

# **Interest Alignment and Competitive Advantage**

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## ABSTRACT

This paper articulates a theory of the conditions under which the alignment between individual and collective interests generates sustainable competitive advantage. The theory is based on the influence of tacitness, context-specificity and causal ambiguity in the determinants of different types of motivation (extrinsic, normative intrinsic and hedonic intrinsic), under varying conditions of environmental dynamism. The analysis indicates the need to consider motivational processes as a complement to current resource and competence-based approaches in a comprehensive theory of competitive advantage.

## INTRODUCTION

In the ongoing bid to discover sources of competitive advantage, increasing attention has been paid recently to the role of human resource factors in influencing firm competitiveness. Proponents of the resource-based view (RBV) of the firm have argued that while tangible assets are typically imitable and thus unlikely to be a source of sustainable competitive advantage (Barney, 1991), “human assets are often hard to imitate due to scarcity, specialization and tacit knowledge” (Coff, 1997: 374).

A more detailed account of the performance implications of human resources, however, goes beyond their role as a repository of knowledge and routines (Nelson and Winter 1982; Cohen and Bacdayan, 1994) and has to include the degree of alignment of individual interest with organizational goals (e.g. Wright and Snell, 1991; Wright, McMahan and McWilliams, 1994). To the extent that individual members of the organization are motivated to behave in line with organizational goals, the *potential* advantage derived from the availability of knowledge and skills translates into *actual* performance. A fundamental strategy question, rarely addressed by scholars in the field relates to the identification of: (a) the processes through which interest alignment is achieved; and (b) the conditions under which interest alignment generates competitive advantage.

The answer to the first question is itself a source of disagreement between scholars from different disciplines. On one hand, economics-oriented strategy researchers have made great strides towards understanding how poor interest-alignment can prevent a firm from creating sustainable performance advantages over its competitors by impeding and/or misdirecting the motivation of the firm’s employees and suppliers (see Rumelt 1984; Barney, 1986b; Dierickx and Cool, 1989; Barney 1991; Peteraf, 1993; Barney and Hansen, 1994;

Castanias and Helfat, 1991, 2001; Coff, 1997, 1999; Makadok, 2003). However, this stream of research relies on a somewhat simplified, unidimensional, agency-theoretic view of human motivation, which is actually a complex and multi-dimensional phenomenon. On the other hand, researchers in organizational behavior (e.g., Deci, 1971, 1975, 1976; Maslow, 1973) offer a very rich theory of human motivation and its determinants at the individual level, but they have given little or no consideration to how a firm can best spark and harness motivation in order to generate a performance advantage over its rivals under market competition.

This paper aims to link a realistic, robust psychological theory of human motivation at the individual level with a rigorous economic theory of the performance of firms under market competition at the organizational level. In doing so, this paper seeks to fulfill three goals. First, by synthesizing the two theories, it aims to generate a set of insights that could not be generated from either one of them alone. For example, it points to the strategic importance of three complementary and interrelated motivational levers, including two components of intrinsic motivation. Furthermore, it highlights the role of individual- and organizational-level contingencies that moderate the performance impact of interest alignment initiatives. Finally, the paper identifies a distinct organizational competence specific to the enhancement of interest alignment through changes in these motivation levers.

The second goal fulfilled by this theoretical synthesis is to begin to explain a hitherto overlooked construct that we call “interest-alignment rents”. We define this as: *“the improvement in organizational performance due to changes in employee behavior obtained through increased interest alignment that accrues to the organization net of the costs required to establish interest alignment.”* These rents are characterized as either of Ricardian or of Schumpeterian nature, depending on the set of assumptions accepted in the analytical model. Examples of real-world companies that seem to reap these kinds of interest-alignment rents include Lincoln Electric, which appears capable of staying ahead of the

competition based on its superior ability to motivate its workforce, or Southwest Airlines which is renowned for its ability to simultaneously perform a number of interrelated activities that leverage a unique set of norms and values supporting the company's strategic objectives.

Finally, this paper aims to identify the conditions under which superior interest alignment rents persist over time. In other words, it addresses the question of whether and when interest-alignmet based competitive advantage can be sustainable and it does so under different assumptions related to the degree of environmental dynamism. The mechanisms it identifies complement existing theories of competitive advantage and indicate avenues for further research in the bid to develop a more comprehensive theory of competitive advantage that considers the combined effects of both interest alignment and assets capabilities and market positions.

To be clear, the importance of motivation and in particular, its strategic relevance for organizational performance and competitive advantage has surfaced in some recent contributions in the strategic management field. Managerial rent theory (Castanias and Helfat, 1991, 2001), for example, submits that the availability of skills that have rent generation potential is a necessary, but not sufficient, condition for rent generation. In so doing, it also points to the importance of motivation for the realization of any such potential. Similarly, Coff (1997) discusses a number of dilemmas firms face in generating an advantage from human assets, and points to the importance of governance mechanisms to overcome them. Finally, Makadok (2003) calls for future research into the genesis of competitive advantage in a way that combines competence-based issues with questions of governance or motivation.

In an attempt to further our understanding of how motivational processes inform the development of competitive advantage, the remainder of the paper is structured as follows.

We first build on received literature in organizational behavior and economics to define the concept of organizational interest alignment. We then develop a model of its antecedents and show how firms are able to capture (a portion) of the economic rents that can be created through interest alignment. The following section analyzes the conditions under which competitors are able to generate such interest alignment rents and to sustain the competitive advantage that results from a superior level of these rents. The focus here lies on the inherent attributes of the determinants of interest alignment that facilitate the sustainability of an interest alignment-based advantage under different environmental conditions. We then broaden the focus of our discussion to consider the combined effect of interest alignment and assets, capabilities and market positions on competitive advantage. In our concluding section we discuss the implications of our analysis and outline an agenda for future research on these issues.

## **ANTECEDENTS AND CONSEQUENCES OF INTEREST ALIGNMENT**

### **Organizational Interest Alignment**

As seminal contributions in agency theory have argued (Alchian *et al.*, 1972; Jensen *et al.*, 1976; Fama *et al.*, 1983), individual goals are not always in line with organizational goals. To illustrate the strategic relevance of this effect, it is helpful to use the concept of “interest alignment” as a measure of the correspondence between individual and organizational goals. Organizational interest alignment can be defined as: “*the degree to which the members of the organization are motivated to behave in line with organizational goals.*”. We are all painfully aware of the difficulties in defining organizational goals. They can be, and often are, the result of an intense multi-stakeholder dialogue. They can also sometimes more simply be the result of the owner(s)’s vision and will. The argument

developed in this paper, however, applies irrespective of the exact definition of organizational goals, since it refers to the degree of alignment between the organizational members' objectives and those of the organization as a whole (irrespective of how they are established).

In the following we first take a closer look at motivational processes as a key antecedent of organizational interest alignment and then consider its consequences in the form of the generation of a particular type of economic rents.

### **Extrinsic and Intrinsic Motivation**

The concept of “motivation” plays a central role in research concerned with understanding the determinants of individual behavior in organizations and its impact on firm performance (Maslow 1973; Deci, 1971, 1975; Deci and Ryan, 1985; Lepper and Greene, 1975; Frey, 1992, 1993). The basic argument is fairly simple: motivation can be linked to a set of underlying goals, from whose accomplishment individuals derive a certain level of utility (Deci, 1976). This then creates a motivation to engage in behavior that is perceived by individuals to be useful for meeting their goals. The motivation to behave in a certain way is determined by: (a) the degree to which the behavior helps individuals to meet their goals; and (b) the relevance of each goal to the individual (individual motivational preferences).

