



# Do Reward Systems Encourage Tacit Knowledge Sharing in Management Consulting Firms?

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## ABSTRACT

Management consulting firms are typical examples of knowledge-intensive organisations that use their consultants' tacit knowledge to resolve clients' problems. They have been in the forefront of developing ways to encourage the sharing of tacit knowledge among consultants because their success depends heavily on this type of interaction. This paper explores whether or not reward systems actively facilitate the sharing and transfer of tacit knowledge among consultants. The research framework has been based on the spiral evolution of Nonaka and Takeuchi (1995) and the reward classifications of VonKortzfleisch and Mergel (2001). Seven senior management executives from different international management consulting firms who have had extensive experience in the consulting industry were interviewed. Our study found that reward systems did motivate consultants to share knowledge with each other. The most effective approach was to share tacit knowledge in informal meetings and to offer non-material rewards.

## INTRODUCTION

Knowledge management is salient to individuals, groups and organisations. It transforms data and information, which are already organisational assets, into a more valuable and powerful assets. These assets are largely intangible (e.g. experience) and are potentially new weapons with which to compete (KPMG Consulting, 1999), provided an organisation is able to utilise them. As expressed by Drucker (1993, p. 42) "knowledge is the only meaningful resource today; the traditional 'factors of production' have not disappeared, but they have become secondary." In other words knowledge is another resource on top of production and which needs to be managed for competitive advantage.

A management consulting firm is a typical example of a highly knowledge-intensive organisation as it depends on the knowledge and expertise of its consultants to be successful (Apostolou & Mentzas, 1999). Its knowledge is the intellectual wealth of consultants that provides avenues to give advice and provide the tools to resolve clients' problems, thereby generating income. Hence, the sharing of knowledge among consultants is becoming critical in gaining competitive advantage in the new knowledge-based economy (Chaudhry & Ng, 2001).

According to Nonaka and Takeuchi (1995), sharing knowledge can be done through an interaction process in which one person's tacit knowledge is transferred and becomes another person's tacit knowledge. Furthermore, the interaction process needs a place to occur, where people share their knowledge through face-to-face meetings (Nonaka & Konno, 1998). However, the interaction process only is not sufficient for sharing knowledge as there is a need to reward the participants in order to motivate their active participation in this process (VonKortzfleisch & Mergel, 2001). Our study aimed to observe whether or not reward systems motivate consultants to actively facilitate tacit-to-tacit knowledge sharing and to establish the best way to motivate consultants in the conversion process.

This paper begins with discussion of the transfer of tacit knowledge. This is then followed by a proposed model of tacit-to-tacit knowledge sharing. The findings of case studies are then explained and discussed.

## TACIT-TO-TACIT KNOWLEDGE SHARING

### Tacit Knowledge Sharing

Our study is based on the spiral evolution model developed by Nonaka and Takeuchi (1995) in which the process of tacit-to-tacit knowledge conversion is characterised by the socialisation process. Tacit knowledge is subjective and experience-based knowledge that cannot be expressed in words, sentences, and numbers. It is personal

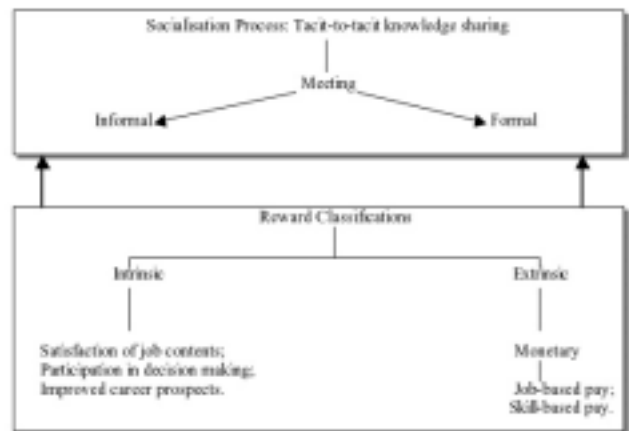
and often context-specific and is hard to formalise and communicate to others (Choo, 1998). It also permeates individuals' personal and work lives. A good example of tacit knowledge is the ability to drive an automobile.

