Interest Alignment and Competitive Advantage
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2004/79/SM/ACGRD 5
(Revised Version of 2003/86/SM/ACGRD 2)
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Financial support from the R&D Department at INSEAD, the INSEAD-Wharton Alliance Center for Global Research and Development and the INSEAD Gesellschaft Scholarship is gratefully acknowledged. The authors would like to thank Erin Andersen, Phil Andersen, Nicola Dragonetti, Nicolai Foss, Philippe Haspeslagh, Bruce Kogut, Jean-Francois Manzoni, Fritz Pil, Stephan Schödel and Metin Sengul for their comments on earlier versions of this paper. We are also grateful to three anonymous reviewers for their valuable suggestions. All remaining errors or omissions remain our responsibility.
ABSTRACT

This paper articulates a theory of the conditions under which the alignment between individual and collective interests generates competitive advantage. Conditions for the generation and the sustainability of competitive advantage based on three interdependent types of motivation are identified under different scenarios with progressively more realistic assumptions on the heterogeneity and adaptability of firm characteristics. The analysis indicates the need to consider motivational processes as a complement to current resources 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 toward 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 Barney, 1986a; Barney & Hansen, 1994; Castanias & Helfat, 1991, 2001; Coff, 1997, 1999; Makadok, 2003).
However, this stream of research, relies on a very stark, uni-dimensional, over-simplified, agency-theoretic view of human motivation, which is actually a very rich, 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 integrate and synthesize 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. By conducting this cross-level synthesis of these two theories, this paper seeks to fulfill two goals: first, synthesizing the two theories generates a set of insights that could not be generated from either one of these theories by itself. For example, it points to the strategic importance of three complementary and interrelated motivational levers, including two intrinsic components. Furthermore, the paper identifies a distinct organizational competence specific to the enhancement of interest alignment through changes in these motivation levers. Finally, it specifies the conditions under which this specific type of organizational capability generates competitive advantage, of either stable or transient nature.

The second goal fulfilled by this theoretical synthesis is to begin to explain a hitherto overlooked construct that we call “interest-alignment rents,” which we define 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 famous 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. Overlooking the phenomenon of interest-alignment rents has limited the applicability of existing strategy theory because the translation of potential performance, derived from superior capabilities, into actual performance, must necessarily go through an explicit consideration of motivational factors (Figure 1).

--(Figure 1 about here)--

To be clear, the question of the strategic relevance of motivation 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 doing so, 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 compares competitors in their ability to
generate such interest alignment rents. The goal of this comparison is to identify the sources of competitive advantage related to superior interest alignment, as well as the conditions leading to the sustainability of such advantages. 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 normally are, the result of an intense multi-stakeholder dialogue, but can also 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 (no matter 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: (1) the degree to which the behavior meets individual goals; and (2) the relevance of each goal to the individual (individual preferences).

For the purpose of this paper, we consider extrinsic motivation according to Deci’s initial conceptualization (Deci, 1975) and distinguish between enjoyment-based “hedonic intrinsic motivation” and obligation-based “normative intrinsic motivation” (Lindenberg, 2001) (see Table 1).

Extrinsic motivation is driven by the goal of obtaining additional resources (Lindenberg, 2001) that come in the form of 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 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 is influenced by the perceived characteristics of the task and the task context (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 organizational norms and values. Individuals are thus normatively intrinsically motivated to engage in a given behavior, to the extent that 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 organizational norms and values.

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

Organizational Mechanisms to Influence Interest Alignment
Collectively, extrinsic, hedonic intrinsic and normative intrinsic factors influence individual motivation and thus determine interest alignment. One must bear in mind, however, that these three types of motivation can differ substantially in the degree to which they can be influenced by organizations to create interest alignment. It is therefore important to take a closer look at the contingency factors that restrict or enhance organizations’ ability to use these mechanisms.

Extrinsic motivation, for example, can be used to stimulate organizational performance-maximizing behavior with a relatively large degree of discretion (e.g. Schuler and MacMillan, 1984), as long as the behavior can be pre-specified and rewards can be allocated accordingly. Clearly, these contingencies on the completeness of contracts and the complex monitoring of actual behavior have generated entire branches of economic theory (Coase, 1937; Williamson, 1975, 1985, 1989; Alchian et al., 1972; Jensen et al., 1976; Fama et al., 1983; Hart, 1989, 1995). For the purpose of this paper, suffice it to say that the problem can be interpreted in terms of first understanding the factors that affect the influence of the
reward system on extrinsic motivation and secondly, the influence of extrinsic motivation on interest alignment. As mentioned in the previous section, the first linkage is sensitive to individual preferences, since compensation and power status may motivate people to different degrees. With respect to the second, the link between extrinsic motivation and interest alignment depends on the fit between the reward system and the strategic objectives of the organization, as the optimality of rewards depends on the degree to which they support organizational strategy (Kerr, 1975).

In contrast, hedonic intrinsic motivation is determined by the perceived characteristics of a given task and by the task context. Prior research has shown that changes in individual job design and the task context, as well as changes in employee perceptions regarding their job characteristics can have an important impact on employee motivation (Hackman et al., 1975, 1976, 1990), again subject to variations in individual preference. However, there may be limits to the degree of overlap between what individuals perceive as enjoyable, self-determined and competence-enhancing tasks and the organizational needs for implementing its strategy. Individuals may be highly (hedonically intrinsically) motivated by the characteristics of the tasks they are performing, but the corresponding behavior may not necessarily be in line with organizational goals. Therefore, the degree to which hedonic intrinsic motivation translates into interest alignment is a function of the fit between organizational structure, as the aggregate of all job design decisions, and the organization’s strategy.