While a number of different classifications of motivational mechanisms have been proposed in the literature with varying degrees of granularity (e.g. Deci and Ryan, 1985), our analysis is founded on a three-category taxonomy. This extends Deci's (1975) initial dichotomy of extrinsic and intrinsic motivation following a refinement proposed by Lindenberg (2001), which separates intrinsic motivation into a task-related component, the enjoyment-based “hedonic intrinsic motivation” and a social component, the obligation-based “normative intrinsic motivation” (see Table 1). This three-category taxonomy captures the fundamental differences between the mechanisms through which organizations can

influence motivation. At the same time it remains parsimonious and hence better suited for application to questions of strategic management rather than some of the more fine-grained taxonomies used in social psychology.

*Extrinsic motivation* is driven by the goal of obtaining extrinsic work rewards or outcomes (Brief *et al.*, 1977) such as money, power, recognition etc. The impact of extrinsic motivation depends jointly on the reward system in place, which determines the extrinsic work rewards (or sanctions) that the individual obtains as a function of any given behavior, and on the importance of these rewards to the individual.

*Hedonic intrinsic motivation* is driven by the goal of being engaged in enjoyable (Lindenberg, 2001), self-determined and competence-enhancing (Deci *et al.*, 1985) behavior. It varies with the degree to which the individual perceives the characteristics of the task and the task context as positive or negative (Brief and Aldag, 1975; Hackman, Oldham, Janson and Purdy, 1975; Hackman and Oldham, 1976; Hackman and Gersick, 1990). The impact of hedonic intrinsic motivation depends on the importance the individual attributes to being engaged in enjoyable, self-determined and competence-enhancing behavior (King, Hautaluoma and Shikiar, 1983).

*Normative intrinsic motivation* is driven by the goal of engaging in behavior that is compliant with norms and values. As members of the social community of their firm, individuals are thus normatively intrinsically motivated to engage in, or refrain from, a given behavior, depending on whether this behavior is congruent with organizational norms and values (Allen and Meyer, 1990; Kreps, 1997). The intensity of normative intrinsic motivation depends on the degree to which individuals identify with the quasi-stable organizational norms and values. Table 1 summarizes the relevant distinctions among these dimensions of motivation.

----(Table 1 about here)----



## **Organizational Mechanisms to Influence Interest Alignment**

Organizations have several levers at their disposition to actively influence employee motivation and interest alignment. Extrinsic motivation is most directly influenced by the reward system that specifies rewards (or sanctions) for a given behavior (Jensen *et al.*, 1976; Kerr, 1975; Holmstrom and Milgrom, 1991; Holmstrom *et al.*, 1994; Gibbons, 1998). Hedonic intrinsic motivation can be influenced through changes in the design of individual tasks and the task context (Hackman *et al.*, 1975, 1976, 1990). Finally, organizations can enhance normative intrinsic motivation through socialization regimes (Van Maanen, 1978; Van Maanen and Schein, 1979; Kerr and Jackofsky, 1989). For example, company-wide events or training sessions can be used to enhance employee-organization identification and thereby, to proliferate existing organizational norms and values among employees.<sup>1</sup>

Several important contributions to the management literature have highlighted the role of these mechanisms in motivating employees. Ouchi's (1980) concept of clan control can be seen as a form of normative intrinsic motivation, as individuals who have internalized organizational norms and values continue to work towards organizational goals when incentives and formal hierarchy (*i.e.* drivers of extrinsic motivation) fail. Another example is provided by Coff (1997), who describes how job satisfaction and participative decision-making processes can motivate employees through what we categorize as an hedonic intrinsic

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<sup>1</sup> One could argue that an additional mechanism through which firms can influence the level of organizational interest alignment exists. Personnel selection can be used to influence the composition of the workforce and thus, the aggregate attributes of the human resource pool. This can have two effects: first, firms can try to attract individuals whose goals are already aligned with organizational ones and second, firms can hire individuals who are particularly sensitive to the motivational mechanisms in use (e.g. incentive systems, employee engagement programs etc.). Though personnel selection can be seen as a fourth mechanism to enhance interest alignment, this paper focuses on the challenge of motivating an *existing* workforce to behave in a way that contributes to the accomplishment of organizational goals. The consideration of personnel selection in our model would require the simultaneous analysis of the competition between firms in two different markets – the product/output markets as well as the resource/input markets - which was deemed too complex for this initial foray into the topic. For this reason, this mechanism is excluded from the following discussion and we take the attributes of the human resource pool as exogenously given. The extension of the model to include the personnel selection processes is left for future work.

form of motivation.

One must bear in mind, however, that there are limits to the degree to which the different levers can be used by organizations to create interest alignment. The effect of many interest alignment initiatives is highly contingent upon the organizational context in which they operate. First, we have already seen that the sensitivity of individuals to different forms of motivation crucially depends on individual preferences. People differ not only in their personal goals and values, but also: (a) in the type of rewards (compensation, power, recognition, etc.) that stimulate their behavior most effectively and in how sensitive they are to rewards in general; (b) in sensitivity to the different characteristics of their job (skill variety, task identity, task relevance, autonomy, knowledge of results; Hackman *et al*, 1975) and to the importance they attach to having a job tailored to their preferences and attitudes; and, (c) in the extent and ease to which they will internalize organizational norms and values, and the importance they place on feeling fully integrated in the social community in which they work.

But, individual preferences are not the only contingency we need to consider in our model of interest alignment. There are also important factors at the organizational level that determine whether a certain effort to enhance motivation actually translates into a higher level of interest alignment. An obvious one is the set of objectives defined by the firm's leading coalition of powerful actors (top management, board members, key shareholders, etc.), and the fundamental choices and trade-offs made to achieve them. Organizational interest alignment depends on the degree to which individual motivation is directed towards the implementation of strategic choices and the realization of organizational objectives.

Another organizational attribute that plays an important role in the emergence of interest alignment are cultural norms and values. One principal factor that renders a set of

cultural norms and values *valuable* is the degree to which they facilitate the alignment between individual and organizational goals (Barney, 1986a). For example, cultural norms and values function as boundary conditions for socialization processes, since organizations can only socialize their members to the values and norms that characterize them (Van Maanen, 1978; Van Maanen and Schein, 1979). At the same time, organizational norms and values can influence the degree to which employees accept – or reject – a given reward system.

The functioning of interest alignment levers is hence dependent on several aspects of the organizational context: employees' individual preferences, strategic objectives and cultural norms and values. These organizational attributes are (relatively) stable in nature, but may change over time. For instance, it may be possible that over time interest alignment levers themselves influence the development of these organizational attributes. One could image, for example, that a heavy use of high-powered rewards and tight control regimes can push organizational norms and shared values towards increasing degrees of opportunism (Ghoshal and Moran, 1996). Similarly, the existence of a specific incentives system or particular job characteristics may lead to the attraction and attrition of employees with a specific set of preferences, so that the attributes of the workforce change over time.

Finally, let us note that the three interest alignment levers and the corresponding types of motivation are not orthogonal in their impact on interest alignment, but that important interaction effects exist between them. The nature of these interaction terms has been subject to substantial debate in social psychology (e.g. Deci, 1975, 1976; Deci *et al.*, 1999a; Lepper and Greene, 1978; King *et al.*, 1983; Amabile, 1993) and economics alike (e.g. Baker *et al.*, 1994; Frey *et al.*, 2001, 1997; Holmstrom and Milgrom, 1994; Gal-Or *et al.*, 1998). For the purpose of this paper, it is important to emphasize that job design, reward systems and socialization regimes are interrelated, partly alternative and partly complementary

mechanisms (Kerr *et al.*, 1989). They thus need to be considered simultaneously, both in their independent and joint effects, in order to study the conditions required to generate a maximum degree of interest alignment. Implied here is that the causal linkages between a single initiative to enhance interest alignment and overall interest alignment - and ultimately, firm performance - are difficult to identify.

