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Costly Signaling Theory and Propensity for Knowledge Sharing among Employees

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Introduction :

Organizations can manage knowledge resources more effectively only if employees are willing to share their knowledge with colleagues (Amayah, 2013). This article makes two contributions. First, there is little research on costly signaling theory explaining the behaviors of people related to interpersonal communication and knowledge sharing. Second, this study extends the literature on the factors that affect informal knowledge sharing. The desire to send out signals is considered as a viable factor or enabler affecting the propensity of employees to share their knowledge.

Costly Signaling Theory (CST) is a branch of evolutionary biology. It examines communication among individuals. The central question is when organisms with conflicting interests should be expected to communicate honestly (no presumption being made of conscious intention) rather than cheating. This paper's main thesis is that, as in the case of animals, the behavior of humans in organizations, specifically their willingness to share knowledge, can be explained by means of the costly signaling theory.

To better understand the possible application of CST into knowledge management theory, this paper offers a brief review of literature on the sharing of knowledge and interpersonal communication in organizations. The paper also includes a proposed research design for the purpose of testing the CST in knowledge management (KM) applications.

Introduction to Costly Signaling Theory :

The main thesis of this paper is to bring to the attention of KM practitioners and academics the postulate that one of the viable factors explaining the propensity of employees (or simply "people") for knowledge sharing is their desire to "send signals", as explained by the signaling theory. Knowledge management relates to explaining the dynamics of three KM processes, namely: the production, dissemination and utilization of knowledge. Knowledge sharing is synonymous with the dissemination of knowledge; it usually relates to the transfer of knowledge within an organization among its employees (as opposed to the transfer of knowledge, which usually relates to the intra-organizational or macroeconomic context of dissemination).

CST states that only individuals who are elevated in status have usually acquired the capacity, resources, money, time and influence to behave altruistically. Only wealthy people, for example, can afford to donate large sums of money. Thus, it can be ascertained that the possession of knowledge may be one of the motives for individuals to behave altruistically to

elevate their status among peers and co-workers. Knowledge sharing is a “currency”, which is spent to buy respect and status. Many studies indicate that individuals often act altruistically towards strangers (Van Vugt & Van Lange, 2006, cited in Simons 2014).

The Norwegian economist Torstein Veblen drew attention to the notion that wasteful expenditures of time and money and conspicuous displays of lack of interest in economic profit may function as a means of gaining competitive advantages over others. Veblen proposed that the signaling manner enhanced social status when knowledge of others’ qualities was not widely known or could be unreliable, as in situations of high socioeconomic mobility (Bird and Smith, 2005). Also, the French philosopher Pierre Boride (1930-2002) was aware of the value of display in terms of its symbolic capital (Boride 1977). Boride explains that behaviours that appear at first glance to be economically “absurd. He mentions the concept of “exhibition of symbolic capital”.

The economic literature abounds with examples of “irrational” behaviours of customers that can be explained by means of CST. For example, many customers prefer to purchase products or services that are regarded as “green” (that are designed to preserve the environment); interestingly, however, a large percentage of these individuals are not actually concerned with the environment. Maynard points out that the owners of the Toyota Prius, a hybrid vehicle that is more expensive than similar counterparts but consumes less fuel, were asked to specify their top five reasons why they purchased this car (Maynard, 2007, cited in S. Moss, 2014). Conservation was not high on the list. Instead, many of the respondents conceded that the car “makes a statement about me”. A parallel can be drawn regarding the weight of the statement about knowledge resources possessed by an individual. Individuals might often choose to engage in responsible and socially desirable actions to assert their status. (see: Simmons 2014; Griskevicius, Tybur, & Van den Bergh, 2010).¹ According to Costly Signaling Theory, both animals and humans often engage in altruistic acts – acts that seem to involve a sacrifice – primarily to convey or communicate a signal about themselves (Gintis, Bowles, Boyd, and Fehr, 2007; cited in S. Moss, 2014). For example, individuals often enact some altruistic behavior to show they are elevated in status, called competitive altruism (see Barclay & Willer, 2007; Roberts, 1998, cited in S. Moss, 2014).

A brief review of the theories on knowledge sharing and interpersonal communication :

Knowledge sharing is a very popular concept describing the phenomenon of learning in organizations. Knowledge sharing relates to the situations where individuals or organizations consciously or unconsciously engage in learning processes with other teams or/and organizations. Successful knowledge sharing involves extended learning processes and the

¹ See: S. Moss, *Costly signaling theory*, Psychopedia, <http://www.psych-it.com.au/Psychlopedia/article.asp?id=375>, [accessed on: 2nd September 2014].