Finally, organizations can enhance normative intrinsic motivation through socialization regimes (Van Maanen, 1978; Van Maanen and Schein, 1979; Kerr and Jackofsky, 1989), as these increase the individual’s identification with the organization. For example, these could take the form of company-wide events or training sessions targeted at increasing employee-organization identification and the proliferation of organizational norms
and values among employees. However, just as in the previous cases, the effectiveness of these measures in stimulating normative intrinsic motivation is sensitive to the characteristics of individual preferences. Furthermore, the degree to which normative intrinsic motivation leads to increased interest alignment is contingent upon the fit between the existing set of organizational norms and values and the strategic objectives of the organization. In other words, socialization can only be used to stimulate behavior through enhanced normative intrinsic motivation to the extent that that behavior corresponds to the norms and values of the organization.

There is one additional mechanism through which firms can influence the level of organizational interest alignment. 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. 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 therefore left for future work.

Based on this discussion, we propose a model of organizational interest alignment that considers three types of motivation: hedonic intrinsic, normative intrinsic and extrinsic motivation, along with their determinants (see Figure 2). Organizations can use three strategic variables (“interest alignment levers”) to stimulate interest alignment: the reward system, as a determinant of extrinsic motivation; the socialization regime, as a determinant of
employee-organization identification and thus normative intrinsic motivation; and job design (including determinants of the task context and task perception) as a determinant of hedonic intrinsic motivation. The effect of each of these variables, however, is moderated by important individual and organizational contingencies. First, the effectiveness of all three levers on the different types of motivation depends on the sensitivity of the workforce to the specific lever used. Moreover the degree to which rewards, structure and values fit with organizational strategy influence the translation of motivational levels into interest alignment.

----------Figure 2 about here -----------------------------

The Interdependence of Job Design, Reward Systems and Socialization Regimes

The applicability of the various interest alignment levers (job design, reward system and socialization regime) as strategic variables to influence individual behavior depends on the characteristics of the desired behavior. One can imagine a situation in which the same behavior, e.g. working overtime, can be a result of any of the three types of motivation: extrinsic motivation to work overtime may stem from higher overtime pay; hedonic intrinsic motivation to work overtime may be due to a direct utility from continued engagement in a pleasant activity; and normative intrinsic motivation to work overtime may be the consequence of organizational norms that consider occasional (unpaid) overtime an aspect of “good organizational citizenship”. In this sense, job design, rewards and socialization can be alternative possibilities to stimulate the same behavior.

On the other hand, there may be types of behavior that can be stimulated by one of these factors but not others. For example, the literature on reward systems has pointed to the fact that because of free-riding problems, cooperative behavior is difficult to achieve through rewards alone in a teamwork setting in which individual contributions to team performance remain unobserved (e.g. Wright et al., 1991; Gibbons, 1998). However, in the presence of
organizational norms and values that favor such cooperative behavior, socialization regimes can be a successful way of enhancing team performance. This shows how job design, socialization regimes and reward systems can be complementary mechanisms to motivate desired behavior.

Only recently, researchers in economics and organizational behavior have begun to recognize a potential bi-directional interaction effect between intrinsic and extrinsic motivation and are now looking for factors that determine whether interaction effects are positive or negative. While social psychologists have focused traditionally on the negative impact of rewards on (hedonic) intrinsic motivation (Deci, 1975, 1976; Deci et al., 1999a; Lepper and Greene, 1978), more recent work in this area distinguishes between rewards that are perceived as controlling (and thus have a negative impact on intrinsic motivation) and performance-contingent rewards that are perceived as informative (and thus can have a positive impact on hedonic intrinsic motivation) (King et al., 1983; Amabile, 1993). Economists have also begun to move away from an exclusive focus on extrinsic motivation based on rewards and monitoring and controlling activity (Baker et al., 1994), and have started to incorporate intrinsic motivation, as well as the impact of rewards on it in their models (Frey et al., 2001, 1997; Holmstrom and Milgrom, 1994; Gal-Or et al., 1998).

For the purpose of our paper, it is important to emphasize that job design, reward systems and socialization regimes cannot be considered independent of each other. Rewards can be detrimental to hedonic and normative intrinsic motivation (Deci, 1976; Deci et al., 1999a; Ghoshal and Moran, 1996), but one can also imagine that a “fair” reward system will facilitate the identification of the individual with the organization and enhance normative intrinsic motivation. Similarly, socialization to norms and values that counter the reward system’s objectives can negatively impact its efficiency, such as in the case of piece rate systems, which are rendered inefficient when a strong norm of equality among co-workers
and against “rate busters” exists (Patchen, 1962; Nee, 1998). At the same time, socialization and compliance with organizational norms can serve as a fix for some of the problems that have been identified in the incentive literature. One frequently mentioned caveat is the tendency to focus on performance-relevant behavior that the incentive system rewards, to the detriment of (equally important) performance-relevant behavior that the incentive system does not capture (Kerr, 1975; Holmstrom and Milgrom, 1991; Holmstrom et al., 1994; Gibbons, 1998). In such a situation, the internalization of organizational norms and values that are opposed to individualism and selfishness may reduce the exploitation of reward systems. Based on the observation that job design, socialization regimes and reward systems are interrelated (Kerr et al., 1989) partly alternative and partly complimentary mechanisms, we conclude that all three interest alignment levers need to be considered simultaneously, both in their independent and joint effects, in order to study the conditions required for a maximum degree of interest alignment to be realized (see Figure 2).

