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Financial impacts of enterprise resource planning implementations

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Abstract

Debate exists regarding the contribution of information technology to firm performance reflecting predictions of a positive, negative, or nonexistent relationship. Prior research has examined technology and firm performance in the aggregate, however, this study focuses on a specific technology – Enterprise Resource Planning (ERP) and its impact on firm performance. Economic and industrial organization theories provide the basis for the examination of how ERP systems affect firm coordination and transaction costs. ERP systems are expected to: (1) reduce costs by improving efficiencies through computerization; and (2) enhance decision-making by providing accurate and timely enterprise-wide information. These effects should be associated with improved firm performance. This research finds, after accounting for within-firm variances, no significant improvement associated with residual income or the ratio of selling, general, and administrative expenses in each of the 3 years following the implementation of the

ERP system. However, a significant improvement in firm performance resulting from a decrease in the ratio of cost of goods sold to revenues was found 3 years after the ERP system implementation (but not in the first or second year after implementation). Further, there was a significant reduction in the ratio of employees to revenues for each of the 3 years examined following the ERP implementation.



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Keywords

IT productivity; Economic theory; ERP

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