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In summary, we have seen that organizations can influence interest alignment through adjustments of the three interest alignment levers: reward system, socialization regime and changes in the job design. The three levers interact in their effect on extrinsic, hedonic intrinsic and normative intrinsic motivation. The joint impact of these levers on interest alignment is contingent upon organizational traits, such as goals, norms and values, as well as upon individual preferences regarding the different determinants of motivation (see Figure 1). The next step in the analysis will be to consider the consequences of organizational interest alignment.

### **Interest Alignment Rents**

If we now seek to examine the performance impact of organizational interest alignment, we first need to isolate its effect from other factors. To this end, we adopt the assumption that all other determinants of firm performance, in particular assets, capabilities and market positions, are held constant. We then need to understand whether organizations are able to capture *economic rents* from increased interest alignment. Economic rents can be defined as profits from, “resources invested in a particular activity in excess of the profits that could have been obtained by investing the same resources in the most lucrative alternative

activity” (Besanko, Dranove and Shanley, 1999:627) or, in a similar spirit, as, “returns to a factor in excess of its opportunity cost” (Peteraf and Barney, 2003:315). We thus need to compare the performance advantage of increased interest alignment with the “cost” of increasing interest alignment in the broadest sense (Coff, 1997).

The overall costs of increased interest alignment include a variety of factors and in practice, may be difficult and complex to measure. For our theoretical discussion however, the most pertinent question is whether employees are able to capture all the rents that result from their enhanced motivation, or whether the organization can capture some of these rents. The quantification of an individual employee’s contribution to organizational performance, as well as the determinants of how the corresponding benefits are split between the individual and the organization have been subject to extensive research (e.g. Friedman and Lev, 1974; Flamholtz, 1985; Steffy *et al.*, 1988). For the purpose of our analysis, it is sufficient to note that employees will have difficulty appropriating all the rents from their activities whenever the processes that determine organizational performance are collective in nature and the exact contribution of each individual is difficult to assess (Coff, 1997). Thus we can conclude that under normal conditions, it is possible for organizations to capture at least part of the rents from increased interest alignment.

We can then define "interest alignment rents" as simply: *“the improvement in organizational performance due to changes in employee behavior obtained through increased interest alignment that accrues to the organization, net of the costs required to establish interest alignment.”*

Makadok (2003) emphasizes the potential magnitude of the performance impact of enhanced interest alignment, or *improved governance mechanisms*, to use his terminology. For one, *existing* resources will be deployed more efficiently through enhanced interest alignment. Moreover, the value of any *additional* (strategic) factors available in the factor

markets depends on the bidders' level of interest alignment. For example, a patent will be more valuable to an organization with enhanced interest alignment than to any competitor with an inferior degree of interest alignment, as the employees of the former will work harder to devise and support novel applications of the patent in the product market. Hence, organizations with superior interest alignment can acquire such factors for less than what they are worth to them, thereby generating interest alignment rents (Barney, 1986b).

### **A Practical Example of Rent Generation through Interest Alignment**

A good example of organizations that seem to possess a specific competence to enhance interest alignment and that actually capture rents from improved interest alignment can be found among leveraged buyout associations. These firms acquire underperforming companies or business units on a regular basis, increase their financial leverage and improve their incentive systems. While a number of factors contribute to value creation in buyouts, the important role increased alignment of interest between managers and owners plays in determining buyout success has been emphasized in the literature (Jensen, 1989). Below, we adopt the case of a leveraged management buyout of a business unit of a large corporation to illustrate how sophisticated buyout investors are able to generate rents based on an ability to align the personal goals of managers and employees of the acquired unit with the strategic objectives of the organization.

In a so-called 'carve-out' buyout of a business unit of a large corporation, the acquiring buyout association typically focuses on a set of initiatives aimed at enhancing the level of interest alignment between the members of the acquired unit and their firm. In so doing, they make use of extrinsic, hedonic intrinsic and normative intrinsic motivational mechanisms. Most obviously, buyouts boost extrinsic motivation through substantial changes in important aspects of a firm's reward system, for example, through the introduction

of pay-for-performance remuneration schemes or equity plans for top management and employees (Fox and Marcus 1992; Anders 1992). One of their core competencies, in fact, lies in tailoring reward systems and incentive plans to the idiosyncrasies of each deal and to the personal preferences and needs of the management team that run the acquired company. Defining performance targets and designing top management compensation packages contingent upon the fulfillment of these targets are important aspects of the negotiations for the entire buyout deal. There are also important intrinsic mechanisms however, through which a carve-out buyout enhances interest alignment. Take, for example, the change in the job characteristics of a business unit management team. No longer constrained by corporate bureaucracy and reporting structures, these managers enjoy a much greater level of task identity, relevance and autonomy, as many buyout associations reduce their interference with the day-to-day operational issues of individual business units to a minimum, provided that financial targets are met (Lowenstein, 1985; Jensen, 1989; Hoskisson and Turk, 1990; Wright *et al.*, 2001). In this way, buyout associations acknowledge the importance of structuring the relationship between the corporate center and the business units in a way that simultaneously provides sufficient oversight and control (to maintain extrinsic motivation) and preserves enough of the business unit managers' autonomy to stimulate hedonic intrinsic motivation. Finally, and maybe least obviously, carve-out buyouts also affect normative intrinsic motivation by transforming a business unit into a new standalone company with more focused activities (Seth and Easterwood, 1993; Singh, 1990; Phan and Hill, 1995). This often results in a more closely knit social community within the unit post-buyout. As the CEO of a successful carve-out buyout commented: "we used to be a mechanical division that felt that it did not fit in a group dominated by an electrical engineering culture. After the carve-out, the culture of our unit changed and we are now a close community with a 'mechanical mindset'." Therefore, carve-out buyouts have an impact on normative intrinsic motivation through

increased employee-organization identification.

In a way, buyout managers and employees take both financial and emotional co-ownership of their company. As a top manager of another buyout put it: “Through the buyout this becomes ‘your’ company and you work as hard as you can, because you want ‘your baby’ to succeed and to make that IPO.” Some buyout associations pay close attention to the socialization processes at work when a carve-out buyout creates a new identity for the members of the organization. Many of them actively intervene in this process, for example through specific communication programs. These programs inform employees about the new vision, strategic objectives and performance targets and are aimed at supporting the development of shared goals in the new company, amplifying the effect of normative intrinsic motivation triggered by the buyout.

In summary, carve-out management buyouts increase interest alignment through a combination of extrinsic, hedonic intrinsic and normative intrinsic mechanisms. Sophisticated buyout associations acknowledge the importance of the interest alignment process as a key determinant of buyout success. They invest substantial time and effort in assessing the various factors that influence interest alignment in each transaction and actively seek to expand and refine their competencies in this domain.

How then does a buyout association capture the rents associated with superior interest alignment? In fact, with superior interest alignment capabilities, organizations can acquire business units (as bundles of strategic factors) for the value the “second best” acquirer places on these factors (Barney, 1986b). Given that less skillful acquirers lack a similar interest alignment capability and thus consider the business unit less valuable, the buyout association will be in a position to reap the differential value created through improved interest alignment.

Admittedly, certain aspects of the buyout context are unique and it is safe to assume



that the specialized skills developed by experienced buyout associations are not commonly found in traditional firms. That said, similar initiatives to enhance interest alignment *could* be taken in more traditional firms. In fact, the carve-out example contains a number of indications as to how non-buyout firms could use improved interest alignment to increase performance and gain competitive advantage. Having established that, in theory and in practice, companies can potentially capture interest alignment rents, the next step will be to analyze whether and under what conditions performance differentials based on interest alignment can be sustainable over time.

## **SUSTAINABLE COMPETITIVE ADVANTAGE THROUGH INTEREST ALIGNMENT**

As we have seen, interest alignment can be an important source of rents for the organization. In this section, the conditions under which enhanced interest alignment can be a source of competitive advantage, and the factors that make such an advantage sustainable over time, will be analyzed. Whereas there is substantial debate about the accurate definition of this construct (Rumelt 2003), we conceptualize competitive advantage for the purpose of this paper as a situation in which a firm earns a higher rate of economic rents than the average competitor (Besanko, Dranove and Shanley, 1999).

Given our focus on interest alignment-based advantages, this then requires the comparison of competitors' abilities to generate economic rents from interest alignment. To this end, we will assume in this section that competitors are identical in their (non-zero) endowment with assets, capabilities and market position. We thus isolate the performance impact of differences in interest alignment *ceteris paribus*, which results in a direct influence of changes in interest alignment on performance and competitive advantage.

The crucial question then becomes: when are differences in interest alignment rents,

(in other words, interest alignment-based competitive advantage), *sustainable*, *i.e.* when do the performance differences persists over time, despite competitive pressures? Since the determinants of sustainability of competitive advantage are obviously contingent upon the stability of environmental conditions, we will carry out the analysis distinguishing between the two extreme cases of environmental dynamism: a static and a highly dynamic competitive context.

### ***Sustainability in a Static Competitive Environment***

In a static context, sustainability of competitive advantage depends on the presence of isolating mechanisms that limit the competition's ability to imitate or substitute (Lippman and Rumelt, 1982; Barney, 1986b). In our case, the question becomes: which isolating mechanisms exist that can make interest alignment-based advantage sustainable over time? *Prima facie*, it seems as if the elements of an advantageous configuration of interest alignment levers are easy to observe and understand. Therefore, they cannot be expected to constitute barriers to imitation or substitution. However, this impression might be misleading. Consider the insight of the resource-based and knowledge-based perspective that sustainability has to do with the tacitness, context dependence and causal ambiguity of the factors that underlie competitive advantage (Barney, 1986b; Winter, 1987; Kogut and Zander, 1992). As we will see, similar to knowledge resources, configurations of interest alignment levers can vary substantially along all of those three dimensions, and hence, they can combine to produce conditions under which interest alignment-based advantage can be sustainable.

*Tacitness.* Superior interest alignment is the result of three distinct motivational mechanisms: reward-based extrinsic motivation, task-based hedonic intrinsic motivation and

identity-based normative intrinsic motivation. A firm's reward system can contain several explicit elements, such as the bonus payment attached to a certain behavior or performance outcome. At the same time, important parts of the reward system remain tacit, such as the relationship between 'good corporate citizenship' and time-to-promotion. Similarly, many aspects of the (perceived) task characteristics that determine the level of hedonic intrinsic motivation can be easily observed, such as the codified job description or the physical layout of a shop floor or office space. Other factors, however, such as the work climate or the implicit task requirements are much more tacit in nature. Finally, the factors that underlie normative intrinsic motivation, norms and values and the socialization regime, are largely tacit; only explicit efforts to socialize employees, such as training sessions or similar events can be observed. Thus, there seems to be a continuum between explicit and tacit factors along which each of the three interest alignment levers can be positioned. In a static environment the degree of tacitness of a given configuration of interest alignment levers is positively related to the sustainability of a potential interest alignment-based competitive advantage, as it limits competitors in their ability to observe and imitate an advantageous configuration of interest alignment levers.

*Context dependence.* Consider now the condition of context dependence as a co-determinant of sustainability of competitive advantage. We have seen that the performance impact of a given initiative to enhance interest alignment can be tightly coupled to a given set of attributes of the organizational context in which they operate. For example, the performance impact of socialization efforts greatly depends on the degree to which organizational norms and values are in line with strategic objectives (e.g. Van Maanen, 1978). Moreover, the effect of changes in reward system and job design is often dependent on employees' individual preferences, as only initiatives that are perceived as motivational by

the employee will have the desired positive effect on interest alignment. However, other forms of interest alignment are considerably less context dependent. Examples include low-powered incentives that are not contingent upon specific behavior or performance outcomes, as well as general initiatives to improve task characteristics, such as shorter work hours or additional holidays, that can be expected to be perceived as positive by most employees.

In a stable environment, context dependence contributes to the sustainability of competitive advantage, since even if competitors were able to copy a given configuration of interest alignment levers, the effect of these levers is unlikely to be the same in a different organizational context. We can therefore conclude that combinations of interest alignment levers that are characterized by high levels of context dependence will be capable of generating sustainable competitive advantage.

*Causal ambiguity.* Another potential isolating mechanism for interest alignment-based competitive advantage lies in the degree of causal ambiguity related to the performance implications of a given determinant of interest alignment. The reader might recall that in the previous section we identified a number of possible interaction effects between the three types of motivation. For example, enhancing extrinsic motivation through stronger reward systems might have negative effects on the levels of intrinsic motivation people feel in executing a given task (Deci, 1971, 1975; Deci and Ryan, 1985; Lepper and Greene, 1975). Also, as the case of Lincoln Electric shows (Berg, 1975), the internalization of norms and values that support a given reward system can facilitate the stimulation of extrinsic motivation (Foss, 1996).

Furthermore, each interest alignment lever itself can consist of a number of individual initiatives. Consider for instance, the variety of individual elements that contribute to job design, and add all the various ways in which the socialization of individuals occurs within an organization (from training programs to social events, from joint client calls to post-mortem

project debriefings, etc.). Since each of the three types of motivation are potentially influenced by various interest alignment initiatives, and since the different types of motivation interact to create interest alignment, it can be argued that the exact causal mechanisms that lead to a superior level of interest alignment are inherently difficult to identify – for the competitor as much as for the firm itself. Consequently, the causally ambiguous nature of the link between a configuration of interest alignment levers and competitive advantage serves as an important isolating mechanism in a static environment.

In summary, interest alignment based competitive advantage can be protected from competitive pressures in a stable setting by three isolating mechanisms: the levels of tacitness and context dependence of certain types of interest alignment initiatives, as well as the causal ambiguity of the combination of interest alignment levers. Having discussed the theoretical possibility of interest alignment being a source of sustainable competitive advantage in a static context, let us analyze the factors that determine the sustainability of an interest alignment-based competitive advantage in a dynamic environment.

### **Sustainability in a Dynamic Context**

The speed of environmental change has an important impact on the way in which firms compete (Brown and Eisenhard, 1997; Fine, 1998). The question, of course, is whether the way firms manage interest alignment processes can influence the degree to which they are able to sustain a competitive advantage within a highly dynamic environment. The answer we give is “yes”, although the way in which this takes place is very different from the static context we have considered above. Two aspects need to be considered here. First, as we will see, the basis on which companies compete is different. Second, the factors influencing sustainability are similar but operate in remarkably different ways.

Regarding the shifting basis of competition, rapidly changing environmental conditions imply that firms will be less concerned with reaching a sustainable advantage based on a configuration of interest alignment levers that best supports a stable set of goals. Any such advantage will be rendered worthless very rapidly, as the way the firm pursues its goals has to be rapidly adjusted to changing environmental conditions. Instead, firms compete on the basis of their *ability to adapt their configuration of interest alignment levers to the shifts in strategic objectives* required to cope with changing environmental requirements. In other words, competing in highly dynamic environments is about rapidly adjusting interest alignment levers to a moving target, rather than finding the perfect fit between interest alignment levers and a stable set of goals, given existing individual preferences and other organizational traits (see Figure 1 above).