**Interest Alignment Rents**

If we now want to look at the consequences of organizational interest alignment, we first need to recognize that the mechanism through which interest alignment influences organizational performance is different from the mechanism which has historically played a central role in the resource-based analysis of competitive advantage. The RBV has linked rent generation to an organizational endowment with assets and capabilities that could satisfy a given set of conditions (Lippman and Rumelt, 1982; Rumelt, 1984; Barney, 1986b; Dierickx et al., 1989; Conner, 1991; Peteraf, 1993). The key point, however, is that those conditions only guarantee “potential” — as opposed to actual — generation of rents. Rent generation and organizational performance can therefore be conceptualized as a function of potential performance and the motivation to realize this potential (Figure 1). We define
“potential organizational performance” as “the level of performance that will be achieved when the total set of assets and capabilities available to the organization are used to the fullest possible extent within a given competitive context.” The translation of potential into actual performance, however, crucially depends on the willingness of individuals to utilize their skills and the available assets to compete in the most effective way. We thus model actual organizational performance as a function of both the potential organizational performance and the individual motivation to behave in ways conducive to the realization of that potential, i.e., of organizational interest alignment. This reasoning is in line with Penrose’s early notion that the firm’s productive opportunity set is a function of cognition, ability and motivation (Penrose, 1959). It might be worth noting though that the three factors considered by Penrose are not necessarily independent. Osterloh and Frey (2000) for example consider the effect of different motivational mechanisms on the generation of organizational knowledge.

In the next step of our analysis, we 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). 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 assess. 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 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 own 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). Furthermore, one could argue that individuals’ ability to appropriate rents from their motivation is limited by the fact that performance itself is typically observed at the organizational level. Sub-unit performance, which could be more easily linked to individual action is normally non-transparent. 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).

Another example is the value creation we observe in leveraged buyouts (LBO). In these investments, underperforming companies or business units are acquired by specialized financial investors who typically increase the financial leverage of the company, improve the incentive system and closely monitor and control its top management. While a number of factors contribute to the value creation in LBOs, the increased alignment of interest between managers and owners has been emphasized (Jensen, 1989). This can be seen as a case in which a superior ability to enhance interest alignment generates economic rents through the following mechanism. The financial investor, endowed with superior interest alignment capabilities can in fact, acquire a bundle of strategic factors (or an entire company) at a price that corresponds to the value of these factors to the “second best” acquirer, thereby reaping the differential value created as interest alignment rents.

SUSTAINABLE COMPETITIVE ADVANTAGE THROUGH INTEREST ALIGNMENT

As we have seen, interest alignment can be an important source of rents for the organization. The next step then is to analyze the conditions under which enhanced interest alignment can be a source of competitive advantage, and the circumstances that make such an advantage sustainable over time. While 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). In our case, this then requires the comparison of competitors’ abilities to generate economic rents from interest alignment. The competitive advantage is sustainable whenever the performance difference persists over time,
despite competitive pressures.

In the following sections, we examine a series of scenarios differing in terms of assumptions regarding the cross-sectional heterogeneity and longitudinal variability of the components of our model. Based on these scenarios, we can highlight different conditions for the generation and sustainability of competitive advantage based on superior interest alignment. Starting from the simplest possible model, in which all but the endowment of the reward system, socialization regime and task design is homogeneous across competitors, and all variables are stable over time, we introduce increasing levels of complexity and dynamism. Gradually, the assumptions of homogeneity and stability in all the key variables are relaxed as we look for possible sources of competitive advantage related to increased interest alignment rents, and try to identify the conditions that provide sustainability. In each transition to a new scenario, we relax assumptions in a way that the previously identified conditions are no longer sufficient to ensure sustainable competitive advantage and each time highlight an additional mechanism that determines competitive advantage and its sustainability in the new setting. Table 2 summarizes the different steps of the analysis.

---(Table 2 about here)---

**Scenario A: Heterogeneous But Fixed Interest Alignment Levers**

In this first scenario, we will make the simplifying assumption that all competitors are identical in their endowment with assets and capabilities (except for the factors related to interest alignment), and that they have furthermore adopted the same positioning in the product market space. Hence all competitors are identical in terms of their potential performance (cf. Figure 1). Any differences in actual performance will therefore be related to heterogeneity in interest alignment and its antecedents, including individual preferences for
motivational processes. In this context, if one company has a configuration of these interest alignment levers that generates higher motivation in managers and employees (given their idiosyncratic preferences for motivators), the company enjoys competitive advantage based on a Ricardian logic. However simplistic this scenario may seem, there are some real-world situations that reflect at least the basic outlines of our assumptions. Take, for example, the case of competition between two mobile phone operators in Europe, one subsidiary of a state-owned incumbent telecom operator and one recently founded start-up company. We can then consider the subsidiary of the state-owned incumbent telecom operator to have little flexibility with respect to the design of interest alignment levers. For example, the reward system has to be consistent with the reward system of the mother company, and corporate norms and values or employee-organization identification will be influenced by the history of the mother company. The managers of the mobile phone unit have thus little freedom to increase interest alignment, especially in the short and medium term. The start-up company on the other hand can use its reward system (e.g. an attractive equity plan in a pre-IPO situation) and socialization regime (e.g. the “start-up effect” that implies a tight-knit community within the organization as well as a strong level of identification of employees with “their” company) to create a level of interest alignment rents than is superior to its state-owned competitor. Hence the start-up company enjoys a competitive advantage based on superior interest alignment. As the configuration of interest alignment levers for the state-owned company is fixed, this situation will be sustainable over time.

