

Charting a path between firm-specific incentives and human capital-based competitive advantage

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Abstract

Research Summary: Scholars have long recognized the theoretical and practical implications of firm-specific *human capital*. However, we highlight that firm-specific *incentives* (i.e., worker incentives that provide more utility to workers in the focal firm than similar incentives available at other employers) provide an important pathway to competitive advantages that has not been comprehensively examined in the extant organizational research. We address this gap by (a) defining firm-specific incentives and showing why they are different from incentive conceptualizations and typologies in the extant literature, (b) articulating potential origins of firm-specific incentives, and (c) formally proposing the conditions under which firm-specific incentives facilitate human capital-based competitive advantages. In so doing, we develop a cohesive theoretical framework of incentive-based competitive advantage that integrates across multiple literatures.

Managerial Summary: Just as companies differentiate their products by creating unique value for customers, they also create unique value for their employees. Some companies do this by offering employee incentives, perks, and benefits that are highly unique to the company and difficult for other companies to imitate. These

unique incentives, perks, and benefits can help these companies to attract, motivate, and retain top talent at a financial discount and, accordingly, can help these companies realize competitive advantages over their rivals.

KEY WORDS

firm-specific human capital, human capital-based competitive advantage, incentive-based competitive advantage, strategic human capital, strategic incentives

1 | INTRODUCTION

In practice, firms often leverage highly firm-specific employee incentives—that is, incentives that provide more utility to workers in the focal firm than similar incentives available at other employers. For example, SpaceX's unique mission to Mars and Disney's park, hotel, and merchandise discounts provide significant utility to employees that would be hard for rivals to replicate. Indeed, many firms actively leverage such incentives to realize advantages in attracting, motivating, and retaining human capital. Some research has touched on idiosyncratic incentives such as the Bidwell, Won, and Barbulescu (2015) finding that high status firms may have attraction advantages and Burbano's (2016) finding that employees may accept lower wages when a firm offers a unique social mission. These literatures imply that firm-specific incentives may facilitate human capital-based competitive advantages (Chadwick, 2017; Coff, 1997).

While the idea that firms may offer firm-specific incentives may not be surprising, there is no cohesive theoretical development of how they differ from the many types of incentives explored in the literature. It is, thus, unclear where firm-specific incentives come from and precisely when they are most likely to facilitate competitive advantages. In other words, it seems that, while firms often actively seek to leverage firm-specific incentives to create competitive advantage in practice, theoretical development lags in identifying how and when they may be effective.

The lack of such a theory is problematic for at least three reasons. First, the traditional strategy approach to human capital-based competitive advantages implicitly assumes that firms are relatively homogenous in the incentives they offer. That is, firms simply need to identify the right strategic contingencies and then choose the optimal incentive bundle (Balkin & Gomez-Mejia, 1990; Galbraith & Kazanjian, 1986; Miles & Snow, 1984), under the assumption that they can offer any incentive and that the cost of each incentive does not vary across firms. This limits the ability of extant theory to incorporate heterogeneity in the provision of incentives. Second, such incentives could explain how and why some firms realize competitive advantages independent of firm-specific human capital. Most prior research assumes general human capital cannot be a source of competitive advantage (Molloy, Ployhart, & Wright, 2011), but this ignores the possibility that firms may differentiate themselves based on incentives. Third, a robust theory of firm-specific incentives may help provide a conceptual bridge between micro research on incentives and theories of competitive advantage. While scholars have studied the impact of different types of incentives (such as social, intangible, and so forth) on individual outcomes, a theory of firm-specific incentives highlights when these may also drive firm-level advantages. This multi-level approach promotes a deeper understanding of the micro-foundations of strategy (Felin & Foss, 2005).

Our contribution is to provide a theoretical framework of firm-specific incentives that (a) clearly defines the concept, (b) differentiates these incentives from existing incentive categorizations in the organizational literature, (c) explains where such incentives come from—that is, what types of resources and capabilities support these incentives, and then (d) identifies the conditions under which firm-specific incentives are most likely to facilitate competitive advantages. Our propositions regarding when firm-specific incentives facilitate advantages make it clear that these incentives provide an important pathway to human capital-based competitive advantages that has thus far been unexplored in organizational research.

2 | WHAT MAKES FIRM-SPECIFIC INCENTIVES (FSI) DISTINCT?

Incentives are sources of utility that affect worker decisions and behaviors. It is important to acknowledge that incentives come in many forms and have been heavily studied. For example, Simon (1945) explicitly pushes back on the overemphasis of financial incentives to assert that anything that motivates worker behaviors and decisions can be an incentive. Similarly, Barnard (1938) argues that material incentives may be less important for inducing worker contributions than other non-material factors. Organizational scholars have long explored how different types of incentives affect worker effort and performance. Incentives could be high-powered like bonuses, low-powered like wages, non-monetary like recognitions and social awards, and so forth. For example, extrinsic rewards may tend to reduce intrinsic motivation (Deci, Koestner, & Ryan, 1999). Given this work, our intent is to develop a general treatment of firm-specific incentives that differentiates firm-specificity from all existing theoretical categorizations of incentives.

