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Knowledge management in client–vendor partnerships

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ABSTRACT

Partnerships between business clients and vendors are increasingly becoming more common as firms strive to reduce cost and outsource non-core activities. Some firms proactively manage the knowledge gained from such partnership while others do so to a lesser extent. Through a questionnaire survey of business clients in Singapore, this study helps to shed some light on the nature of client–vendor partnership, factors affecting knowledge transfer (defined in terms of knowledge codifiability, client's motivation for partnership, vendor's willingness to share, and trust between client and vendor). In addition, we also examine mechanisms for knowledge dissemination within the client organization and the impact on the IT function. The results should be of interest to both researchers and practitioners in better understanding how such partnership could be managed more effectively.

1. Introduction

Organizations are increasingly partnering with software vendors and service providers for a variety of information technology (IT) related services, including applications development, systems integration, and IT operations. The range of partnership varies from supporting simple operational requirements such as help desk support to becoming a strategic business partner managing all the IT services for the organization. In fact, in interviews with IT executives, Dail (2005) found that 70% wants stronger relationship with their vendors.

There has been a dramatic change in organizational make and buy decisions related to IT products and services as organizations shift from in-house development and operations of their IT needs to selective outsourcing of IT products and services to supplement their internal capability and expertise. Further, the traditional reason of "cost savings" from outsourcing is increasingly complemented by the need to build long term competitive advantage, acquire knowledge and learn from their partners. In addition, effective management of both endogenous and exogenous knowledge can enhance a firm's dynamic capabilities (Sher & Lee, 2004).

Partnerships often require significant information and knowledge flow between the business client (henceforth referred to as client) and the vendor. Both the vendor and client can benefit from this knowledge flow in improving their operations and business outcomes. Basically, vendor possesses much technical knowledge while client possesses business knowledge (Rus & Lindvall, 2002). This may result in knowledge asymmetry and knowledge barriers (Attewell, 1992) which can be mitigated through knowledge transfer between vendor and client.

Further, the knowledge exists in two primary forms: explicit (transmittable in formal, systematic language) and tacit (difficult to codify in formal, systematic language) (Nonaka, 1994). Very often, organizations do not realize the volume of knowledge it receives from various inter-organizational partnerships and perhaps, do not realize the value of the knowledge received. Hence, most organizations may not have appropriate strategies to facilitate the acquisition and assimilation of knowledge received at different points of contact between the client and vendor. This has resulted in an inability to derive maximum benefits from such partnerships.

Consequently, organizations increasingly recognized that in order to build and sustain competencies, it is essential to make knowledge available to the right worker at the right time and the right place (Drucker, 1995; Kwan & Balasubramanian, 2003). Further, knowledge management is a necessity and a source of competitive advantage (du Plessis, 2005). Hence, it is not surprising that research on knowledge management (KM) has increased significantly over the years. Researchers have examined technological, managerial, and cultural factors that facilitate KM (Alavi & Leidner, 2001; Teo, 2005; Teo & Men, 2008), KM frameworks (Nonaka & Konno, 1998), relationship between KM and other business functions (Yahya & Goh, 2002), knowledge sourcing (Gray & Meister, 2006), knowledge transfer (Li & Hsieh, 2009; Schulz, 2003), knowledge sharing (Sulaiman & Burke, 2009; Teo, Nishant, Goh, & Agarwal, 2011; Wasko & Faraj, 2005) knowledge integration (Basaglia, Caporarello, Magni, & Pennarola, 2010; Grant, 1996) and absorptive capacity (Jansen, Van Den Bosch, & Volberda, 2005).

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In the area of client–vendor partnership, related research includes those in the strategic alliance literature (which tends to be mostly non-IS) as well as research on outsourcing. While the strategic alliance literature has examined knowledge transfer, learning and innovation (e.g., Eunni, Kasuganti, & Kos, 2006; Inkpen, 2005), the examination of knowledge transfer in the outsourcing literature is still relatively sparse. Most outsourcing literature tends to focus on questions of why outsource, what to outsource, which decision process to take, how to implement the sourcing decision, and what is the outcome of the sourcing decision (Dibbern, Goles, Hirschheim, & Jayatilaka, 2004). Previous research on knowledge management and outsourcing has examined outsourcing for intellectual value (Quinn, 1999), partnership quality and outsourcing success (Lee & Kim, 1999), knowledge sharing and outsourcing success (Blumenberg, Wagner, & Beimborn, 2009; Lee, 2001) and knowledge potential of outsourcing (Willcocks, Hindle, Feeny, & Lacity, 2004).

This paper is an exploratory, descriptive study that attempts to understand factors affecting knowledge transfer, mechanisms for knowledge transfer, and impact on the IT function. There are at least four distinct motivations underlying this study. First, while there are numerous research on knowledge management as well as outsourcing, research on knowledge management in client–vendor partnership in the IT context is still relatively sparse. The growth in outsourcing makes it an important topic for research. This study aims to shed some light on this issue and should be of interest to both researchers and practitioners in better understanding client–vendor partnerships. Second, there are limited studies on knowledge management and outsourcing that have been conducted in the Asia-Pacific region. Most research has been done in western countries.