By design, such a situation meets the criteria for sustainability of competitive advantage established by the resource-based view (Barney, 1986; 1991). The configuration of job design, reward system and socialization regime is in fact valuable (it leads to rents); rare (none of the competitors has it); inimitable; and non-substitutable (all determinants of interest alignment rents are constant for all companies). Consequently, we have identified a
first (simplistic) scenario in which a sustainable competitive advantage through interest alignment is possible, based on a superior configuration of job design, reward system and socialization regime (see Figure A), which can be formally stated in the following proposition:

**Proposition A:** Among competitors with similar strategies, homogeneous and stable organizational traits and stable (but heterogeneous) interest alignment levers, a company that has a superior configuration of interest alignment levers enjoys a sustainable competitive advantage.

--(Figure A about here)--

**Scenario B: Adaptable Interest Alignment Levers**

In the second scenario, we relax the assumption of stability in the configuration of job design, reward system and socialization regime and allow for the possibility that all companies can adjust their respective configurations of interest alignment levers. What are the implications of this change for the sustainability of the competitive advantage in our previous scenario? The imitability of interest alignment is still limited by the difficult observability of some of its determinants (implicit rewards, socialization regime, organizational norms and values, attributes of the human resource pool) and by the complexity and causal ambiguity of the mechanisms through which they interact. However, to the extent that competitors are able to reach the same level of interest alignment through an autonomous change in their interest alignment levers, the advantage that any firm will have will be potentially competed away over time.

The ability of a competitor to autonomously reach a higher level of interest alignment then depends on its specific competence in improving the configuration of job design, reward system and socialization regime. In a dynamic setting, companies will be constantly trying to create a (temporary) competitive advantage through interest alignment and will be engaged in
a race to identify a more advantageous configuration of interest alignment levers. An example for such a situation is Lincoln Electric, a company that outperforms its competitors reportedly based on a superior ability to motivate its workforce to behave in a way that contributes to the accomplishment of organizational goals. While competitors attempt to also enhance interest alignment in their organizations, Lincoln Electric is able to stay ahead of competition based on its ability to improve its configuration of interest alignment levers more rapidly than competition. The basis for this competition is then the capacity to improve interest alignment within a given context: i.e., a Schumpeterian rather than a Ricardian logic (see Figure B). We will see below how this specific capability can be characterized in more detail. The conditions for sustainability of competitive advantage through interest alignment rents identified in this scenario can be formalized in the following proposition:

**Proposition B:** Among competitors that have similar strategies as well as homogeneous and stable organizational traits, but that differ in their ability to adjust their configuration of interest alignment levers, a company that has a superior capability to improve interest alignment through these levers enjoys a temporary competitive advantage.

---(Figure B about here)---

**Scenario C: Heterogeneous But Constant Organizational Traits**

So far, we have looked at scenarios in which competitors are homogeneous with respect to all relevant organizational traits, i.e. structure, organizational norms and values, and with respect to the characteristics of their human resource pool. As a result, the maximum level of interest alignment rents was the same for all competitors, and competitive advantage existed whenever one company was closer to this common maximum than its peers. At this stage, we introduce heterogeneity in organizational traits. In this case, a superior capability to improve the configuration of interest alignment levers is no longer a sufficient condition for a sustainable competitive advantage. For example, if one of the competitors has a structure and
a set of norms and values that better supports its strategy than the other companies, it also has a higher potential for generating interest alignment rents. One well-known example is offered by Southwest Airlines, which has been able to simultaneously leverage a complex set of motivational levers, including rewards, recognitions and social norms, to fit tightly with the company’s strategic posture and organizational endowment.

As the assumption is that companies can (over time) improve the configuration of their interest alignment levers, the company with the most advantageous organizational traits can eventually reach a level of interest alignment that is unattainable by its competitors. Hence this company enjoys a sustainable competitive advantage, thanks to a superior fit between strategy and organizational traits, reached via an optimal configuration of its interest alignment levers. Here again, competitive advantage through interest alignment is not only possible, but also sustainable. The logic of this competitive advantage is of a Ricardian nature, similar to the advantage in Scenario A. If we again apply the criteria for sustainability of competitive advantage specified by the RBV, we can see that the critical factors here are the organizational traits that lead to a superior degree of interest alignment rents and that are protected from imitation or substitution per definition (see Figure C). This scenario can also be viewed as containing assumptions that support Barney’s claim that organizational culture (of which norms and values are a subset) can be a source of competitive advantage (Barney, 1986a). Motivation theory can therefore be leveraged to identify more specifically what turns a given organizational culture into a strategically valuable resource. According to this analysis, it has to do with the ability of firms to act on the various levers at their disposal in order to maximize the level of motivation, given the strategic and structural constrains in which they operate.

**Proposition C:** Among competitors with similar strategies and heterogeneous but stable organizational traits, a company that is endowed with the most tightly fitting organizational traits enjoys a sustainable competitive advantage, even if all firms are capable of adjusting their configuration of interest alignment levers.
Scenario D: Environmental Change and Adaptable Firm Strategy

In all previous scenarios, firm strategy has been treated as a stable and homogeneous characteristic for all competitors. In a dynamic environment, however, companies may be forced to redefine their strategy in response to exogenous changes in the environment. According to our model of interest alignment rents, this implies a change in the degree to which organizational traits (structure, organizational norms and values, characteristics of the human resource pool) and interest alignment levers support the new strategy. Thus, such a change influences not only the current level of interest alignment, but also the maximum possible level of interest alignment for each firm. According to the model proposed here, changes in firm strategy in response to environmental pressures (i.e. enhancing the “external” fit) may lead to the erosion of competitive advantage because of the potential negative influence on the internal fit between firm strategy and the other determinants of interest alignment. In this scenario, then, companies face a trade-off between achieving an external fit between strategy and environmental conditions and an internal fit between firm strategy and organizational traits.

A case in point is IBM’s strategic position in the late 1990s, after its successful turnaround from a situation in which dramatic environmental changes eroded the strategic value of its core (and tightly fitted) resources. The response to this environmental shock consisted essentially of a shift towards services and a prioritization of cost efficiencies…moves that required a huge change in the internal configuration of resources, as well as the use of significantly different motivational levers. The strategic shift has therefore in all likelihood enhanced IBM’s fit with the environmental requirements, but that came at the price of a much looser (if not even contrasting) fit between its strategic goals and the
organizational traits it had accumulated over time. Motivational levers, in this case, can be adapted to achieve one of the two “fits” (the external or the internal) but not both, leaving IBM vulnerable to the competitive pressure of competitors, such as Dell, that did not have to go through such dramatic internal change processes.

The competitive dynamics in this scenario depend on the frequency of required strategic changes; if the exogenous changes in strategy remain relatively infrequent, the situation corresponds to a sequence of cases equivalent to Scenario C: after each change, the competitor with the most advantageous organizational traits and thus the highest maximum degree of interest alignment rents enjoys competitive advantage — until the next change in strategy is required.

It is more interesting, however, to look at endogenous changes in strategy that are sufficiently frequent and important that competitors never reach their optimal configuration of interest alignment levers until the next change occurs. In this case, the ability to generate a superior level of interest alignment rents depends on two capabilities. The first of these refers to a company’s ability to accurately assess the implications of environmental change for both strategy design and interest alignment purposes. Secondly, a company needs to be able to appropriately adapt to the environmental change by adjusting its strategy, as well as the configuration of its interest alignment levers. Companies with a superior competence in these two areas will then enjoy competitive advantage vis-à-vis their competitors. Similar to Scenario B, this dynamic setting sees companies as constantly trying to create a (temporary) competitive advantage through superior interest alignment based on these capabilities in a Schumpeterian fashion (see Figure D).

**Proposition D:** Among competitors that: (a) operate in a rapidly changing environment; (b) have stable organizational traits; and (c) vary in their ability to adjust their interest alignment levers, a company that has a superior capability to assess the impact of environmental change and adjust its strategy and its interest alignment levers accordingly enjoys a temporary competitive advantage.
Scenario E: Endogenous Adaptation of Organizational Traits

In the previous scenario, changes in strategy led to the erosion of the superior fit between strategy and organizational traits identified in Scenario C as a condition for sustainable competitive advantage. This fit depends however, not only on the firm strategy but also on the organizational traits themselves. In our final scenario, we therefore relax the assumption of stability of organizational traits and assume that companies are able to change organizational structure, characteristics of their human resource pool as well as their norms and values over time. In this case, companies can use this additional flexibility to increase the degree of congruence between organizational traits and firm strategy, and thus their maximum possible level of interest alignment rents. This will give them the possibility of catching up with competitors that were initially endowed with a superior set of organizational traits, which in turn, leads to the erosion of the competitive advantage that we identified in Scenario C.

Now, consider the possibility of environmental change that was introduced in Scenario D and the resulting need to adapt firm strategy. Then, the possibility of adjusting organizational traits enhances the firm’s ability to maintain the congruence between organizational traits and the adapted strategy. Both the external adaptation of strategy to environmental change and the internal adaptation of organizational traits to strategic intent are achievable.

Our previous example of IBM illustrates that such a process is possible, yet time-consuming and costly (not to say “painful”) for the organization. Eventually, the company was able to fundamentally transform itself from being a product-oriented to a service-
orientated organization, with its organizational traits (norms and values, structure and workforce) broadly in line with, and supportive of, its strategy.

Again, the generation of interest alignment rents is linked to a specific organizational competence. Crucial in this scenario is the company’s ability to adapt organizational traits over time in a way that increases their fit with firm strategy and thus increases the maximum possible amount of interest alignment rents that can be generated. The creation of a (temporary) competitive advantage in this scenario will then be linked to superior levels of this capability to adapt vis-à-vis competitors (see Figure E).

**Proposition E: Among competitors with the ability to adjust their configuration of interest alignment levers and with variable organizational traits, a company that has a superior capability to adapt organizational traits in a way that increases their fit with firm strategy enjoys a temporary competitive advantage.**

---(Figure E about here)---

**Mechanisms for the Generation of Superior Levels of Interest Alignment Rents**

So, where does this analysis lead us? From the scenarios above, we can identify two different mechanisms through which companies can generate and sustain superior levels of interest alignment rents. The first mechanism follows a Ricardian logic and links the sustainability of competitive advantage to idiosyncratic firm endowments with specific organizational attributes. The second mechanism is of a Schupeterian nature and is based on specific organizational capabilities that lead to the sustainability of competitive advantage in a more dynamic environment. In the following, we will take a closer look at each of these mechanisms and contrast them with existing theories of sustainable competitive advantage (see Table 3).