2.1 | Defining firm-specific incentives

As mentioned, firm-specific incentives *provide more utility to employees in the focal firm than similar incentives available at alternative employers*. Note that our definition does not include the costs of these incentives, but we will address costs explicitly in our theory explaining the conditions under which these incentives may facilitate competitive advantages. Our definition parallels the definition of firm-specific *human capital* as employee knowledge, skills, and abilities that are more valuable in the focal firm than in any alternative firm (Becker, 1964). If an employee changes jobs, her firm-specific human capital creates less value in the new firm. In contrast, general human capital holds its value across firms. The extent of an employee's firm-specificity is a function of how valuable the human capital is (or is not) in a new firm.

We can apply similar logic to incentives. Imagine comparing a particular incentive type across firms (firm reputation, employee discounts, social climate, etc.). If the employee utility from this incentive is greater in the focal firm than in other firms, the incentive is firm-specific. For example, leadership quality might provide far more utility to employees in a given firm than rivals' leadership quality (e.g., GE during its years of dominant leadership development). If an employee leaves the firm with excellent leadership, the utility she gets from this incentive type will be lower at her new firm. In contrast, a dollar in wages from one firm likely creates similar worker utility as a dollar in wages from another firm. Thus, the extent of firm-specificity

of a particular incentive is a function of the difference in average¹ employee utility from that incentive across firms.

Also, while some incentives may be purely generic or firm-specific, most fall somewhere on a continuum anchored by these extremes. We might imagine a small set of firms that offer similar utility (e.g., from reputation for the Big 4 accounting firms) but with a big drop-off in utility outside of that set. These incentives might not be firm-specific, but may lean toward the firm-specificity side of the continuum. Similarly, certain industries may offer industry-specific incentives (e.g., caring for animals in the veterinary industry)—utility associated with the industry rather than any particular firm, just as some human capital is industry-specific (Mayer, Somaya, & Williamson, 2012; Neal, 1995). Our focus, then, is on incentives that cluster toward the firm-specific end of the continuum—that is, those that are more firm-specific than generic. Note that we are not theorizing about firm-specific *bundles* of HR practices (Barney & Wright, 1998; Becker & Huselid, 2006): we theorize about individual incentives that are highly firm-specific on their own, which could be (but need not be) part of broader incentive bundles. Also, we do not focus directly on firm-specific *disincentives* where firms' unique negative attributes reduce employee utility.²

2.2 | Firm-specificity is distinct from other dimensions of incentives

While there is a rich literature on incentives and a broad swath of research exploring both monetary and non-monetary drivers of motivation, we find no explicit theorizing about firm-specificity as an aspect of incentives beyond simple mentions of this as a possibility (Campbell, Coff, & Kryscynski, 2012; Chadwick, 2017; Coff, 1997). Table 1 shows common dimensions of incentives in the extant literature. In each case, we offer examples of how these can vary in firm specificity to demonstrate that firm specificity is distinct from and cuts across existing dimensions.

Consider, for example, Disney's practice of giving employees free access to parks and steep discounts on company hotels, restaurants, and merchandise. These are extrinsic incentives whose utility is tied to Disney's unique resources. Rivals may offer discounts with similar monetary expense, but given Disney's leadership in this space, rivals' discounts may provide less utility per dollar of cost to the firm. In contrast, the utility from commonly examined extrinsic incentives, like wages or insurance benefits, are generic across firms—a dollar in wages from Disney provides the same utility as a rival's wage dollar. Thus, extrinsic incentives can be anywhere on the spectrum from highly general to highly firm-specific.

The same distinction holds for intrinsic incentives. For instance, SpaceX's unique effort to colonize Mars is distinct even among other commercial space companies. Anecdotal reports suggest that employees are deeply attracted to the mission. One employee described the pros of the job: "Helping make the world a better place, one launch at a time" and the cons: "Low pay, long hours." (Glassdoor, 2019). The employee strongly recommends SpaceX as an employer, implying that the firm-specific utility offsets the undesirable pay and hours. Those intrinsically

¹The word "average" is important since individuals' idiosyncratic utility functions vary. We focus here on firm level differences in available utility, but we incorporate idiosyncratic employee preferences in subsequent sections.

²Takata's management of the air bag scandal, Facebook's entwinement with Cambridge Analytics, or any firm's incidence of abusive supervision may be firm-specific sources of reduced worker utility (Sutton & Callahan, 1987).

While incentives can be a mirror image of disincentives, there may be important asymmetries. For example, a disincentive that motivates employee effort toward sabotage may destroy more value than a similarly valent incentive that motivates effort toward firm goals would create. We highlight this as an opportunity for future research.

TABLE 1 Why extant incentive typologies are inadequate

Incentive type	Definition	General example	Firm-specific example
Pecuniary/material/tangible	Incentive has a monetary value or can easily be translated into monetary value (Clark & