Lemma 1 (Observable actions). *Suppose agents' effort, knowledge, and knowledge sharing are observable and contractible. Then,*

(i) *The unique equilibrium features both agents exerting effort $(e_1, e_2) = (1,1)$, and the knowledge-holding agent always sharing their knowledge.*

(ii) *The employer's expected profit is $\Pi^{obs} = \left[(1-\rho)\beta^2 + \rho\alpha^2\right]R - 2c - \rho m c_r + m(K + \Delta)$. The wage scheme is defined as:*[1]

$$w_i^m = \{c + mc_r \text{ if } e_i = 1 \text{ and agent } i \text{ is the knowledge holder } c \text{ if } e_i = 1 \text{ and agent } i \text{ is not the knowledge holder } 0 \text{ if } e_i = 0$$

$$w_i^m = \begin{cases} c + mc_r & \text{if } e_i = 1 \text{ and agent } i \text{ is the knowledge holder} \\ c & \text{if } e_i = 1 \text{ and agent } i \text{ is not the knowledge holder} \end{cases}$$

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[1] For tie-breaking, an arbitrarily small $\varepsilon > 0$ is implicitly added to the relevant wage to ensure a unique equilibrium.