---(Table 3 about here)---
For what concerns the first mechanism, in Scenarios A and C we presented two cases in which the sustainability of competitive advantage is linked to an endowment with factors that meet the standard criteria proposed by the resource-based view of the firm: value, rarity, imitability and non-substitutability (Lippman and Rumelt, 1982; Rumelt, 1984; Barney, 1986b; Dierickx et al., 1989; Conner, 1991; Peteraf, 1993). In Scenario A, the factor that allows for the sustainability of competitive advantage is the superior configuration of interest alignment levers, which by assumption firms cannot change. In Scenario C, however, these conditions are met by an endowment with organizational traits that lead to superiority in the maximum level of interest alignment rents a company can reach.

The second mechanism of superior rent generation through interest alignment follows a Schumpeterian logic and focuses on specific capabilities to improve interest alignment. In a dynamic context, in which firms are able to improve and adjust organizational traits, a competitive advantage based on idiosyncratic firm endowments with specific organizational attributes cannot be sustained over time. We have seen in several scenarios that such an advantage will then either be eroded away by environmental change (Scenario D), or competed away by other firms that, over time, are able to imitate or substitute the factors that lead to high interest alignment (Scenarios B and D). Therefore, (temporary) competitive advantages can only stem from superior capabilities to continuously improve interest alignment. This mechanism is the motivational equivalent of the generation of Schumpeterian rents in the product market, where only the superior capability to continuously innovate in products and processes leads to competitive advantage. In our scenarios, we described a distinct “interest alignment capability”, defined as a stable pattern of activities aimed at the continuous enhancement of interest alignment across the organization. At the same time, we identified the role of three complementary capabilities to:
(a) assess the impact of environmental change (Scenario D); (b) adjust firm strategy accordingly (Scenario D); and finally, (c) adapt organizational traits over time (Scenario E).

It is important to point out that this capability is different from those typically highlighted in the knowledge- or capability-based view of the firm. The key distinction is that rather than influencing the determinants of potential performance (cf. Figure 1), the interest alignment capability acts on the factors that moderate the strength of the relationship between potential and actual performance. Also, rather than operating on the collective skill to operate/use firm assets, this type of capability is premised on the enhancement of employee willingness to do so.

Our discussion of the motivational mechanisms determining organizational interest alignment has shown however, that both the interest alignment capability and the three complementary capabilities are strongly bound to the organizational context, as the effect of interest alignment levers on performance is moderated by a number of organizational traits (cf. Figure 2). Furthermore, many of the causal linkages between the various determinants of interest alignment rents and performance are ambiguous and tacit. Consequently, interest alignment capabilities cannot easily be transferred to, or replicated by, competitors. For this reason, the principal means by which companies can improve their interest alignment capability lies in ‘local’, primarily internal, learning mechanisms (Kogut et al., 1992; Winter, 1987).

If we assume that companies are able to ‘learn’ how to align individual interests to organizational goals, then this very assumption implies that the mere presence of interest alignment capabilities cannot guarantee the sustainability of competitive advantage. Sustainability, in fact, can only be obtained by a superior “learning capability” that enables a company to develop and refine its interest alignment capability faster than competitors. The analysis proposed above suggests that possession of a superior “learning capability” is the
ultimate source of competitive advantage but that even this can only be maintained as long as the superiority of the learning capability prevails.

In order to better assess both the differences and the similarities between the theoretical construction in this paper and that 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, reported in Table 4.

--(Table 4 about here)--

The comparison of the two theories clearly shows the similarity in the theoretical analysis identifying the factors at play. The factors themselves, however, are different in that the nature of the object upon which these mechanisms operate is distinct in a theoretically meaningful way. Knowledge evolves and is “managed” in ways that have little in common with the process through which individual motivation is aligned with organizational goals. The “higher-level” capabilities (Winter, 2003) that underlie the capacity of an organization to constantly improve the 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. The reason is that they stem from two fundamentally different processes at the lower level in the hierarchy: one is about operating routines (doing); the other is about motivation (willingness to do).

CONCLUSIONS

This paper set out to address the gap in the strategic management literature related to the role of motivation as a determinant of sustainable competitive advantage. Its goal is to contribute to the construction of a theoretical link between individual-level (motivation) processes, and organizational ones (e.g. adjustments of reward systems, structural
arrangements, etc.), as they both codetermine the degree of competitive success of the firm.

In order to do so, the analysis proceeded through different stages. First, interest alignment was conceptualized as a moderating factor between the well-known sources of potential performance and the realization of that potential. In other words, rather than being an additional element in the complex function of organizational performance, with strategic resources, capabilities and competitive positions as determinant factors, we argue that interest alignment might play a moderating (multiplicative) role with respect to these factors. At the extreme, therefore: no alignment translates into no performance, regardless of the strength of the firm’s strategic positioning or the value of its resources and capabilities.

Having elaborated on the strategic relevance of interest alignment, we then focused on the mechanisms underlying its development. 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 moderating effect of the fit between firm strategy and various types of organizational traits 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 is possible to generate interest alignment 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.

