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Getting over "Knowledge is Power": Incentive Systems for Knowledge Management in Business Consulting Companies

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INTRODUCTION

One of the most relevant aspects as to knowledge management is the need to make knowledge workers to actively participate in the diverse processes which are the objects of knowledge management. Especially the motivation to jointly share knowledge and to use the available knowledge of, e. g. colleagues or other third-party experts becomes an important issue for knowledge management in general and above all for business consulting companies which belong to one of the most knowledge-intensive and knowledge management-experienced industries. Therefore, we take a closer look at the importance of incentive systems for knowledge management in the business consulting industry.

The findings of our empirical qualitative investigation in 10 leading German business consulting companies show a range of special qualities: First of all and in correspondence with the assumptions in the literature incentive systems do (!) play an important role in this knowledge driven industry. However secondly, there are almost no incentive systems with a special focus on the issue of knowledge. Rather, the existing incentive systems are somehow implicitly expected to guarantee respective behavior of the consultants. Thirdly and finally, in contrast to our expectations and most of the recommendations in the praxis-oriented and theoretical literature for knowledge management the dominant incentives were not immaterial but material.

We conclude that the existing long-standing experience with the exchange and use of (new) knowledge, and the special knowledge-oriented culture of business consulting companies do motivate the consultants to share their knowledge and to use the existing knowledge of colleagues. However, in order to implement a more efficient knowledge management which supports the overall strategic goals in dynamic markets the examined business consulting companies should be aware of a special need for additional incentives – even if they do not know yet which incentives this can be and how to implement them.

STARTING POINT AND FRAME OF REFERENCE

Regarding strategic management at the turn of the new millennium, one of the central challenges for companies is the management of the firm's knowledge bases and learning processes in order to gain competence-based competitive advantages (see, e. g. Davenport/Prusak 1997; Kumar 1995; Drucker 1993, Hansen/Nohria/Tierney 1999). In strategic management theory, this is reflected by the establishment of the "resource-based view" of the firm, and more recently of the "knowledge-based view" of the firm (see below).

Knowledge-Based View of the Firm and Knowledge Management

For some time now research in the field of strategic management turns away from the traditional "market-based view" or "structure-conduct-performance paradigm" respectively (see Bain 1968; Porter 1981; 1998a; 1998b) and devotes itself to the question which role specific resources play in order to build up long-term company success (for early contributions to this research question see Selznik 1957; Penrose 1959). As a result the so-called "resource-based view" of the firm describes the uniqueness of companies as bundles of specific, non-transferable ("sticky"), difficult to imitate and appropriate resources (see Barney 1991; Wernerfelt 1984; Grant 1991; Collis/Montgomery, 1995; 1998), stressing the capture of rents through the protection and deployment of these resources. Within the recent "knowledge-based view" of the firm knowledge as a specific kind of resource in terms of an essential competitive asset is in the center of research interests (see Prahalat/Hamel, 1990; Kogut/Zander 1993; Hamel/Heene 1994; Nonaka/Takeuchi 1995; Grant 1996; Spender/Grant 1996; Oliviera Jr. 1998). The main role of the company is therefore to manage knowledge in order to improve organizational performance.

Knowledge Management is understood as the managerial process of setting knowledge goals and identifying, acquiring, developing, transferring, applying, preserving, and assessing the strategically relevant knowledge of the firm, through processes within and across the companies' boundaries (see Davenport/Prusak 1997; Probst/Romhard 1997). However members of companies will not necessarily automatically provide their knowledge, because knowledge often is interpreted to be equivalent to power that nobody

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wants to give away. Moreover, intraorganizational communication deficits do often prevent employees to effectively interact in the sense of knowledge management. Other empirical findings come to the conclusion that also the lack of time is often playing an important role why knowledge management is not carried out in the whole company (see Bullinger 1997). Another important reason not to share knowledge is the ignorance of one's own needs for knowledge and also of the needs of colleagues.

Against this background, appropriate incentive systems should be created for knowledge provision and exchange. In the special literature on knowledge management mainly Probst/Raub/Romhardt (1999) repeatedly insist on the necessity of incentive systems for knowledge management: "For the successful sharing and distribution of their knowledge the staff must be motivated by adequate incentive systems to make their relevant knowledge available for and exchange it with others voluntarily" (p. 134).

Incentive Systems and Motivation

Incentive systems can generally be described as the sum of all with each other coordinated incentives which on the one hand side produce or reinforce desired behaviors of employees and on the other hand side reduce the likelihood that undesirable behaviors occur (see Grant, 1999). The term *incentive* is understood as a situational condition which can motivate members of companies because of their individual structure of needs with regard to a certain performance level of behavior within the context of an organization (cf. von Rosenstiel 1987, p. 320). Incentives activate *motives* (= readiness to behave in a particular way; see Hackman/Oldham, 1980) and have a "stimulative nature" as they influence employees to take certain actions as intended by the organization (see von Rosenstiel 1999). The benefit of the work done by an employee must at least reach the niveau of the incentives, for instance in terms of wages/salaries, or even extend it (see Becker 1990). The following figure 1 shows the effects of an incentive on the motivation:

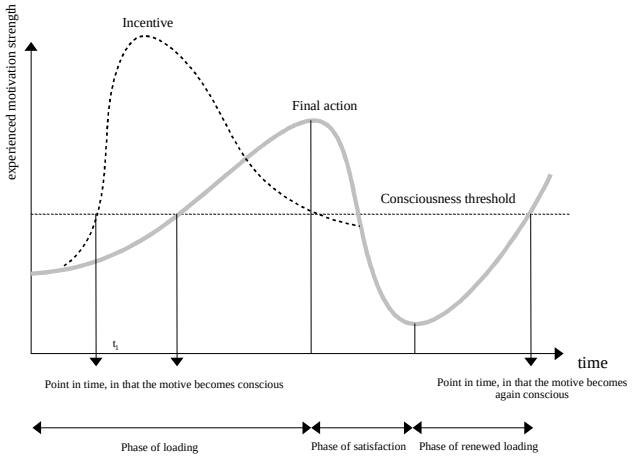

Figure 1: The effects of an incentive on the motivation (cf. Comellie/von Rosenstiel 1995, p. 8)

According to the sort and source of satisfaction of one's needs we differ between ***extrinsic*** and *intrinsic incentives* which aim at extrinsic or intrinsic *motives* (see Deci 1971; Lepper/Greene 1978). First and foremost, the prospect of remuneration aims at *extrinsic motives*. Here the incentive for carrying out the performance is not inherent in the job but lies in the monetary effects. In addition, also status aims at the group of extrinsic incentives because it is visible to other colleagues, for example. In the case of *intrinsic incentives* the satisfaction of one's needs immediately evolves from carrying out the performance itself. This gives a particular feeling of challenge and satisfaction. Intrinsic incentives cannot be related to quantifiable rewards to the same degree as extrinsic incentives that can be expressed through a definite amount of money or status symbols and are thereby comparable.

We also differ between *material* and *immaterial incentives* according to the sort of the object of the incentives. The monetary remuneration (for the job) is deemed a *material incentive*. It constitutes a reward for the company members having performed her/his duties as she/he was asked to. The size of the reward indirectly contributes to the satisfaction of needs in view of status-power and determines the position of the staff member in the organization.

On the contrary, *immaterial incentives* express themselves in the conditions for carrying out the performance and have no immediate monetary effects. Examples for immaterial incentives are: satisfying contents of the job, participation in the decision-making process, open management style and career prospects. Since material incentives are usually limited through the salary-level and the likes the importance of immaterial elements is growing ever faster. For example in the business consulting industry, the immaterial incentives include the private use of mobile phones, lap tops, company cars for the office staff as well, private access to the Internet, possibilities for childcare or flexible working-hours, too.

In correspondence with the differentiation between intrinsic and extrinsic motives as well as material and immaterial incentives it is possible to classify the sorts of incentives as follows (see figure 2):

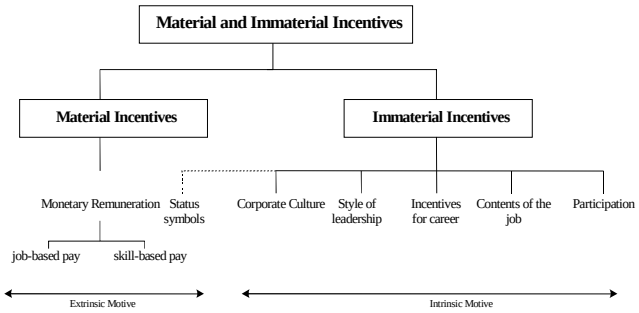

Figure 2: Classification of incentives and motives

RESEARCH QUESTIONS

Generally, business consulting companies belong to the group of so-called "knowledge-intensive firms" (see Starbuck, 1992; Alvesson 1995) and are therefore best suited for a study on knowledge management (see also Mentzas/Apostolou 1998; Werr 1998). Their main product is knowledge in form of methods and procedures and problem solutions, so that their customers finally shall become able to take action (see Senge, 1994) in a better way than they did before the consultation. Knowledge is the main production factor in business consulting companies (see Hansen/Nohria/Tierney 1999). In addition to that, most consulting companies sell "knowledge management" as a consulting product, and finally, at least all leading consulting companies have already implemented knowledge management in their own businesses for a couple of years, i. e. they represent one of the industries with the longest experience with knowledge management.

Against this background the paper seeks to answer the fol-

lowing questions:

(1) First, do incentive systems play a dominant role for knowledge management to support above all the functions of knowledge sharing and use in the management consulting industry?

Since the success of management consulting companies more or less completely relies on knowledge, and the problems mentioned further above in terms of knowledge-transfer barriers can also occur in the business consulting industry, we expected that incentive systems do play an important role for knowledge management in the investigated management consulting companies.

(2) Second, is there a need for special incentive systems for knowledge management?

Due to the experience of the consulting industry with knowledge management we also expected that these companies will have such systems in place which are especially designed for the purposes of knowledge management (see also von Krogh 1998).