From a rent generation standpoint, this can be seen as akin to the distinction between Ricardian and Schumpeterian rents. Whereas the previously discussed static case resembled the Ricardian logic at the basis of the Resource-Based View, interest alignment-based competition in a dynamic setting resembles the logic of Schumpeterian competition in the product market, where only the superior ability to continuously innovate in products and processes leads to continuous competitive advantage (Teece, Pisano and Shuen, 1997). In a dynamic environment, sustainability is about the ability to adapt behavior to rapidly changing conditions, rather than about the inimitability of an advantageous position (Winter, 1995).

Interestingly, the same factors that contribute to the sustainability through enhanced inimitability in the static case (tacitness, context-dependence and causal ambiguity) are also key determinants of the adaptability of a configuration of interest alignment levers, although we submit that the nature of their influence is different. Let us then see what might happen to the role of these factors for the sustainability of competitive advantage in the dynamic setting.

Tacitness. The tacitness of interest alignment levers was identified as an isolating

mechanism in the static case. In a dynamic context, however, the level of tacitness of interest alignment levers turns into a liability for the firm. The more tacit the initiatives to enhance interest alignment, the greater the difficulty for the firm to adjust these to changing strategic requirements. This is the dynamic version of the conundrum highlighted by Kogut and Zander (1992) and Zander and Kogut (1995) in their work on the transfer of knowledge: tacitness helps creating competitive advantage in a given context but hinders its transferability to different contexts.

In the context under study, whereas it is quite easy to change the explicit elements of the reward system, the job design and the socialization regime, it is challenging and time consuming to identify, analyze and alter the more tacit determinants of interest alignment. Consequently, companies that rely mostly on explicit interest alignment levers will be at an advantage in a dynamic setting, as this facilitates the adaptation of the configurations of interest alignment levers to changing strategic requirements. In other words, the more explicit the type of interest alignment levers utilized by the firm, the higher the likelihood that the firm will be able to sustain an interest-alignment based competitive advantage in a dynamic environment.

*Context dependence.* The choice between context-specific and more generic type of interventions to align individual interests to organizational goals also has an important influence on the ability of a firm to adjust its interest alignment levers to changes in the environment. The more context-specific a configuration of interest alignment levers, the more difficult it will be for a firm to adjust them. If interest alignment initiatives are highly context-specific organizational traits, including the aggregate preference of the workforce, firms will be constrained in their ability to freely adjust interest alignment levers to new strategic requirements. Consider, for example, the case of a company that relies heavily on context-specific normative intrinsic motivation, leveraging a set of norms and values that

support its current strategy of differentiation through innovativeness. If strategic imperatives change in a way that cost efficiency replaces innovativeness as the critical success factor, existing and difficult to alter norms and values will limit its ability to normatively intrinsically motivate employees to strive to make the firm more cost efficient. In turn, companies utilizing interest alignment levers that are only loosely coupled with the organizational context are at an advantage in a dynamic context. Since the basis for competition has now shifted from inimitability to adaptability, the premium is on the flexibility of the interest alignment configuration; consequently, context dependence becomes a barrier to the sustainability of competitive advantage, rather than an enabler.

*Causal ambiguity.* The degree to which the different elements of a configuration of interest alignment levers are interrelated and the consequent precision with which the causal mechanisms linking the configurations of interest alignment to performance outcomes can be known has also been identified as an isolating mechanism in the static setting. Here again, one can observe that the same characteristics that give a firm a sustainable advantage in the static setting turn into a liability in a dynamic context. The greater the level of causal ambiguity of a configuration of interest alignment levers, in fact, the more difficult it will be for a firm to understand what aspects of the reward system, the job design and the socialization regime have to be adjusted to adapt the configuration of interest alignment levers to new strategic objectives. Put differently, companies relying on a less causally ambiguous and thus more easily adjustable configuration of interest alignment will be better placed to sustain an interest alignment-based competitive advantage in a dynamic setting.

### **The Conundrum of Inimitability vs. Adaptability**

To summarize, all the three factors responsible for the sustainability of competitive advantage – tacitness, causal ambiguity and context dependence – play a role in both of the



static and dynamic scenarios analyzed. The nature of their impact, however, is the exact opposite, depending on the assumption regarding the stability of the environment. This bears testimony to how crucial a contingency factor the correct assessment of environmental dynamism is for the analysis of sustainable competitive advantage. Figure 2 captures this intuition.

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Whereas firms that enjoy an interest alignment-based competitive advantage in the static scenario are protected from competition if their chosen configuration of interest alignment levers is tacit, causally ambiguous and context dependent, the same choice would penalize the firms competing in a highly dynamic environment. What is a strategic asset in one scenario becomes a liability in the other.

### **Normative Implications**

The normative implications of our analysis are relatively straightforward, but important nonetheless. First of all, it seems imperative for firms to acknowledge the strategic importance of interest alignment as a potential source of sustainable competitive advantage. Hence attention should be paid not only to finding ways of deliberately enhancing interest alignment through a suitable configuration of interest alignment levers, but also to understanding the nature of the environmental context in which the firm operates. In fact, depending on the magnitude of dynamism in the competitive environment, firms need to adapt the type of interventions to maximize their chances of success based on interest alignment factors. Firms will need to rely on initiatives to foster interest alignment that are tacit, context dependent and causally ambiguous in the static case and explicit, generic and less causally ambiguous in the dynamic case. Furthermore, firms should be alert to the

possibility that a previously static environmental context gains in dynamism, since this transition alters the strategic success factors in interest alignment-based competition. Table 2 summarizes the positive and normative considerations proposed above for the two cases of static and dynamic environmental conditions.

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## **TOWARDS A COMPREHENSIVE THEORY OF SUSTAINABLE COMPETITIVE ADVANTAGE**

Having studied the mechanisms through which interest alignment can generate economic rents and sustainable competitive advantage, we can now ask the “bigger” question: what does this all mean for our current theory of competitive advantage? How should our current thinking be adapted to accommodate the results of this analysis?

We will tackle this question in two ways. First, we relax the “*ceteris paribus*” assumption regarding the variation in resources, capabilities and market positions. That is, we refrain from assuming homogeneity in the “known” sources of competitive advantage. Second, we attempt to identify at least some of the distinctive features of the capabilities underlying the achievement of interest alignment-based competitive advantage, and juxtapose them with the received notions of dynamic capabilities.

### **The Interaction of Motivation with Resources, Capabilities and Market Positions**

In the previous section, we made the simplifying assumptions that all firms are identical in terms of their endowment with assets, capabilities and market positions to isolate

the performance impact of differences in the level of interest alignment among firms. In relaxing this assumption, we have the opportunity to observe how interest alignment on the one hand, and assets, capabilities and market positions on the other, *jointly influence* performance and competitive advantage. This is consistent with Penrose's early notion that the firm's productive opportunity set is a function of cognition, ability *and* motivation (Penrose, 1959).

The nature of this joint influence can be illustrated by drawing an analogy to the way motivation and ability interact as determinants of individual performance. At the individual level it is easy to observe that, without motivation to act, there is no performance irrespective of the level of ability. At the same time, without the ability to act there is no performance irrespective of the level of motivation (Delaney et al., 1996; Huselid, 1995; Schuler and MacMillan, 1984). So, what we have is a pure interaction term (rather than a moderation of one on the other), a relationship in which motivation and ability jointly, and positively, influence performance but none of the two actually enjoy an independent direct effect on performance<sup>2</sup>.

A similar logic applies at the organizational level. The level of interest alignment determines how much of the performance potential of assets, capabilities and market positions will be realized. At the same time, assets, capabilities and market positions determine how well a firm performs at a given level of employee motivation. Most importantly, none of the two sets of drivers enjoy an independent direct effect on competitive advantage, since they will each need the other to determine the performance outcome (in both absolute and relative terms with respect to competitors). Figure 3 offers a simple schematic view of the proposed set of relationships.

