
<td>The license must not discriminate against any user, group of users, or field of endeavor</td>
<td>In an attempt to counter overtly ideological content in software licenses, the OSD precludes any limitations on the possible uses of an OSS distribution.</td>
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<tr>
<td>Supportive elaborate system for credit rating business partners</td>
<td>The license must apply to all parties to whom the software is distributed.</td>
<td>While some licenses might allow modifications to be released under a non-compliant license, an OSS</td>
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distribution cannot be “relicensed” by the user. The license cannot restrict aggregations of software. OSD compliant licenses cannot be limited to a particular distribution, nor can they seek to contaminate separately licensed software with which it is aggregated.

OSS has been grown up significant in many categories software, operating system, databases, web server, development tool, offices and business application. Now, Companies select OSS not only because of low total cost of ownership but also believe in their high quality. Bugs have been fixed quickly by using collaborative technology. Base on research of Mehmet gencer et al, OSS has been spread and used in almost all government organization over the world. They clustered the country into five cluster using Internet usage and human development indicator as follow [7]:

1. Cluster 1: Low relative Internet usage, mid-range hdi; mid-range open source count reflecting the mid-range size (i.e., population) of the country. This cluster contains 24 countries, among them Bulgaria, Latvia, Croatia, Vietnam, Armenia, and Iran.
2. Cluster 2: Low relative Internet usage, mid-range hdi; low open-source count reflecting the smaller size of the country as compared to Cluster 1. This cluster contains 33 countries, among them Belize, Samoa, Tonga, the Bahamas, Panama, and Puerto Rico.
3. Cluster 3: Low relative Internet usage, mid-range hdi; higher open source count reflecting the larger size of the country as compared to Cluster 1. This cluster contains 18 countries, among them the Russian Federation, Poland, Brazil, China, Thailand, and Romania.
4. Cluster 4: Highest relative Internet usage, highest hdi; very high open source count, almost irrespective of the population size. This cluster contains 35 countries, among them the United States, Germany, France, the United Kingdom, Canada, and Italy.
5. Cluster 5: Very low relative Internet usage, very low hdi. This cluster contains 30 countries, among them Sierra Leone, Sudan, Pakistan, Myanmar, Laos and Kenya.

It is no doubt to used open source software anymore, high quality, used everywhere and low total cost ownership are some basic reasons. Build by community in collaboration environment make OSS have proven quality. Table above shows how OSS in government organization had reduced the using of proprietary software. It also described the spread of OSS in the world. No license cost and various supports by community lead low total cost of ownership that appeal numerous government, company and individual to use it.

### III. IMPLEMENTATION SUCCESS FACTOR

However, software is only one of success factor to implement ERP in the company. Nah, Zuckweiler and Lau have already run through eleven success factors to implement ERP. List below show that eleven factors and reference list for the support [9]

#### TABLE IV

| Most of experts believe that ERP teamwork and composition and change management culture and program are the most important factor. Companies need to prepare their human resource or outsourcing it to implement ERP. ERP teamwork shall be selected from cross-functional best people who has empowered decision maker and work full time. They must have business and technical knowledge on ERP. Operational changing should work smoothly and govern thoroughly, socializing and training needed in change |
management program. Support from top management is the next success factor that will give energy for implementation success. Top management should approve, publicly leverage process and bar is one of the systems that to learn new technical skill to legitimize change, and any customization possibilities SQL Ledger has LX Office should only be downloaded things leads to increasing cost, effort, time, and hard shifting skill comprehensively to match with business ERP teamwork and composition, OS ERP should be selected [8]. SQL Ledger is accounting focused and is proved internationally. It is best used out-of-the-box or as accounting module in an integrated solution. The SQL Ledger fork LX Office should only be evaluated for the German speaking market. GNU Enterprise is not production ready and missing any reference customers. TinyERP is evolving fast, provides more ERP functionality than SQL Ledger and can be customized with add-on modules. ERP5 and Open taps (OfBiz) have very flexible architectures. ERP5 is following a purely object oriented approach, whereas Open taps/OfBiz is more relational database centric. Compiere, the current market leader, is a mature system, providing many customization possibilities [8].

However, Because of the most important success factor is ERP teamwork and composition, OS ERP should be selected comprehensively to match with business process and staff skills. Forcing teamwork member to learn new technical things leads to increasing cost, effort, time, and hard shifting process. This factor reflected in 10 most popular OS ERP downloaded from www.sourceforge.net [10]

Less customization in business process reengineering makes the user adopt easily. Employee will give their full potential when they know business plan and vision of the companies. It will give them goal in work. Project champion is someone who has the power to set goals, legitimize change, and leadership skill in organization. Project champion will resolve conflict and resistance because of excess of implementation of the new system. Every goal and expectation in each level should be well communicated as milestone. It will leverage the success and learning environment. Every milestone and target then needs to be monitor and evaluate. Evaluation will show the progress of implementation performance. Software development and testing should be well managed to avoid reconfiguration in every stage and discrete system. Business and IT legacy system determine the BPR or change management level [9].

IV. SELECTING OPEN SOURCE ERP

Thomas Herzog had made a research about comparing open source ERP system [8]. He compared 7 OS ERP systems: SQL Ledger, LX Office, GNU Enterprise, TinyERP, ERP5, Open taps and Compiere. He pointed out that SQL Ledger has accounting focus and is proved internationally. It is best used out-of-the-box or as accounting module in an integrated solution. The SQL Ledger fork LX Office should only be evaluated for the German speaking market. GNU Enterprise is not production ready and missing any reference customers. TinyERP is evolving fast, provides more ERP functionality than SQL Ledger and can be customized with add-on modules. ERP5 and Open taps (OfBiz) have very flexible architectures. ERP5 is following a purely object oriented approach, whereas Open taps/OfBiz is more relational database centric. Compiere, the current market leader, is a mature system, providing many customization possibilities [8].

From top ten OS ERP, five applications are using PHP and three coded by Java. These are the most common programming languages. Thus, ERP teamwork member should be familiar with one of the languages; otherwise company should train, hire, or outsource the services. The team also should consider OS ERP features, sophisticated systems sometimes too complicated for user while simple system is difficult to serve increasing business requirements. Modular system like Dolibarr is one of the systems that provide the flexibility.

Moreover, assessing the application on controlled environment before deploying it in real world business process is a wisdom step. It will lead identification of change management requirements and training. Employee also can prepare their self in new business process.
V. CONCLUSION

As a part of supply chain, SMEs also want to have efficient organization and have transaction to big companies. Big companies usually enforce SMEs to use e-commerce in transaction. In order to exchange information electronically, SMEs need to manage their internal business process efficiently. ERP can be chosen to make integrated system among business process. However, implementing ERP is expensive and need huge resources.

Open Source ERP is ideal solution to provide low total cost ownership and high quality system. Many OS ERP can be selected depends on resources of SMEs and needs. Actually, selecting software is only one factor from eleven factors presented in this paper. Considering business process and organization resources are the key point to success in implementing ERP.

REFERENCES


[10.] http://sourceforge.net/directory/os%3Amac/freshness%3Arecently-updated/?q=erp&sort=popular accessed on 28 May 2012