



# The mediating role of knowledge transfer and the effects of client-consultant mutual trust on the performance of enterprise implementation projects



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## ARTICLE INFO

### Article history:

Received 2 April 2014

Accepted 5 April 2014

Available online 18 April 2014

### Keywords:

Knowledge transfer

Mutual trust

Enterprise systems

Implementation

Consultants

Mediation

## ABSTRACT

Enterprise systems represent a strategic asset that enables an organization to integrate business processes and data throughout its organization. Firms often rely on consultants to transfer implementation knowledge to their employees and expect successful project outcome; however, widespread project failures raise concerns regarding whether the use of consultants are effective. This study examines whether mutual trust affects knowledge transfer effectiveness which then impacts project outcome. Building on psychological contract, knowledge management, and trust literature, the results of this matched-pair, field survey suggest knowledge transfer mediates the relationship between mutual trust and project outcome. Implications for research and practice are discussed.

Published by Elsevier B.V.

## 1. Introduction

A firm's portfolio of information systems (IS) represents a critical and strategic organizational resource. Complex information systems, including enterprise systems, represent a strategic asset that enables an organization to integrate business processes and data throughout its entire organization, as well as with its suppliers, vendors, and customers. Given the size, magnitude, and potential risks associated with enterprise systems implementation projects, there have been many studies examining success factors [1,6,11,26].

Although numerous studies involving “lessons learned” of successes and failures of implementation of enterprise systems have been discussed and documented in the literature, one notable critical success factor is the use of external consultants to aid in the implementation via transfer of knowledge to business clients [4,20,31]. Knowledge required to successfully implement enterprise systems is not typically held by business clients. The most optimal and practical way to fill this gap is to draw on the expertise of external consultants who specialize in the implementation of enterprise systems. The transfer of implementation knowledge

from consultants to business clients is critical for meeting the perceived needs of the client organization and for achieving a successful implementation outcome. Yet, the widespread failures of enterprise implementations suggest that practitioners are unsure how to leverage consultant's knowledge and embed them into work routines and management practices, or the working relationship between external consultants and business clients prevents them from successfully transferring their knowledge which ultimately affects the success of the project.

These widespread failures raise concerns regarding whether the use of external consultants to aid business clients in the implementation projects are effective. Embedding knowledge into work routines and management practices is largely a function of absorptive capacity, or the ability for a business client to recognize and value the importance of externally-sourced knowledge, assimilate it, and apply it [5]. Absorptive capacity implies pre-existing “stock of knowledge” that is brought to the implementation project – i.e., effective transfer of knowledge is dependent on existing knowledge base prior to the start of the project. In the implementation of enterprise systems, business clients often lack absorptive capacity; business clients typically do not have the implementation knowledge required to ensure successful project outcome.

It could also be that the development of a positive working relationship between business clients and external consultants

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plays an important role [32] particularly since implementation of enterprise systems typically last months or years. Relationships characterized by ease of communication and intimacy have shown to facilitate knowledge transfer, and relationships based on competence and benevolence trust have been found to positively impact knowledge transfer [19]. Hence, there is support suggesting that a positive working relationship influences knowledge transfer. However, relationship involving mutual trust has not been explored; prior studies have not examined the *level* and *agreement* of trust for one another. A better understanding of mutual trust, knowledge transfer, and their effects on enterprise systems implementation project outcome will aid both consultants and business clients, and the overall management, in delivering successful projects. Therefore, this study seeks to address the following research question: *To what extent does mutually trusting relationship impact the transfer of knowledge, and ultimately project outcome?* This study appears to be the first to integrate mutual trust with knowledge transfer for examining project outcome in the context of enterprise systems implementation projects involving external consultants. The results of this field survey suggest that knowledge transfer partially mediates the relationship between mutual trust and project outcomes.

The remainder of the paper is organized into five sections. First, a review of prior literature on psychological contract, trust, and knowledge transfer is presented. Second, a research model of mutual trust, knowledge transfer, and project outcome is developed. Third, methodology and the results of reliabilities, validities, factor analysis, and multiple regression analyses are presented. Fourth, implications are discussed. Finally, concluding remarks are offered.