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<sup>2</sup> This realization came as a consequence of a heated "dialogue" with one of the anonymous reviewers on the validity of a prior formulation of the model as a moderating effect of motivation on the link between capabilities and performance. We would like to gratefully acknowledge his/her role in pushing us to sharpen our thinking on this important point.

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What are the implications of this interaction effect of interest alignment with assets, capabilities and market positions for our understanding of the determinants of sustainable competitive advantage? First, this analysis unearths an implicit assumption that has been common to most of the received literature on competitive advantage, *i.e.* that all competitors (a) had an identical level of interest alignment, and that (b) this level of interest alignment was greater than zero. The implicit assumption on homogeneity in interest alignment levels was necessary to isolate the impact of assets, capabilities and/or market positions on competitive advantage. The second condition is required in the proposed multiplicative model, since without interest alignment, competitive advantage would be zero irrespective of the nature of assets, capabilities and market positions. In other words, the proposed model uncovers an implicit assumption of *additivity* in the terms of the competitive advantage equation, which would be the only formulation allowing for independent main effects of motivation, capabilities, resources and market positions. However, as the individual analogy shows, the additive model runs against basic logic since it implies the possibility that either skill or will *alone* influences task performance.

If this is true, then omitting interest alignment from the (implicit) model of competitive advantage may limit the descriptive power (and, consequently, the applicability) of the theory. In addition, a multiplicative model that conceptualizes competitive advantage as the function of the interaction of assets, capabilities and market positions with interest alignment highlights the role and relevance of interest alignment theory as a *complement* to existing theories of competitive advantage.

To illustrate, imagine a situation in which Company A is at a disadvantage in terms of the traditional sources of competitive advantage: slightly behind in terms of capabilities, slightly weaker market position (etc.) than its competitor. Company A can still enjoy a competitive advantage if it is better able to motivate its employees to deploy their competences and make optimal use of their resources than Company B. In this sense, Company A can compensate for its disadvantage in terms of traditional sources of competitive advantage through interest alignment. Unless and until the impact of interest alignment is considered explicitly, it becomes impossible to explain Company A's competitive advantage despite the gap in capabilities, strategic resources and/or market position *vis-à-vis* its competitor.

In the opposite case, consider a company that enjoys an advantageous position in the market-place based on its superior competencies and strategic (i.e. rare, inimitable and non-substitutable) assets, but that it is facing a strike from its workforce, a situation akin to a very low level of interest alignment. That company will still face a tangible risk of going bankrupt no matter how strong its position is in terms of the received wisdom on the sources of competitive advantage (that is despite superior resources, capabilities and market positions). As these examples show, current theories of competitive advantage might generally be underspecified<sup>3</sup>.

### **Interest Alignment Capabilities**

A second line of inquiry in developing a comprehensive theory of competitive advantage needs to examine how the capabilities underlying the development and defense of competitive advantage based on interest alignment rents are characterized.

To better assess both the differences and the similarities between the

conceptualization of capabilities specific to interest alignment processes vis-à-vis that normally referred to in the literature on the capability-based view of the firm, it might be helpful to consider the sources of competitive advantage and the nature of the isolating mechanisms in both perspectives. Moreover, given the importance of the assumption on environmental dynamism, it seems necessary to conduct this comparison under both static and dynamic environmental conditions, as reported in Table 3.

--(Table 3 about here)--

The comparison of the two theories shows the similarity in the general typology of factors responsible for the generation of competitive advantage as well as for its sustainability (i.e. the isolating mechanisms). The factors themselves, however, differ in a theoretically meaningful way, since they stem from two distinct processes at the most fundamental level: one is about operating routines (doing); the other is about motivation (willingness to do).

So, for example, operating knowledge evolves and is “managed” in ways that have little in common with the process through which individual motivation is aligned with organizational goals. In a dynamic context, the “higher-level” capabilities (Winter, 2003) that underlie an organization’s ability to constantly improve its adjustment of interest alignment levers is a different theoretical construct from the processes responsible for the development of activity-based dynamic capabilities (Teece *et al.*, 1997; Eisenhardt *et al.*, 2000; Zollo *et al.*, 2002), although they both operate at the same “level” in the hierarchy of capabilities.

Activities related to interest alignment theory, in fact, are all premised upon the manipulation of one or more of the levers we studied above: rewards, socialization processes,

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<sup>3</sup> A notable exception is the recent work by Makadok (2003) that highlights the need to consider both skill and

or job design. On the other hand, developing operating competence has to do with repetition of execution, evaluation of outcomes and marginal adjustments to established routines (Nelson and Winter, 1982). Just the fact that a simple thought or a non-verbal signal can suffice to enhance or depress motivational levels, whereas acquired knowledge is neither dissipated nor accumulated nearly as easily and swiftly, should clarify the phenomenological distinctions.

In summary, the study of interest alignment processes requires the development of theory, which, although comparable in terms of general conceptualizations, is inherently different from the received theory in the actual mechanisms and activities involved. Let it be clear, in closing, that the few observations we have made above aim solely to open the debate, and have no pretense to finality in what appears to be a particularly fruitful avenue for future exploration.

## **CONCLUSIONS**

This paper set out to address a gap in the strategic management literature related to the role of motivation as a determinant of sustainable competitive advantage. Its ultimate goal is to contribute to the development of a comprehensive theory on the sustainability of competitive advantage by highlighting the joint and interdependent impact of motivation with capabilities, resources and market positions, on the sustained achievement of superior performance.

In order to do so, the analysis proceeded through different stages. First, we assume all other non-motivation related factors explaining competitive advantage to be constant, and focused on the mechanisms underlying the development of interest alignment in

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effort in a formal agency model.

organizations. By distinguishing between extrinsic and two types of intrinsic (hedonic and normative) motivation, the analysis built on the most recent advances in motivation theory (Lindenberg, 2001) and emphasized the role of interdependencies among the different motivational mechanisms. In addition, the role of individual preferences *vis-à-vis* motivational levers and of organizational traits such as shared norms and values was highlighted to build a more robust theoretical frame linking individual behavior to macro (firm-level) factors.

In the next step, we proposed that interest alignment could produce economic rents, since it can be generated at a cost that remains below its benefits under normal conditions. To this end, we leveraged on the received literature in human resource management (Steffy *et al.*, 1988) and, more recently, in strategic management (Coff, 1997) to argue that employees are normally unable to command wages that fully capture the value that the organization derives from their aligned behavior. To show how firms are practically able to generate and capture interest alignment rents, we then discussed the case of leveraged buyout associations that possess a distinct capability to enhance the level of interest alignment in the firms they acquire and reap the fruits of the resulting performance increase.

With these points laid out, the analysis of the conditions under which interest alignment can generate competitive advantage is carried out under different assumptions related to the degree of environmental dynamism. The theory builds on the analysis of the impact of three antecedents to the sustainability of competitive advantage: the tacitness, the context-specificity and the causal ambiguity of interest alignment processes. The interesting insight from the analysis is that all the three factors appear to influence the sustainability of competitive advantage, but with radically different signs of impact depending on the assumption of environmental dynamism. Higher levels of tacitness, context -dependence and causal ambiguity help in a relatively static environment, functioning as isolating mechanisms



from imitative attempts by competitors. In highly dynamic environments, however, the same factors hinder the retention of competitive advantage, since they reduce the firm's ability to adapt to constantly changing competitive conditions and strategic priorities by modifying its interest alignment processes.

The juxtaposition of interest alignment theory with existing capability-based theories of competitive advantage highlights the complementarity of both theories, as the former is concerned with operating routines (ability to do), while the latter is about motivation (willingness to do) (cf. Table 3). It strikes us that a theory of competitive advantage cannot do without either of the two domains, and that a fruitful avenue for future research lies precisely in the understanding of how the domains interact with, and influence, each other. This conclusion is consistent with the call made by human resource management scholars for a serious consideration of the (joint) impact of both capability and motivational aspects of human resources (Delaney *et al.*, 1996; Huselid, 1995; Schuler and MacMillan, 1984). In fact, the role played by the human resources function (whether institutionalized in the human resources department or diffused through the responsibilities of the managerial function) turns out to be key to both arguments.

The analysis conducted in this paper should be of interest beyond the domains of strategy and human resource management, though. In our view, it could inform the debate between agency theorists and organizational behavior scholars by highlighting how the mechanisms at the center of their attention (extrinsic motivation for the former, intrinsic motivation for the latter) are interdependent in the way they create interest alignment. More importantly, this work emphasizes how the problems and processes occupying both groups of scholars *jointly* influence the ability of firms to achieve superior results in their competitive environments.

Clearly though, the development of a comprehensive theory that explains the impact

of motivation and interest alignment on competitive advantage is an ambitious target towards which this paper makes but a first step. The analysis proposed has in fact raised several important questions, which were beyond the scope of this paper, but which we strongly encourage scholars to consider for their future work. One of these has to do with the influence of personnel selection processes as a means of enhancing the general level of organizational interest alignment through the modification of the pool of human resources. Whereas our analysis is mute to the potential effect of selection processes in the pursuit of interest alignment, future work might consider how selection processes interact with motivational ones in influencing the ability of firms to generate advantage from superior levels of interest alignment. Such research efforts would also allow us to jointly consider competition for revenues on the product market together with that for human resources on the factor market in an explicit way.

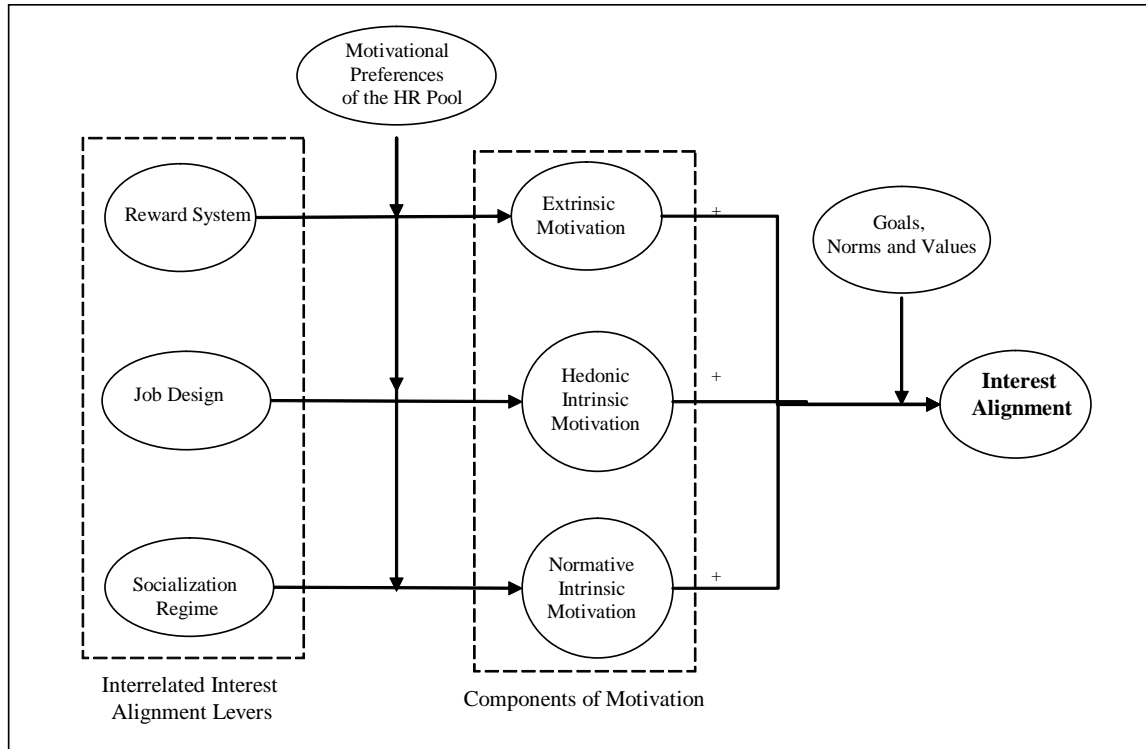
Another area of exploration lies in the appreciation of the multiple ways in which motivational processes interact with capability or resource development processes. One can argue that differing levels of motivation might for example, impact skill development processes, and that the same might be true in the opposite direction, given the hedonic motivational outcomes that learning produces in some individuals. As of today, however, we really have little clue about how these interdependencies might work vis-à-vis the development of sustainable competitive advantage.

Another interesting extension of our discussion would be an explicit analysis of the extent to which the factors that determine interest alignment work at the individual vs. the organizational level. Such a study could follow, for example, Felin and Hesterly's (forthcoming) analysis of whether knowledge-based competitive advantages originate at the individual or organizational level. Finally, once we fully understand the link between interest alignment and performance, it will be possible to revisit Makadok's (2003) observation that

many of the world's most successful firms excel in terms of their competence *and* their interest alignment. It would be interesting to take a closer look at the factors that determine the portion of overall rents that can be attributed to *either* superior competence *or* superior interest alignment under different conditions.

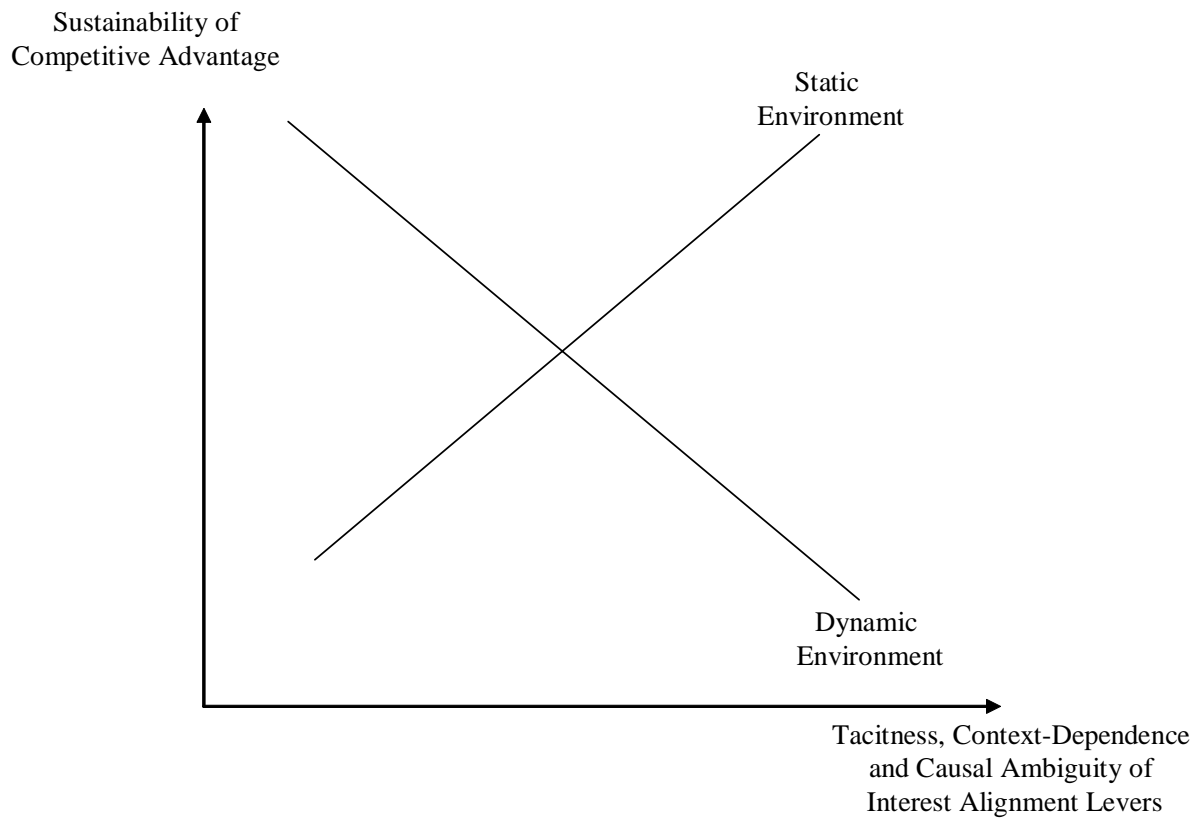
Whereas the road ahead appears long and poorly chartered, we hope that the analysis presented above can offer at least some initial light towards a comprehensive treatment, and possibly an integration of the two aspects of the “human factor” in the strategic management discourse: the ability to act in pursuit of superior performance, *and* the motivation to do so.