With these points laid out, the analysis of the conditions under which interest alignment can generate competitive advantage, is carried out with the help of five scenarios
defined by the progressive relaxation of restrictive assumptions on the heterogeneity and
dynamicity of the variables in the model. The scenarios, therefore, build an increasingly
“realistic” picture of the conditions under which superior interest alignment vis-à-vis
competitors should translate into competitive advantage. The progressive removal of
hypothetical assumptions regarding the homogeneity and stability of interest alignment
levers, organizational traits, and firm strategy, showed that interest alignment can indeed
constitute a source of competitive advantage, but that the sustainability of such advantage
needs to be cautiously determined. When firms are capable of adapting all relevant
organizational traits to align motivation to the changing demands of a dynamic environment,
maintaining a competitive edge is possible only temporarily and only to the extent that a
capacity exists to continuously: (a) sense environmental changes; (b) adapt the firm’s
strategic posture accordingly; and (c) align both the motivational levers and the
organizational traits to the new strategic priorities. This conclusion, consistent with some
recent work in evolutionary economics (Winter, 1995), stimulated a discussion about the
various types of economic rents (of both Ricardian and Schumpeterian nature) generated
through interest alignment in each scenario, and into the nature of the capabilities uncovered
by the scenario analysis.

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 later is about motivation
(willingness to do) (cf. Table 4). 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 the capability and the motivational
aspects of human resources (Delaney et al., 1996; Huselid, 1995). 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. However, the analysis conducted in this paper should be of interest beyond the domains of strategy and human resource management. In our view, it could also 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 conducted 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 them has to do with the influence of personnel selection processes as a way of enhancing the general level of organizational interest alignment through the modification of the pool of human resources. 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. 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. A third avenue for further
exploration lies in a better understanding of the influences that different competitive environments have on the effectiveness of different types of motivational levers. If, for example, rents from the use of intrinsic motivators might be considered to be generally more defendable compared to those based on extensive uses of rewards, how does this change if we consider different competitive contexts, such as price/efficiency markets vs. quality/differentiation ones? Can we say anything about the influence of the degree of rivalry between competitors on the appropriate use of motivational mechanisms to generate competitive advantage?

Whereas the road ahead appears long and poorly chartered, we hope that the analysis presented above can offer at least some initial insights towards a comprehensive treatment, and possibly an integration of the two aspects of the “human factor” in the strategic management discourse.
A firm’s assets and capabilities and its competitive position only determine potential firm performance. Employee motivation through Interest Alignment has a crucial impact on the degree to which a firm is able to realize this potential and thus on actual firm performance.
Organizations can influence Interest Alignment through adjustments of the three interrelated interest alignment levers: Reward System, Socialization Regime and changes in the Job Design. The impact of these levers is moderated by the fit between firm Strategy and Organizational Traits: Structure, Norms and Values, Reward System and the individual preferences regarding the different determinants of motivation.
Any configuration of Interest Alignment Levers (Reward System, Socialization Regime and Job Design\(^1\)) corresponds to a certain level of Interest Alignment Rents. We can imagine Iso-Interest Alignment Curves that connect all those configurations of Interest Alignment Levers that lead to the same level of Interest Alignment Rents. If a firm has adopted a configuration of Interest Alignment Levers that leads to a higher level of Interest Alignment Rents than all its competitors, this firm enjoys competitive advantage.

\(^{1}\) To facilitate the graphical representation of the different scenarios, we show only two of the three dimensions of Interest Alignment Levers.
Scenario B: Adaptable Interest Alignment Levers

If Interest Alignment Levers (Reward System, Socialization Regime and Job Design) can be adjusted, the firm that can move (fastest) toward a level of higher Interest Alignment Rents enjoys a (temporary) competitive advantage.
The fit between firm Strategy and Organizational Traits (Structure, Norms and Values, characteristics of the human resource pool) determines the maximum level of Interest Alignment Rents a firm can reach. A company with a superior fit and the right configuration of Interest Alignment Levers (Reward System, Socialization Regime and Job Design) has competitive advantage, as competitors are restricted in their ability to “catch up”.

**Figure C**

Scenario C: Heterogeneous But Constant Organizational Traits
If a company initially enjoys competitive advantage due to a superior fit between its strategy and Organizational Traits (Structure, Norms and Values, characteristics of the human resource pool)...

...environmental change that forces an adjustment of firm strategy can reduce the suitability of its organizational traits and the optimality of the configuration of Interest Alignment Levers (Reward System, Socialization Regime and Job Design) (changing the shape of the Iso-Interest Alignment Curves)...

...companies then compete on the basis of their ability to assess the impact of environmental change and adjust their Strategy (as well as Interest Alignment Levers) to create or maintain competitive advantage.
Previously competitors were restricted in their ability to catch up to a company with a superior level of Interest Alignment Rents, as an inferior fit between firm Strategy and Organizational Traits (Structure, Norms and Values, characteristics of the human resource pool) limited the maximum level of Interest Alignment Rents they could generate…