application of evolutionary psychology research rather than simple focus on interpersonal communication processes. Nonaka and Takeuchi (1995) introduced a widely popular SECI (Socialization-Externalization-Codification-Internalization) model to explain the dynamic process of knowledge transfer. In their understanding, knowledge internalization refers to the degree to which a recipient obtains ownership of, commitment to and satisfaction with the transferred knowledge. The literature identifies five primary contexts that impact successful knowledge-sharing: 1) the relationship between the source and the recipient, 2) the form and location of the knowledge, 3) the recipient's learning predisposition, 4) the source's knowledge-sharing capability and 5) the broader environment in which the sharing occurs (Cummings, 2003). Much attention has focused on dyadic knowledge sharing that occurs between organizational units or groups (Nobeoka 1995; Szulanski 1995; Szulanski 1996; O Dell and Grayson 1998; Hansen 1999). Szulanski (1995; 1996) identified four sets of factors that influence intra-organizational knowledge stickiness (von Hippel 1994). The concept of stickiness is a metaphor explaining the reluctance of knowledge to be transferred from one location to another (just as in the case of dense liquids). These factors pertained to 1) characteristics of knowledge (causal ambiguity, "unprovenness"); 2) sources of knowledge (lack of motivation, not perceived as reliable); 3) capacity; and 4) transfer context (barren organisational context, arduous relationships) (Szulanski 1995; Szulanski 1996). Multi-organisational survey data indicated that a recipient's lack of absorptive capacity, causal ambiguity of the knowledge being transferred and arduous relationships between the parties were the strongest impediments to the smooth transfer of best practices. While earlier literature emphasized the motivational factors, they turned out to be less important in determining knowledge stickiness (Cummings, 2003). Despite these results, practitioner-oriented literature keeps emphasizing the role of motivational factors in facilitating dissemination of best practices (O Dell and Grayson 1998).

Motivation is a necessary prerequisite for knowledge sharing (e.g. Ardichvili, 2008; Zboralski et al., 2006 cited in Amayah, 2013). Because knowledge resides within individuals, knowledge cannot be shared effectively if individuals are not motivated to share it. Therefore, it is important to gain a better understanding of the factors that motivate knowledge sharing. Three categories of motivating factors have an impact on an individual's willingness to share knowledge with other employees: personal benefits, community-related considerations and normative considerations. Individuals may be motivated to share knowledge with others because they expect knowledge sharing to be advantageous to them (Hall, 2001).

Effective knowledge sharing is challenging for business practitioners because employees cannot be compelled to do it. Therefore it is important to understand the factors that affect employees' willingness to share their knowledge. Several models presenting factors that affect knowledge sharing have been tested in a variety of organisational settings (Amayah, 2013). Riege (2005) suggested some three dozen barriers to knowledge sharing, including individual barriers such as formal power, age and gender differences, potential organisational

barriers and potential technology barriers. Ardichvili (2008) proposed that the following factors affect individuals' willingness to share knowledge:

- motivation factors (personal benefits, community-related considerations and normative considerations);
- barriers (interpersonal, procedural, technological, cultural); and
- enablers (supportive corporate culture, trust, tools).

Ardichvili (2008) proposed that the following factors affect individuals' willingness to share knowledge: motivation factors (personal benefits, community-related considerations and normative considerations); B barriers (interpersonal, procedural, technological, cultural); and enablers (supportive corporate culture, trust, tools). Few of those factors have been tested empirically. Furthermore, the empirical research suggests a lack of consensus on the key determinants of knowledge sharing.

So far no universal theory of knowledge management has been developed. Yet there is, however, a vast body of research on interpersonal communication (see, for example: Griffin, 2000; Infante et al. 1997). According to Spitzberg and Cupach (1984), communication competence is the ability to choose a communication behavior that is both appropriate and effective for a given situation. Interpersonal competency allows one to achieve his/her communication goals without causing the other party to lose face. The model most often used to describe competence is the component model (Spitzberg & Cupach, 1984), which includes three components: 1) knowledge, 2) skill and 3) motivation. Knowledge simply means knowing what behavior is best suited for a given situation. Skill is having the ability to apply that behavior in the given context. Motivation is having the desire to communicate in a competent manner. Judee Burgoon (Burgoon, 1978) (the Expectancy Violation Theory) states that communication is the exchange of information that is high in relational content and can be used to violate the expectations of another that will be perceived as either positively or negatively depending on the liking between the two people. In interpersonal deception theory, communication senders attempt to manipulate messages so as to be untruthful, which may cause them apprehension concerning their false communication being detected. Simultaneously, communication receivers try to unveil or detect the validity of that information, causing suspicion about whether or not the sender is being deceitful (Buller, Burgoon, 1996). Another 'cost' related to knowledge sharing is the cost of codification of knowledge. Production of documents is a time-consuming process. Organizations are interested in motivating their employees to codify their knowledge. On the other hand, lack of time and, perhaps more importantly, unwillingness to share their unique expertise stand in the way of unrestrained flow of knowledge from the personalized into the codified forms (see Table 1).

Table 1. A comparison of knowledge sharing in codification and personalization of the KM strategy framework/dissemination of knowledge framework.