FIGURE 1  
Antecedents of Organizational Interest Alignment



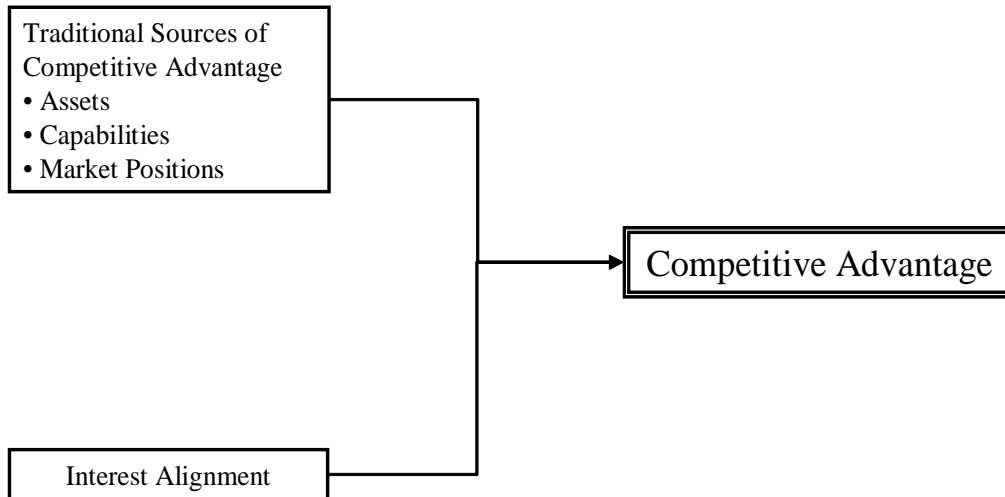
Organizations can influence Interest Alignment through adjustments of the three interest alignment levers: Reward System, Socialization Regime and changes in the Job Design. The three levers interact in their effect on extrinsic, hedonic intrinsic and normative intrinsic motivation. The joint impact of these levers on interest alignment is contingent upon organizational traits, such as goals, norms and values, as well as upon individual preferences regarding the different determinants of motivation.

FIGURE 2  
**The Impact of Tacitness, Context Dependence and Causal Ambiguity on the Sustainability of Competitive Advantage under Different Assumptions on Environmental Dynamism**



In a static environment, tacitness, context dependence and causal ambiguity of a configuration of interest alignment levers serve as isolating mechanisms that limit competitors in their ability to imitate the basis for an interest alignment-based competitive advantage, and thus, increase its sustainability. In a dynamic environment, however, these same attributes limit firms in their ability to rapidly adjust their configuration of interest alignment levers to changing strategic requirements and thus reduce their ability to sustain interest alignment-based competitive advantage.

FIGURE 3  
**A Joint-Effect Model of Competitive Advantage:  
The Interaction of Interest Alignment with Assets, Capabilities and Market Positions**



Competitive Advantage is the function of a multiplicative joint effect of assets, capabilities and market positions and interest alignment. The level of interest alignment determines how much of the performance potential of assets, capabilities and market positions can be realized. At the same time, assets, capabilities and market positions determine how well a firm performs at a given level of employee motivation.

TABLE 1  
**Drivers of Motivation**

Form of Motivation	What drives motivation?	What are the relevant characteristics of behavior?	What moderates how motivated an individual will be?
Extrinsic Motivation	The desire to obtain tangible or intangible external rewards	The degree to which the additional rewards will be received for a given behavior	The utility of the rewards to the individual
Hedonic Intrinsic Motivation	The desire to engage in enjoyable, self-determined and competency-enhancing activity	(Perceived) characteristics of the task and the task context	The individual utility derived from being engaged in an enjoyable, self-determined and competency-enhancing activity
Normative Intrinsic Motivation	The desire to comply with organizational norms and values	The degree of congruence between the behavior and organizational norms and values	The identification of the individual with the organization, i.e. importance of compliance with organizational and values to the individual

TABLE 2  
Sustainability of Interest Alignment-Based Competitive Advantage

	<i>Static Environment</i>	<i>Dynamic Environment</i>
<i>Competitive Logic</i>	Ricardian	Schumpeterian
<i>Source of Competitive Advantage</i>	<b>Configuration of interest alignment levers</b> that leads to superior interest alignment rents	<b>Configuration of interest alignment levers</b> that leads to superior interest alignment rents
<i>Basis of Sustainability of Competitive Advantage</i>	<b>Inimitability and non-substitutability</b> of configuration of interest alignment levers	<b>Adaptability</b> of configuration of interest alignment levers
<i>Desirable characteristics of interest alignment levers</i>	Tacit, context dependent and highly causally ambiguous	Explicit, generic and less causally ambiguous
<i>Rationale</i>	Serve as isolating mechanism	Increase adaptability



TABLE 3  
**Comparing Interest Alignment Theory and the Knowledge-Based View**

*Static Environment and Operating Capabilities*

Component	<i>Interest Alignment Theory: Static Environment</i>	<i>Knowledge-Based View: Operating Capabilities</i>
Relevant aspect of “Human Resources”	Motivation and behavior	Knowledge, skills and abilities
Source of Sustainable Competitive Advantage	Endowment with a configuration of interest alignment levers that lead to a superior level of interest alignment rents	Endowment with knowledge resources that lead to the generation of a superior level of economic rents
Isolating Mechanisms	<ul style="list-style-type: none"> <li>• causal ambiguity regarding determinants of interest alignment</li> <li>• contextual nature of interest alignment</li> <li>• tacitness of interest alignment mechanisms</li> </ul>	<ul style="list-style-type: none"> <li>• causal ambiguity regarding performance impact of knowledge components</li> <li>• contextual nature of knowledge,</li> <li>• tacitness of knowledge</li> </ul>

*Dynamic Environment and Dynamic Capabilities*

Component	<i>Interest Alignment Theory: Dynamic Environment</i>	<i>Knowledge-Based View: Dynamic Capabilities</i>
Relevant aspect of “Human Resources”	Motivation and behavior	Knowledge, skills and abilities
Source of Sustainable Competitive Advantage	Ability to better/faster create organizational interest alignment	Ability to better/faster generate, accumulate and transfer knowledge
Isolating Mechanisms	Superior capability to adapt the configuration of interest alignment levers to changing conditions	Superior learning capability (regarding generation, transfer, accumulation of knowledge)

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