(3) Third, which kind of incentives are given for knowledge management to induce the consultants on the one hand to share their knowledge and experiences with their colleagues and on the other hand to use existing knowledge of other colleagues or third-parties to make their own work more efficient and effective?

Finally, since knowledge is tangible (see Stewart 1997; Sveiby 1997) we expected that the existing, mainly material oriented incentives will have been more or less replaced or at least complemented by non-classical, immaterial incentive systems especially designed for knowledge management (see also Grant 1999).

DATA BASE AND METHODOLOGICAL APPROACH

The industry we investigated is the business consulting industry. In 1999, we interviewed 10 knowledge managers who had been consultants before out of the 20 leading consulting companies in Germany. Most of these companies are global players, that is, our findings are also representative for the consulting industry on the whole to a certain extent.

From a methodological point of view we chose a qualitative research design (see Rouse/Daellenbach 1999; see also Venkatraman/ Grant, 1986). In-depth interviews, on the basis of a semi-structured questionnaires with responsible knowledge managers of the consulting companies were carried out after the knowledge managers had already answered the questions in brief outlines in writing about four weeks before the personal interviews. The interviews had been transcribed and the most important findings were structured as synopses and visualized via mind maps following a qualitative content analysis. The use of more than one research instrument, also called "triangulation", allowed to open diverse perspectives on the object of investigation, provided more information supporting the elaborated findings, made cross controls possible, and altogether offered more empirical substance than an isolated use of only one single instrument (see Glaser/Strauss, 1967).

FINDINGS

Against the background of the theoretical argumentation and methodological procedure as described before the most important findings of our study are as follows:

First of all and in correspondence with the assumptions in the literature ***incentive systems do (!) play an important role*** in this knowledge driven industry. This was confirmed by all interviewed knowledge managers. These systems are seen as an important instrument to bind the employees with the company and to motivate them for the desired outputs. Performance evaluation as the bases for the assessment of the consultants' careers is done once or twice a year, on average within the employee evaluations. The criterion is chargeability (in terms of hours which have been charged to customers) and also the fulfillment of the objectives agreed upon at the beginning of each year.

However secondly, there are *almost no incentive systems with a special focus on the issue of knowledge*. 40 percent of the interviewed knowledge managers even said that incentive systems do not play an important role for knowledge management. The remaining 60 percent said that they are aware of the importance of knowledge aspects against the background of incentive systems and that they will try to integrate them. They do see a need for special incentive systems for knowledge management, for example in order to intensify cooperative work with the objective to share existing knowledge resources more effectively and efficiently, but have not operationalized or implemented them, yet.

The use and sharing of knowledge slip in the performance evaluation of the consultants mentioned above. In most of the companies the performance evaluations are used to calculate the variable parts of the salary and – as already said – for career perspectives. Some interview partners made clear that the existing traditional incentive systems with their monetary effects (see below) somehow implicitly guarantee respective behavior of the consultants.

Thirdly and finally, in contrast to our expectations and most of the recommendations in the praxis-oriented and theoretical literature for knowledge management (see Nakra 2000) *the dominant incentives were not immaterial but still based on material remuneration (including fix and variable parts of the salary, stock options, premiums;* see also Holmstrom/Milgrom 1994*) and status symbols* for the employees, like cars, mobile phones, and special trips to interesting conference destinations for example. These status symbols, however and also the monetary incentives are normal in the business consulting industry and therefore loose in importance in view of incentives for additional outputs.

Only 30 percent of the consulting companies said that immaterial incentives do play an important role after explicitly asking them. One can assume that potential incentives in the areas of e. g. leadership style, corporate culture or education and training exist but that they are not recognized as additional incentives.

CONCLUSION AND FURTHER RESEARCH NEEDS

During our investigation a contradiction became obvious: the interviewed knowledge managers are aware of the need for specific knowledge management-oriented incentive systems, but they also are not able or do not see any need to develop and implement corresponding new incentive systems at the moment. The latter has to be understood against the background of the successful consulting services the interviewed companies are able to offer. The return conclusion of successful consulting services seems to be successful knowledge management on the basis of sufficient incentive systems. This leads to the hypothesis that companies which are in knowledge-intensive industries and are successful have developed a "culture of immaterial incentives and intrinsic motivation" (see Nakra 2000) which supports the automatic sharing and use of knowledge. Normatively reformulated: The more a company is knowledge-intensive, the more it has to try to change the culture in a direction which supports intrinsic motivation to share knowledge against the background of immaterial incentives. The less a company is knowledge-intensive, the more it has to focus on material incentives and on status symbols in order to extrinsically motivate knowledge exchange and use. In the latter case remuneration not only should follow according to the features of personal performance of the company members but also with regard to their participation in processes relevant to knowledge management, for example. Furthermore, the incentives of remu-

neration could be linked to the extent of knowledge exchange, measured by the number and quality of contributions in terms of documents, lectures, or publications, for instance. Altogether, further research is necessary in order to place this hypotheses on a more profound empirical basis.

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