Chapter 38
Incentive Structures in Knowledge Management

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INTRODUCTION

The role of incentives in organizational behavior has long been recognized and studied (Whyte, 1955; Hertzberg, 1959). This role becomes ever more paramount in knowledge management (KM), where users also become creators and contributors: The voluntary sharing of knowledge by individuals is a key element in the implementation and success of any knowledge-management endeavor. Having gradually recognized this, the KM community has theorized, examined, and implemented various incentive structures to promote knowledge sharing and system use in organizations. This article investigates some of these incentive structures, their underlying assumptions, as well as the issues and questions that they raise for KM theory and practice in general.

The article continues in the next section with a brief history and a general discussion of incentives in organizations. It then discusses the theoretical underpinnings of different approaches to KM as they relate to issues of incentive, and provides examples of practical incentive structures used by organizations. Next, it presents an analysis of the examples in the previous section, discusses possible future trends, and finally draws conclusions in terms of appropriate incentive structures for knowledge sharing.

BACKGROUND: THE CENTRAL DILEMMA OF KNOWLEDGE MANAGEMENT

Organization and management scientists have long studied the role of incentives in organizational behavior. Whyte (1955), for instance, provides a classic study of "the 5 M's of factory life: men, money, machines, morale, and motivation" (p. 1). The dominant scientific management view, which

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held sway in the incentive systems of the time, was based on an *economic model* of rational human beings who seek to maximize their individual material gains. Whyte challenged this model and replaced it with a *socioeconomic model* that studies human reaction to incentives in the context of their relationships with other human beings (fellow workers, work groups, managers, etc.). He argued that incentives can be symbolic and much broader in character than purely material and monetary, and emphasized that "*we change sentiments and activities through changing interaction*" (p. 227). The lessons of the latter half of the last century, including those of KM, seem to support Whyte's model as a more realistic picture of human organizational behavior.

The situation in knowledge management is obviously different from the factory-floor situation studied by Whyte (1955). Not only are we dealing with a different work environment in terms of organization, management, culture, technology, and so on, we are facing a new type of economic agent, usually referred to as a *knowledge worker* in the literature. Although this term implies a different type of economic activity from earlier ones (e.g., factory work), it does not necessarily mean that knowledge workers have a totally novel psychology in their reaction to incentives. To the contrary, we argue that Whyte's original insights are by and large true of the current work environments as well. To demonstrate this, we introduce what might be called the central dilemma of knowledge management.

A widely studied phenomenon in the social studies of cooperative behavior are the situations known as *social dilemmas:* namely, those where individual rationality (trying to maximize individual gain) leads to collective irrationality (Kollock, 1998; cf Cabrera & Cabrera, 2002). Well-known examples of social dilemmas are the *tragedy of the commons*, where overuse of a shared resource (such as land) by beneficiaries (such as herders) would result in its ultimate depletion (Hardin, 1968), and the phenomenon of *free ride*, where individuals are tempted to enjoy a common resource without contributing to it (Sweeney, 1973). It has been suggested that knowledge sharing can be understood as a special case of a social dilemma (Cabrera & Cabrera; Connolly, Thorn, & Heminger, 1992). That is, if we consider knowledge as a common resource of an organization, individual workers are often faced with the questions of whether or not, to what extent, and under what circumstances should they use, relate to, and contribute to this common property. Although there are clear differences between a natural resource, which is physically constrained in the extent of its use, and knowledge, which is not depleted by use, this conceptualization of knowledge sharing as a social dilemma is rather useful. One way to understand this dilemma is through the fact that contribution to a KM system involves cost (in terms of time, expertise, job security, etc.) that may not be accounted for or paid off by the organizational incentive structures. This is the essence of the central dilemma of KM, which can be articulated as follows:

Why should a knowledge worker contribute to the shared knowledge of the organization if the cost of doing so for the individual is higher than its benefits?

This dilemma gives rise to a tension that is inherent in almost any knowledge-management effort. Incentive structures could therefore be broadly understood as attempts to resolve or reduce this tension. Such attempts should at a minimum address the following questions (Cabrera & Cabrera, 2002, p. 691).

- Why do people share or not share information with coworkers?
- What motivates a person to give up personal knowledge to a third party?
- What are the main barriers that an organization may face when trying to foster knowledge sharing among its employees?

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