Tacit knowledge includes know-how, crafts, insights and intuitions that come to an individual when gaining experience and participating in an activity for an extended period of time (Nonaka, 1994; Nonaka & Takeuchi, 1995). Tacit knowledge also has important cognitive dimensions such as mental models, beliefs and intuition. In summary, this type of knowledge is created by using past experience in new contexts. In a supportive environment it can be transferred/shared via practical knowledge sharing activities (Bateson, 1973; Nonaka & Takeuchi, 1995).

In the socialisation process, the sharing of tacit-to-tacit knowledge is not conducted through written instructions but through face-to-face communication. The most effective context for this sharing process is through the dialogue of a meeting (i.e. either informal or formal) (VonKortzfleisch & Mergel, 2001). But to be successful, knowledge sharing between consultants should be supported by an adequate reward system to ensure the willingness to exchange knowledge with others (Probst, Raub, & Romhardt, 1999).

The tacit-to-tacit knowledge sharing model used in our study is based on Nonaka and Takeuchi (1995) and VonKortzfleisch and Mergel (2001). The model is outlined in Figure 1 below.

Figure 1: Tacit-to-tacit knowledge sharing model



(Nonaka & Takeuchi, 1995 and VonKortzfleisch & Mergel, 2001)

### Reward Systems

Without compensation and benefits, people can be reluctant to share their valuable knowledge and expertise. Huseman and Goodman (1999) have indicated several reasons why people (e.g. consultants) may have this reluctance.

- They may be afraid that others will take credit for the knowledge;
- They may be afraid of losing the power afforded by their tacit knowledge which may become documented and available to all;
- They may belong to an organisation that supports individualism and competition;
- They may be afraid that employees who gain the knowledge may leave and join competitors; or
- They may be afraid the 'wrong' knowledge is transferred and will harm others.

In addition, sharing knowledge may be considered a peripheral process and something that people do after office hours. But knowledge sharing can be treated more formally when compensation and benefit plans are provided (Davenport & Prusak, 1997). The best way to motivate consultants to share their knowledge is to reward them (Wah, 1999) and the reward should be based on effective measurements. One way to measure knowledge sharing effectively is based on employees' motivation and performance (Robbins & Barnwell, 1994).

A reward is understood as a situational condition which can motivate employees in a company to do some tasks with the expectation of receiving something in return (VonKortzfleisch & Mergel, 2001). Reward can take many forms including monetary, recognition, time off, work selection, empowerment, promotion, advancement and development. Reward activates motivation, that is, the readiness to behave in a particular way. In particular, it stimulates individuals to act according to an organisation's objectives (Hackman & Oldham, 1980).

Rewards have either extrinsic or intrinsic motivators (Deci, 1971; Lepper & Greene, 1978). Extrinsic motivators are material rewards such as monetary remuneration that is measured by job- and/or skill-based indicators. The higher the level of skill, the higher monetary remuneration. For example, in management consulting firms, partners have higher remuneration packages than consultants because partners attract and acquire new clients while consultants do the work to resolve the clients' problems. The knowledge required to attract new customers is regarded as superior.

Intrinsic motivators are non-material rewards such as job satisfaction, participation in decision making processes, and improved career prospects (VonKortzfleisch & Mergel, 2001). For example, in management consulting firms, non-material rewards may be being included in planning committees, being offered professional development opportunities, or more flexible working hours.

### CASE STUDIES

This section begins with describing why a case study approach was chosen and is followed by reporting the findings on the impact of reward systems on the knowledge sharing process in informal and formal meetings especially the impact of intrinsic and extrinsic rewards. The discussion and suggestions for future research then follow.

We chose a qualitative research design (Benbasat, Goldstein, & Mead, 1987; Eisenhardt, 1989) for our study. A case study approach, as part of this qualitative research design, was selected because it enables investigation of a phenomenon in its natural setting (Yin, 1989). In this case, the setting was a consulting firm where knowledge sharing in management was observed and the best way to motivate consultants in the sharing processes was investigated. Interviews were conducted by using semi-structured questionnaires to provide the interviewees with time to think and express their opinions spontaneously (Gorman & Clayton, 1997). Thereby the interviewees would find it easier to respond.