Third, our goal is to examine, report and contribute to the knowledge management and client–vendor partnership practices in Singapore organizations. Firms outsourcing and forming partnerships with vendors are increasingly becoming more common and there is a need to document their experiences to provide guidelines to others in their knowledge management and client–vendor partnership initiatives. Note that we define client–vendor partnership as outsourcing relationship between client and external vendor in the context of IT. Our examination of knowledge management practices pertains to knowledge transfer from vendor to client. Fourth, most of the research on knowledge transfer has been done in non-IS context and usually focus on unit-to-unit transfer within the firm (Ko, Kirsch, & King, 2005). Given the increasing importance of outsourcing and knowledge management, there is therefore a need to better understand knowledge transfer from vendor to client. This study helps to further this understanding.

The paper is organized as follows. First, we present our research framework which summarizes the various areas examined in this study. Second, we present the method used to collect data. Third, we analyze the data and present the results. The paper concludes by discussing the key findings and their implications for researchers and practitioners.

2. Research framework

Our research framework, comprising concentric circles, is shown in Fig. 1. The inner circle indicates that the extent of knowledge transfer from vendor to client depends on four key characteristics: knowledge (codifiability), vendor (willingness to share), client (motivation for partnership) and relationship (trust between vendor and client). These four characteristics are consistent with Argote, McEvily, and Reagans (2003) classification of knowledge management context as properties of units (i.e., client's motivation for partnership, vendor's willingness to share knowledge),

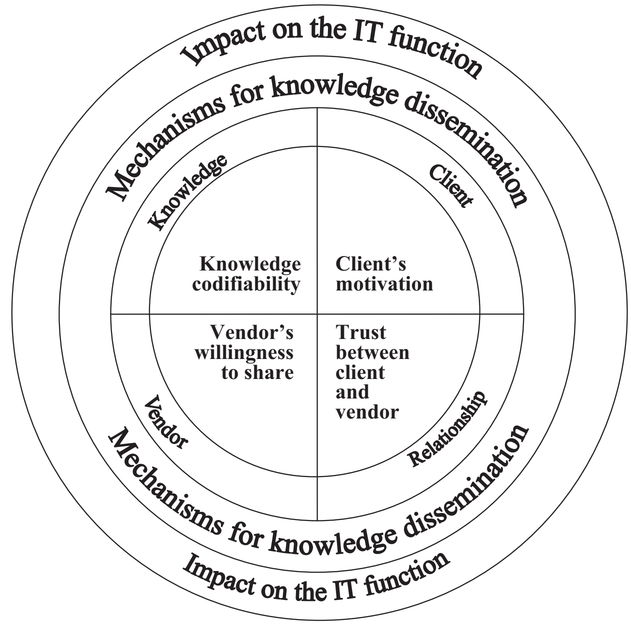

Fig. 1. Research framework.

properties of the relationship between units (i.e., trust between client and vendor), and properties of the knowledge (i.e., knowledge codifiability). In this study, we will compare low versus high knowledge transfer groups in terms of these four factors. As transferred knowledge needs to be disseminated, we also examine mechanisms for knowledge dissemination. The outer ring shows that impact of knowledge management on the IT function.

In terms of factors affecting knowledge transfer, knowledge codifiability refers to whether the knowledge can be explicitly expressed and documented. It would be difficult for knowledge transfer to take place if knowledge cannot be codified or vendor is unwilling to share their knowledge. In addition, client may have different motivations for the partnership that include gaining knowledge and expertise from vendors. Implicit in the notion of partnership is the need for trust between the client and vendor, which acts as a "lubricant" in facilitating knowledge transfer. In other words, once knowledge has been transferred from vendor to client (which are facilitated by the four factors in the inner circle), it needs to be disseminated within and outside the project team using various mechanisms, such as meetings (as shown by the middle circle). An assessment of the impact on the IT function (as shown in the outer circle) also needs to be made to evaluate the outcome of the partnership, which may serve as important learning points to enhance the effectiveness of future client–vendor partnerships.

3. Method

A questionnaire survey was used to gather data for this study. The survey comprises items to measure various characteristics of knowledge management in software partnership. All items were measured using a 7-point Likert scale ranging from (1) strongly disagree to (7) strongly agree. The survey was pilot tested in four organizations with different levels of software partnerships, organizational sizes, IT budgets, and industries. They ranged from firms with very large to very small information systems (IS) departments. The industries represented by the four firms include financial services, semi-conductor manufacturing, transportation services, and industrial manufacturing. The pilot testing provided many unique insights into client–vendor partnerships and helped us refine some