…the ability to adjust organizational traits to increase their fit with firm strategy removes this barrier to higher Interest Alignment Rents. Companies then compete on the basis of a better (faster) ability to adjust organizational traits to their strategy.
<table>
<thead>
<tr>
<th>Form of Motivation</th>
<th>What drives motivation?</th>
<th>What are the relevant characteristics of behavior?</th>
<th>What moderates how motivated an individual will be?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Extrinsic Motivation</td>
<td>The desire to obtain additional resources from the outside (Extrinsic Work Rewards)</td>
<td>The degree to which the additional resources will be received as a reward for such behavior</td>
<td>The utility of Extrinsic Work Rewards to the individual</td>
</tr>
<tr>
<td>Hedonic Intrinsic Motivation</td>
<td>The desire to engage in enjoyable, self-determined and competency-enhancing activity</td>
<td>(Perceived) characteristics of the task and the task context</td>
<td>The individual utility derived from being engaged in an enjoyable, self-determined and competency-enhancing activity</td>
</tr>
<tr>
<td>Normative Intrinsic Motivation</td>
<td>The desire to comply with organizational norms and values</td>
<td>The degree of congruence between the behavior and organizational Norms and Values</td>
<td>The identification of the individual with the organization, i.e. importance of compliance with organizational Norms and Values to the individual</td>
</tr>
</tbody>
</table>
### Table 2
Characteristics of Determinants of Interest Alignment in Different Scenarios

<table>
<thead>
<tr>
<th>Scenario</th>
<th>Homogeneous stable Factors</th>
<th>Heterogeneous stable Factors</th>
<th>Variable Factors</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>Structure, Norms and Values, HR Characteristics, Firm Strategy</td>
<td>Interest Alignment Levers (Reward System, Socialization Regime and Job Design)</td>
<td>-</td>
</tr>
<tr>
<td>B</td>
<td>Structure, Norms and Values, HR Characteristics, Firm Strategy</td>
<td>-</td>
<td>Interest Alignment Levers</td>
</tr>
<tr>
<td>C</td>
<td>Firm Strategy</td>
<td>Structure, Norms and Values, HR Characteristics</td>
<td>Interest Alignment Levers</td>
</tr>
<tr>
<td>D</td>
<td>-</td>
<td>Structure, Norms and Values, HR Characteristics</td>
<td>Interest Alignment Levers Firm Strategy</td>
</tr>
<tr>
<td>E</td>
<td>Firm Strategy</td>
<td>-</td>
<td>Interest Alignment Levers Structure, Norms and Values, HR Characteristics</td>
</tr>
</tbody>
</table>

---

2 The logic of this scenario applies irrespective of whether firm strategy is assumed to be homogeneous, heterogeneous or variable.
<table>
<thead>
<tr>
<th>Homogeneous stable Factors</th>
<th>Heterogeneous stable Factors</th>
<th>Variable Factors</th>
<th>Source of CA</th>
<th>Condition for Sustainability</th>
<th>Rent Generation</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>Structure, Norms and Values, HR Characteristic, Firm Strategy</td>
<td>Interest Alignment Levers</td>
<td>Superior Configuration of Interest Alignment Levers</td>
<td>Inimitability and Non-Substitutability of superior configuration of Interest Alignment Levers</td>
<td>Ricardian</td>
</tr>
<tr>
<td>B</td>
<td>Structure, Norms and Values, HR Characteristic, Firm Strategy</td>
<td>-</td>
<td>Capability to better/faster improve the configuration of Interest Alignment Levers</td>
<td>Superior learning capability to enhance ability to improve the configuration of Interest Alignment Levers</td>
<td>Schumpeterian</td>
</tr>
<tr>
<td>C</td>
<td>Firm Strategy</td>
<td>Structure, Norms and Values, HR Characteristics</td>
<td>Superior fit between Structure, Norms and Values, HR Characteristics and Firm Strategy</td>
<td>Inimitability and Non-Substitutability of superior fit between Structure, Norms and Values, HR Characteristics and Firm Strategy</td>
<td>Ricardian</td>
</tr>
<tr>
<td>D</td>
<td>-</td>
<td>Structure, Norms and Values, HR Characteristics</td>
<td>Capability to assess the impact of environmental change and adjust firm strategy</td>
<td>Superior learning capability to enhance ability to assess the impact of environmental change and adjust firm strategy</td>
<td>Schumpeterian</td>
</tr>
<tr>
<td>E</td>
<td>Firm Strategy</td>
<td>-</td>
<td>Capability to adapt Structure, Norms and Values and HR Characteristics</td>
<td>Superior learning capability to enhance ability to adapt Structure, Norms and Values and HR Characteristics</td>
<td>Schumpeterian</td>
</tr>
<tr>
<td>Component</td>
<td>Interest Alignment Theory</td>
<td>Capability-Based View</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>------------------------------------------------</td>
<td>-------------------------------------------------------------------------------------------</td>
<td>----------------------------------------------------------------------------------------</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Relevant aspect of “Human Resources”</td>
<td>Motivation and Behavior</td>
<td>Knowledge, Skills and Abilities</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Source of Sustainable Competitive Advantage in a static/Ricardian setting</td>
<td>Endowment with a configuration of determinants of interest alignment that lead to a superior level of interest alignment rents</td>
<td>Endowment with knowledge resources that lead to the generation of a superior level of economic rents</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Principal Isolating Mechanism in a static/Ricardian setting</td>
<td>causal ambiguity regarding determinants of interest alignment, contextual nature of interest alignment, interrelatedness of interest alignment mechanisms</td>
<td>causal ambiguity regarding performance impact of knowledge components, contextual nature of knowledge, tacitness of knowledge</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Source of Sustainable Competitive Advantage in a dynamic/Schumpeterian setting</td>
<td>Ability to better/faster create organizational interest alignment</td>
<td>Ability to better/faster generate, accumulate and transfer knowledge</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Principal Isolating Mechanism in a dynamic/Schumpeterian setting</td>
<td>Superior learning capability (regarding the improvement of interest alignment)</td>
<td>Superior learning capability (regarding generation, transfer, accumulation of knowledge)</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
REFERENCES


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