Research by VonKortzfleisch and Mergel (2001) has found that incentive systems play an important role in the knowledge-driven industry with regard to knowledge sharing and reuse. Furthermore, knowledge sharing processes take place when new tacit knowledge is

created through shared experiences (Nonaka, Toyama, & Konno, 2000). Our research examined the process of sharing tacit knowledge and how the reward systems support that process.

The interviews took place during 2001 and were conducted over six months due to the availability of consultants who were extremely busy with their client commitments. We interviewed 1 partner and 6 directors of seven international management consulting firms. These consultants were global players who have consulting experience worldwide (i.e. South East Asia, Australia, and the U.S.) and who have been working in the industry from 10 to 20 years. The interviewees had been employed by their current firms from 3 to 20 years. The interviews were transcribed from tape recorders and Nud\*ist software was used to assist the analysis of the transcriptions. Each interview took 45 to 60 minutes and was held in a meeting room, lobby, or café.

The questionnaires were developed to gain insights into the knowledge conversion process during socialisation. Data were gathered to examine to the following propositions:

- Informal meetings encourage consultants to transfer tacit knowledge through shared experience.
- Reward systems motivate consultants to support the transfer of tacit knowledge via shared experiences.
- Intrinsic rewards motivate consultants to share tacit knowledge more effectively than extrinsic rewards.

### Tacit Knowledge Sharing

All interviewees confirmed that informal meetings encouraged knowledge sharing rather than formal meetings. Formal meetings within the consulting firms generally involved the discussion of new opportunities, the allocation of consultants to a project, updates on on-going projects, and addressing problems. However, they did not deliberately support the sharing of new tacit knowledge. These meetings usually took place in a meeting room at a certain time. Typically the format would require an experienced consultant to provide some information such as how a successful project was conducted, but did not actually involve discussion or engagement with colleagues who attended the meetings.

In an informal meeting, however, consultants were able to ask questions and consider the responses and feel comfortable to ask further related questions. The uptake of knowledge could occur without delay as consultants could communicate directly with each other. This created an informal network that assisted consultants to do their job more effectively. For example, if a consultant is assigned to do a project without the appropriate experience, the person can then call or send an email to a colleague informally to get information relating to a previous similar project. If the colleague is not able to assist then information about the right person to discuss the project with would be promptly available over the phone or email. This process then encourages further informal meetings so that the required information for the project is gained.

The example above creates an informal network that is critical for consultants. All interviewees confirmed that informal networks were significant and allowed for the sharing of new tacit knowledge with others in their consulting firms. Formal meetings were regarded as being only partially successful for converting tacit knowledge.

### Reward Systems

Our study indicated that there were no reward systems specifically designed to encourage the transfer of new tacit knowledge through shared experiences. Interviewees indicated that performance evaluations were conducted once or twice per year to assess the consultants in terms of the hours charged to clients but not in terms of their willingness to share tacit knowledge.

We did find, however, that professional development sessions were conducted to encourage consultants to share knowledge. Consultants were attracted by monetary remuneration to attend these sessions and to provide information relating with the firm's objectives and staff self-development. A standard measurement, namely a compe-

tenancy-based appraisal, was used to measure each consultant's improvement in knowledge, skills, and attitudes to sharing knowledge. The model was applied once or twice a year in each firm investigated.

Against this well-accepted standard, consultants were assessed in respect of their knowledge, skills, and attitudes to sharing knowledge and how they correlate these with their performances and their job specification. The purpose of this measurement was to rate consultants' capabilities in achieving the highest personal and professional growth within a firm. This would then lead to improving consultants' capabilities to work for clients in an effective manner.

A positive attitude to self-development formed the cultural behaviour of consultants and was expressed at work and when agreeing on certain common values and conducting themselves accordingly within a firm. This behaviour eventually would shape the mental model of consultants. A mental model is the model of the world that consultants' use to perceive an environment, which guides them to act in order to achieve their objectives. The positive mental model would assist them to work more professionally and also to resolve clients' problems effectively.