	Codification of knowledge	Personalisation of knowledge
Rationale	The goal of codification is the re-use of knowledge. The underlying idea is to extract the knowledge from people and store it somehow. This approach is especially used by process-driven companies, which focus on documentation.	The personalization strategy is focused on direct human relations -- it is especially advisable for companies that follow flat organisational structures; the internal communication is important. Hansen et al. call this approach the <i>personalized knowledge management strategy</i> or personalization.
Examples	“Transfer of knowledge from the wealthy North to the poor south” (The World Bank, 1990’s).	Supporting the process of knowledge sharing between interested parties (The World Bank 2000’s onwards)
Key performance factors	Number of document created Number of document accessed Re-use of documents	Number of person-to-person interactions Growth of social networks Speed of communication
Objectives	Transmission of information which possibly can be Re-interpreted as knowledge by the recipient	Externalization of knowledge (on the side of the sender) and internationalisation of knowledge (on the side of the recipients)

The economics of knowledge sharing	<p>The cost of creating context-rich documents</p> <p>The cost of motivating the employees to create such documents</p> <p>The cost of motivating the employees to access and re-use such documents</p>	<p>The cost of creating virtual and real spaces for interactions among employees</p> <p>The cost of mobility of employees</p> <p>The costs of disengagement of employees into other activities while they are engaged in cultivating relationships</p>
The role of ICT	Crucial	Secondary sharing of knowledge is achieved through face-to-face interactions

Source: the author's own elaboration based on: Morten T. Hansen, Nitin Nohria, and Thomas Tierney. "What's Your Strategy for Managing Knowledge?", *Harvard Business Review*, Vol. 77, No. 2, Pages 106-116, 1999.

To sum up, motivation for knowledge sharing plays an important role in explaining the dynamics of knowledge sharing. The motivation for knowledge sharing is strongly affected by the existence of various barriers or obstacles. But there are a number of factors residing within the individuals (independent of the external factors) that affect the propensity of individuals to share their knowledge. It is the author's hypothesis that under certain circumstances the knowledge (or 'knowledge capital') of an individual is used as a 'signal' to the external world. Individuals may decide neither to share their knowledge for purely altruistic reasons (i.e., helping others) nor to satisfy the requirements of the employer (who has a vested interest in motivating employees to share their knowledge). Some individuals may be generous as far as sharing of their knowledge is concerned to leverage their status in organizations or intimidate "competitors", i.e., other individuals claiming their position in the "herd".

Research design :

This paper does not include any empirical result by the author. However, this section is devoted to the possible research that could be conducted to verify the relevance of the CST in the knowledge sharing context. The role of the costly signaling theory could be verified through a series of experiments where the participants were to share their knowledge under specific conditions. Two distinct groups of individuals should be analyzed with all conditions unchanged except for the conditions related to the display of knowledge. A control group should be separated from the rest of the experiment where the independent variable (namely, the propensity for knowledge sharing) being tested cannot influence the results. These conditions isolate the independent variable's effects on the experiment and can help rule out

alternate explanations of the experimental results.

The control group should be given a tasks where sharing of their knowledge would not imply any 'costs' on their side. The experimental group should work in precisely the same conditions with the exception that sharing of their knowledge is:

- 1) Visible – other members of the group will be able to see the situations where individuals share their knowledge,
- 2) Costly – sharing the knowledge requires additional effort.
- 3) Sharing the knowledge does not bring any benefit to the individual other than the display of his "knowledge capital".

Such conditions could be arranged in university settings where students are asked to write an essay. A short essay exam requires students to synthesize material learned. By asking "how" and "why" questions -- for example: "You have just been appointed the editor of the X Anthology of English Literature Since 1800. Identify three or four texts that must be included in the anthology and explain why."² In the case of the control group students are asked to answer a few questions which will not affect the final mark but will, at the same time, require additional effort and time!) while writing the essay. Those students from the control group who answer the additional questions will be informed that their answers will be used only by the tutor to get a better understanding of their general knowledge with no reward in the form of signaling to the rest of students. The additional effort would be the 'cost' that the owner of 'knowledge capital' would have to bear. In the experimental group the students who will provide the most meaningful information will be publically recognized and awarded the title of 'brain of the year'. The trick is that answering the additional questions (in both the control and experimental groups) may jeopardize the chances of getting the good mark. The results from such experiments may shed some new light onto the propensity of people for knowledge sharing where the dependent variable is the costly signaling of an individual's knowledge capital.

Discussion and Conclusion :

Opportunities for the utilization of costly signaling theory in explaining the behavior of individuals and organizations are vast. To apply costly signaling theory in KM, we must first recognize that propensity for knowledge sharing is a multifaceted phenomenon. Reciprocity is often proposed as an important determinant for knowledge sharing: people share their knowledge in the expectation of a returned favor. Costly signaling theory implies that reciprocity is not expected: people share their knowledge out of their self-interest, even when it decreases the standing of others in the group (i.e., by undermining their relative competences).

² Example taken from: Assignments by Type, <http://www.english.umd.edu/academics/writingcenter/faculty/assignments/type>, [accessed on 15 September 2014].

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