## 2. Prior literature

Several research streams are useful for gaining an understanding about the relationships among mutual trust, knowledge transfer, and project outcome. Psychological contract literature is a useful lens for examining the role of trust in a sourcing relationship context; knowledge management literature provides a framework that examines knowledge transfer and its relationship with antecedents and performance; and information systems literature, specifically enterprise systems implementation, provides a vehicle and a context for understanding the roles of business clients and consultants in their attempt to successfully implement enterprise systems.

### 2.1. Psychological contract and trust

Although the use of external consultants has been identified as a critical success factor, management of IS projects involving external consultants continues to challenge organizations. An inevitable part of IS sourcing strategy involves the use of contracts to ensure expectations are met and obligations are satisfied by external consultants and business clients involved in projects. Researchers examining external consultants have considered the role of psychological contracts – unwritten contracts regarding contractual parties' mental beliefs and expectations about their mutual obligations in a contractual relationship, and are largely based on perceived promises of a reciprocal exchange [28] – in affecting project outcomes. Moreover, psychological contracts have been considered in terms of unwritten and largely unspoken sets of congruent expectations held by the involved parties about each other's prerogatives and obligations, consultants' and clients' expectations of one another's obligations, and shared or mutual understanding about parties' obligations [24].

Psychological contract is an important element of any complex business relationship, the objective of which is to facilitate

cooperative work. The literature strongly suggests that trust must be placed in unwritten promises and obligations between the parties, and concludes that trust plays an important role in affecting knowledge transfer and project outcome [16].

Business clients rely on external consultants to transfer knowledge to facilitate successful project outcome, and trusting the other leads participants to work together for achieving project goals. Trust literature provides considerable evidence that trusting relationships lead to greater knowledge exchange – in other words, when trust exists, people are more willing to transfer knowledge with one another. Trust has found to facilitate voluntary exchange which promotes knowledge transfer activities suggesting that knowledge spillover benefits accrue through the development of trust.

Clearly, trust is an important element of psychological contract, and researchers have found it to positively influence transfer of knowledge [29]. In the IS sourcing context, an embedded relationship led to the creation and growth of inter-organizational resources – in other words, trusting relationships aid in transferring knowledge. Thus, it is possible to effectively transfer knowledge and attain project goals by informally regulating the behavior of individuals through the development of trust [8].

### 2.2. Knowledge transfer and performance

While various knowledge transfer frameworks have been proposed, the relationship between knowledge transfer and performance remains largely unexplored. In their theoretical framework, Argote and colleagues [3] note that very little empirical studies have examined the relationship between knowledge transfer and its impact on performance. Much of this literature embodies an intuitively appealing, but untested assumption that effective knowledge transfer improves performance outcomes.

Advocates of knowledge management claim that there are important implications for knowledge transfer and subsequent focal unit's (i.e., individual, group, or organizational) performance. Researchers have stressed the importance of examining knowledge transfer involving *social relations*, "*fit*" across many domains, and *organizational boundaries*, to name a few, as means to better understand how to improve focal unit's performance.

Among the many IS contexts available, transfer of knowledge from consultants is seen as very important to a successful implementation of enterprise systems. Unlike traditional IS development-implementation situations, enterprise systems typically require a tight integration of business processes and data across various functions throughout an organization. Such tight integration among the various functions is made possible in part due to the important roles assumed by both business clients and consultants during the implementation process – consultants provide knowledge related to the enterprise applications whereas business clients provide in-depth knowledge of functional business processes. However, not much is known about the impact of knowledge transfer from consultants to business clients (i.e., users) in the context of enterprise systems – a setting where knowledge is primarily tacit, knowledge structure of the participants is asymmetrical, knowledge crosses organizational boundaries, and business clients assume a larger and more significant role. Hence, understanding the impact of knowledge transfer in enterprise systems implementations is important.

## 3. A model of mutual trust, knowledge transfer, and project outcome

Psychological contract, trust, knowledge transfer, outsourcing, and enterprise systems implementation literatures provide the

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