With respect to reward systems and what motivates consultants to support the transfer of tacit knowledge, 85% of the interviewees agreed that rewards would motivate them to share knowledge because they saw a need to be rewarded for contributing their 'valuable' experience. Those who did not agree thought that knowledge sharing would create disharmony in the firm.

#### Intrinsic and Extrinsic Rewards

All interviewees confirmed that intrinsic rewards such as satisfaction with job content, participation in decision making, and improved career prospects encouraged them to support the transfer of new tacit knowledge. Consultants felt more respected and satisfied when they were recognised by an award for their achievement, especially if it were publicised within the firm. This increased self-confidence and improved professional growth.

Consultants who participated in decision-making processes were treated respectfully within firms. This encouraged personal growth and supported the transfer of tacit knowledge to other consultants. Most interviewees appreciated being invited to share their opinions in a decision making process. This created a sense of ownership to the firm that is significant for its competitive capability. All interviewees confirmed that clearly articulated career prospects, as part of an intrinsic reward system, increased their willingness to share knowledge with others because it removed the fear that others would take the credit for the knowledge.

## DISCUSSION

We found informal meetings to be significant to the knowledge sharing process. Consultants are more comfortable to share their tacit knowledge in an informal environment, as they felt that it was easier to engage with the sharer by asking further questions. This was seen to encourage self-determination and ability of consultants to perform well.

In contrast, in a formal meeting, consultants felt uncomfortable about sharing knowledge because the environment did not support the sharing process. Consultants are not able to share knowledge because the more experienced consultants do not actually convey information and engage with other colleagues. This inhibits the transfer of tacit knowledge among consultants which can have a negative impact on the competitive capacity of the firm.

The transfer of tacit knowledge among consultants was not accompanied by reward systems in the firms studied. Moreover the performance evaluations conducted annually and twice a year were not designed to measure tacit knowledge sharing among consultants. The consultants' performances, however, were more likely to be measured by the amount of hours invoiced to projects rather than their effectiveness to share tacit knowledge.

Consultants were attracted by monetary rather than non-monetary remuneration to attend professional development sessions. These

sessions were designed to assist consultants in sharing tacit knowledge. As part of the development sessions, firms used competency-based models to measure consultants' improvement in knowledge, skills, and attitudes to sharing tacit knowledge. In these models, consultants were able to demonstrate their improvement by answering well-designed, standardised questions.

In terms of intrinsic and extrinsic rewards, consultants were in favour of the former. They regarded highly the feeling of satisfaction with being recognised for an award. The public recognition of an achievement award encouraged consultants to work more effectively. Participation in decision making processes also motivated consultants and created a sense of belonging to the firm, and this increased their self-confidence and capacity to do a task competitively. Improved career prospects appeared to remove the feeling of fear that others might take the credit for the shared experiences. Consultants felt more appreciated as professionals when they clearly understood their career paths.

## CONCLUSION AND FUTURE RESEARCH

Our study found that reward systems motivated consultants to share their tacit knowledge with others in the firm. Informal meetings were regarded as highly significant in the socialisation process for sharing tacit knowledge through shared experiences. To be more effective, consultants were keen to accept intrinsic rewards rather than the extrinsic ones as they also appreciate and respect from others.

During our investigation, an antecedent, namely infrastructure, emerged to become significant in the knowledge sharing process. It appeared to indicate a new way to share knowledge in management consulting firms. Infrastructure might be a framework for doing a consulting job effectively from beginning to end. The framework was needed to ensure that consultants learned new tacit knowledge and to encourage them to share knowledge themselves. In other words, a framework was like a path that a consultant should follow in completing a task on a project in the consulting practice. Its main purpose was to enforce consultants to change their behaviour (i.e. to share tacit knowledge) during a project implementation. This was considered a critical challenge.

The participants believed that this infrastructure would have been more successful alongside the reward system. This is a challenge for consulting firms because they need to establish whether a proper infrastructure encourages consultants to share their tacit knowledge voluntarily. One could state the proposition that a more significant infrastructure together with non-material rewards will be most effective in encouraging and motivating consultants to share tacit knowledge. Further research would be necessary to test the validity of this proposition.

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