Organizational culture and leadership in ERP implementation

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Abstract

This paper theorizes how leadership affects ERP implementation by fostering the desired organizational culture. We contend that ERP implementation success is positively related with organizational culture along the dimensions of learning and development, participative decision making, power sharing, support and collaboration, and tolerance for risk and conflicts. In addition, we identify the strategic and tactical actions that the top management can take to influence organizational culture and foster a culture conducive to ERP implementation. The theoretical contributions and managerial implications of this study are discussed.

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1. Introduction

Enterprise resource planning (ERP) systems, a type III information system (IS) innovation, have strategic relevance because their integration into core business processes or strategies can directly impact firms’ performance [69,76]. Thus, many firms have formulated strategies underpinned by ERP systems [12,65]. One study estimates that between 1.5 and 6.0% of firms’ annual revenues are spent on ERP implementation [44]. However, while some firms achieve successful outcomes with regard to their ERP adoption, more firms fall victim to the long, costly, unsuccessful adoption process and find the promising benefits far beyond reach [72]. For example, only 10 to 15% of the surveyed firms have achieved expected performance improvement; the remaining firms are experiencing significant discrepancies between goals and results in ERP operations [34]. Given the high spending and low success rate, it is urgent for researchers to unlock the mystery of benefit realization in ERP adoption and theorize the important predictors’ effects on ERP implementation practices [17].

The literature suggests that the fit between the information system and organizational culture is critical for firms to reap potential benefits promised by the system [68]. When the system conflicts with an organization’s culture, resistance behavior will result: the system will be rejected, sabotaged or modified to match the existing culture [19,47]. On the other hand, there is a strong body of opinion suggesting that culture can be consciously designed and manipulated by leadership (e.g., [71,73,81,82]). In a similar vein, we contend that leadership can enhance the chance of ERP success by fostering a desired culture. Indeed, in the extant ERP literature, leadership is consistently identified as the most important factor affecting ERP implementation (e.g., [2,13,58,79]). In Sarker and Lee’s [70] research, leadership is identified as a necessary factor for ERP
implementation success. However there is no study on the
mediating role of organizational culture in the relationship
between leadership and ERP implementation success,
though these factors are highly correlated [1].

In this paper, we intend to theorize how leadership
affects ERP implementation through fostering the right
organizational culture. We do not attempt a comprehe-
sive or exhaustive discussion here. Rather, we offer
initial direction and propositions to spur research efforts.
In particular, we study the dimensions of organizational
culture relevant to ERP implementation, i.e., learning
and development, participative decision making, power
sharing, support and collaboration and tolerating risk
and conflicts. We argue that the success of ERP
implementation is positively related with these dimen-
sions of organizational culture. In addition, focusing on
leadership at the top management level, we identify the
strategic and tactical actions that can be taken to
influence organizational culture and theorize how these
actions can foster the desired culture conducive to ERP
implementation.

This paper is organized as follows. First, we review
the literature on ERP, organizational culture and
leadership. We then describe the theoretical framework
and articulate our propositions on the relationships
between strategic and tactical conducts of leadership,
organizational culture attributes and ERP implementa-
tion success. At last we offer some concluding thoughts.

2. Literature review

2.1. ERP systems

ERP systems have been defined as comprehensive,
packaged software solutions that integrate and automate
many of the business practices associated with the
operations or production and distribution aspects of a
company [21]. By integrating business processes across
the organization through a centralized common data-
basis, ERP differs from earlier IS in its capacity to
disseminate real-time information and increase organi-
zational agility [46,69]. However, this large scale of
integration makes ERP implementation a highly com-
plex and inter-dependent task [74]. Also, ERP systems
are commercial packages that are purchased or leased
from software vendors. Their life cycle is different from
that of traditional IS, and adopting organizations
sometimes forgo or curtail the analysis of current
information requirements and business processes. As a
result, ERP systems may not fit the organization’s
idosyncratic needs. In addition, embedded in the ERP
packages are best business models that their designers
believe to represent best practices. While ERP systems
provide the organization the windows of opportunity for
strategic changes, these systems’ deployment requires
large-scale human and organizational changes.

ERP systems impose great challenges on the
adopting organizations. They require substantial mate-
rial and managerial resources, a redesign of business
processes and patterns of work flow, and a process of
mutual adaptation of the system and organizational
structure. In addition, ERP implementation involves
many employees and external parties — the project
manager, project team members (employees from
various business units), internal IT specialists, vendors,
and consultants [46]. It also includes multiple tasks —
software configuration, system integration, testing, data
conversion, user training and system rollout. Due to its
complexity, the outcome of ERP implementation is a
dynamic concept, consisting of multiple dimensions —
business index (e.g., ROI), operation metrics (e.g., labor
costs, orders shipped without errors) and information
capability (e.g., information quality, user satisfaction
with information) [41].

2.2. Organizational culture

Organizational culture is defined typically in terms of
the way people think, which has a direct influence on the
ways in which they behave. For example, recognizing
that culture manifests itself in terms of behavior and
esspoused values, Schein [71] suggests that the essence
of culture lies in the set of “underlying assumptions.”
Similarly, Deshpande and Webster ([23], p.4) define
organizational culture as a “set of shared assumptions
and understanding about organization functioning.” The
theoretical argument about culture is that it is a complex
system of norms and values that is shaped over time
[71]. It is generally understood as the social glue that
holds organizational members together and expresses
the values, social ideals, and beliefs that members share.
Based on these definitions, it is easy to see that an
organization’s culture exerts commanding influences on
how its employees perceive events [22] and how they
behave [7,71].

In particular, organizational culture provides employees
a common frame of reference for changes in an
organization. When organizations have different cultures,
people have different perceptions and interpretations of
organizational changes, which affect employees’ embrac-
ing changes [40]. Therefore, organizational culture is
known to be important for the success of projects involving
any organizational changes. Indeed, there is strong support
for the importance of organizational culture in innovation
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