



The effects of incentive subjectivity and strategy communication on knowledge-sharing and extra-role behaviours

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ABSTRACT

This study examines the effects of performance measurement system design on employees' willingness to share knowledge and their general tendency to pursue extra-role behaviours. Two key design issues are examined, namely, incentive scheme subjectivity and communicating the value of human-based intangible assets through a strategy map. Using a controlled experiment we found that employees are more willing to share knowledge with a co-worker (even if it means diverting resources away from incentivised areas) under a subjective weighting scheme than a formula-based scheme. In addition, we found an interaction effect where the communication of the strategic value of human-based intangible assets increases employees' general tendency to pursue extra-role behaviours under a subjective weighting scheme, but decreases this tendency under a formula-based scheme. Our study contributes to the performance management literature and has implications for practice by providing empirical evidence demonstrating how the design of performance measurement systems can motivate discretionary behaviours in relation to performance areas that are not recognised by the formal incentive scheme.

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1. Introduction

As the use of multiple performance measures gains greater popularity in contemporary performance measurement systems, there is an on-going discourse on the merits of using subjective weighting versus formula-based weighting schemes in evaluating and compensating employees. Subjectivity in performance measurement can take many forms, for example, by allowing supervisors to make subjective performance ratings or giving them discretion over the size of bonus pools. The current study focuses on allowing subjectivity over performance measure weighting when supervisors determine employees'

compensation. Prior literature suggests that while subjective weighting schemes suffer from problems such as favouritism, compression biases and leniency biases (e.g. [Ittner et al., 2003](#); [Moers, 2005](#)), they also have a number of advantages over formula-based incentive schemes, such as allowing firms to exploit non-contractible information and to mitigate dysfunctional behaviours induced by incomplete performance measures (e.g. [Baiman and Rajan, 1995](#); [Baker et al., 1994](#)).

We contribute to this literature by examining the effect of subjective weighting versus formula-based incentive schemes on individuals' willingness to share knowledge with a co-worker, and on their tendency to pursue extra-role behaviours (i.e. desirable discretionary activities that are not explicitly recognised by the formal reward scheme). Because of the purported competitive advantage and organisational learning benefits derived from knowledge-sharing and extra-role behaviours (e.g. [Burney et al.,](#)

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2009; Chow et al., 2000), it is important to better understand how performance incentive schemes affect these behaviours.

In addition, the performance incentive scheme is only one aspect of the overall performance management system (Otley, 1999). It is often recommended that a firm should clearly communicate its strategic objectives to its employees to encourage goal alignment behaviours. In particular, Kaplan and Norton (2004) argue that managers should use a strategy map to illustrate and explain to their employees how a firm's intangible assets, including its human capital (i.e. knowledge, skills and value), have the potential to accomplish their strategic goals. The secondary aim of this study is to examine whether communicating the strategic role of a firm's human-based intangible assets (HIA) moderates the effect of the firm's incentive schemes on employees' knowledge-sharing and extra-role behaviours.

Examining the effect of these two performance measurement system design choices on employees' knowledge sharing (i.e. the willingness of individuals to share the knowledge acquired or created with others) and extra-role behaviours is important for a number of reasons. First, knowledge sharing underlies knowledge development and exploitation within a firm, and is widely recognised as a key basis for competitive advantage (Nonaka and Takeuchi, 1995; Spender, 1996; Teece, 2000; Vera-Muñoz et al., 2006; Grant, 2010) and organisational learning (Senge, 1990; Huber, 1990; Chenhall, 2005). Yet evidence demonstrating the effectiveness of directly rewarding employees on their knowledge-sharing behaviours has been mixed (e.g. Wolfe and Loraas, 2008; Bock et al., 2005). With the exception of a number of studies that examine the influence of culture (e.g. Chow et al., 1999, 2000) and group-based incentives (e.g. Taylor, 2006), there is generally limited accounting research on how management accountants can influence knowledge sharing. Findings from this study add to our understanding in this area by demonstrating that subjective weighting schemes are more likely than formula-based schemes to induce knowledge sharing.

Second, not all performance areas can be reliably measured and therefore formally incorporated into an employee's incentive scheme. Increased complexity and a continuously changing environment mean that employees are often relied upon to do the "right thing" to the benefit of their firm, in any particular decision-making situation, even though that particular dimension of their work task may not be formally recognised in the incentive scheme. Indeed, a number of recent studies have found that such extra-role behaviours have positive implications on both individual and firm level performance (e.g. Burney et al., 2009; Podsakoff et al., 2009). Thus, understanding how performance management system design affects individuals' willingness to engage in extra-role behaviours is also highly important.

This study reports an experiment where we manipulated the type of incentive scheme (formula-based versus subjective) and investigated whether the strategic value of a firm's HIA is explicitly communicated to employees via a strategy map. We argue that these two performance measurement system aspects will shift the

perceived costs and benefits associated with engaging in knowledge-sharing and extra-role behaviours. Consistent with our expectations, we found that employees were more willing to share their knowledge with a co-worker (at the expense of pursuing their incentivised activities) under a subjective weighting scheme than under a formula-based scheme. We also found an interaction effect, which indicated that using a strategy map to illustrate the link between a firm's HIA and its overall strategic goal increased employees' tendency to pursue extra-role behaviour under a subjective weighting scheme, but decreased this tendency under a formula-based scheme.

Our study makes a number of contributions to the accounting literature. First, while prior analytical studies have discussed and modelled the importance of using "implicit contracts" in the form of subjectivity in designing incentive schemes (e.g. Budde, 2007; Baiman and Rajan, 1995; Baker et al., 1994), our study provides experimental evidence that subjectivity in compensation weighting encourages knowledge sharing and also positively impacts on employees' general tendency to perform extra-role behaviours. Importantly, our study shows that employees can be motivated to pursue these desirable behaviours even in the absence of direct and specific performance measures on these areas, by changing the way the compensation scheme is designed and the way strategic goals are communicated.

Second, despite the importance of understanding employees' tendency to share knowledge and perform extra-role behaviours, empirical studies on the influence of performance measurement systems on these behaviours have been limited. We contribute by providing evidence on the role of incentive system design, and therefore the potential role of the management accountant, in encouraging knowledge-sharing behaviour. Further, Burney et al. (2009) recently showed that providing employees with a performance management system incorporating a valid strategic causal model enhances individuals' willingness to perform organisation citizenship behaviour. Our study complements their survey research by highlighting the potential moderating role of incentive scheme design in these relationships.

Third, while the strategy map is considered a critical part of a strategic performance management system (e.g. Banker et al., 2009; Cheng and Humphreys, 2012; Kaplan and Norton, 2004), it has so far received very little attention in the accounting literature. Our study contributes to this small but growing literature by examining the effect of using the strategy map to communicate the strategic value of HIA on managers' effort allocation behaviour.

The rest of the paper is structured as follows. In Section 2 we present a set of hypotheses, firstly concerning knowledge-sharing behaviour, and secondly, individuals' general tendency to perform extra-role behaviour. Next, Section 3 outlines the experimental design and process, followed by Section 4, which presents our results; finally, Section 5 concludes and discusses the implications of our findings, and the future directions suggested by the study's limitations.

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