Interest Alignment and Firm Performance

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ABSTRACT

The degree to which firms are able to align the individual interests of their members with overall strategic objectives has been long recognized as a fundamental-determinant of firm performance (e.g. Jensen and Meckling (1976; Jensen (1986)). Much of our attention has focused on the role of extrinsic motivation based on rewards and sanctions to achieve such interest alignment. Recently, Gottschalg and Zollo (2004) have proposed a more comprehensive conceptual framework of interest alignment that considers not only extrinsic, but also enjoyment-based hedonic intrinsic and obligation-based normative- intrinsic motivational mechanisms. This study derives testable hypotheses from their framework and thus provides an empirical test of interest alignment theory based on a sample of 69 management buyouts in the UK. The results of the multivariale regression model suggest that in this setting, interest alignment does have a significant influence on firm performance. Surprisingly, however, the performance impact of intrinsic motivation (particularly of a hedonic nature) is much more powerfiil than that of extrinsic motivation, which fails to show any statistical significance. Furthermore, and contrary to "received wisdom", the three types of motivation mutually reinforce each other in their positive impact on performance.

KEY WORDS

Competitive Advantage, Interest Alignment, Motivation, Buyouts

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