Chapter 7.8

Analyzing Diffusion and Value Creation Dimensions of a Business Case of Replacing Enterprise Systems

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ABSTRACT

This chapter uses the Diffusion of Innovations (DOI) theory and examines a business case, highlighting certain gaps in the theory. First, confusion can be present between the innovation construct (in this instance, replacing the enterprise systems) and the diffusion construct (that is, selling that innovation to upper management). Second, the business case has never been examined in diffusion research. Research about business cases generally focuses on techniques such as Discounted Cash Flows and Total Cost of Ownership. Third, although a good business case can lead to successful innovation, it should not influence upper management to be overly positive or too cautious. One extreme leads to over-commitment. The other extreme leads to under-commitment or upper management's inability to commit. Both extremes have unexpected and undesirable consequences. This single-case study examined a business case. The data included in the triangulation are observations, in-depth interviews, and archival documents. The analysis of a business case document was done with the ATLAS.ti v5.0 software. It is hoped that understanding a "real world" business case will give the academics insights on the relationship between the innovation and its diffusion as well as teach the practitioners the caveats of a business case.

INTRODUCTION

The consequences of a bad business case are certainly disastrous. Two business cases, one presented to the upper management of FoxMeyer (United States) and the other one to that of Fonterra (New Zealand), are good examples. The former company went bankrupt. The latter incurred a huge sunk cost of about NZ$ 260 million. The Diffusion of Innovations (DOI) theory enhances the understanding of the business case development (process), the business case document (product), and the message conveyed (diffusion) to the upper management by the executive sponsor (adopters and social networks). Business case matters in walking the innovation. It is a form of diffusion that comes with consequences.

A business case is generally ambitious. It has to be and it should be. Radical innovation with regards to replacing enterprise systems poses big risks to big organizations like FoxMeyer (USA) and Fonterra (NZ). Without great expectations, the projects of FoxMeyer and Fonterra would not have started in the first place. FoxMeyer did not succeed in its Project Delta III which bundled with the SAP R/3 and the Pinnacle warehouse-automation. In Chapter 11 (of the Bankruptcy Code), its gatekeepers claimed that their implementation of the enterprise systems drove them to bankruptcy (Caldwell, 6 July 1998; O'Leary, 2000; Stein, 31 Aug 1998; SAP and Deloitte Sued by FoxMeyer, 27 Aug 1998). They sued SAP and Andersen Consulting for a total of US$1 billion dollars. The dairy giant Fonterra put on hold its global SAP ERP project called Project Jedi (Foreman, 2007). Project Jedi is supposed to standardise its disparate manufacturing systems in line with its new business model of "One Team, One Way of Working" (Jackson, 2006; Ministry of Economic Development, Feb 2004). Fonterra justified the suspension of the project: first to reduce further capital spending and second to provide its farmer-shareholders slightly higher dividends (Jackson, 2006). It did not escalate Project Jedi despite of

the huge sunk costs of about NZ$ 260 million from 2004 to 2006.

The Fonterra experience is a good example of conflict between shorter-term stability and longer-term change to sustain and manage growth (Burrell & Morgan, 2005; Dettmer, 2003; Trompenaars & Prud'homme, 2004). Fonterra attempted to simplify the business processes, shrink the distance of its "food" chain, and deliver the value proposition of "quality and reliability at the right price" (Ministry of Economic Development, Feb 2004). Because this vision has the capacity to sustain growth, it outweighs the risks of Project Jedi and the substantial cash flows required to finance it. Fonterra managed its longer-term change through Project Jedi, which constituted a radical innovation. However, it suspended that project to manage its shorter-term stability in the form of dividends (cash flows) to its shareholders. There could be other actual behind-the-scene reasons for the suspension.

The undesirable unexpected consequences experienced by FoxMeyer and Fonterra highlight a concern in the business case. In large organizations, upper management generally makes accept-reject decision on the basis of a business case. It is a matter of corporate governance to impose a business case for capital expenditures. The innovation could be strategic to a vision or reactive to a crisis. Their executive sponsor explores all options that best fit the strategic or reactive intentions and then develops a business case for submission to the upper management for approval and funding. The business case "sells" the innovation. It attempts to diffuse that innovation to the upper management to make favorable accept-reject decision (aka, adoption decision). Project Delta III and Project Jedi would not have started if their business cases were not convincing. Good business cases sell. The spectacular ones make the upper management over-commit. This is a reality. A business case influences upper management to be cautious, positive, or overly positive. At one extreme of the continuum is upper management's inability to

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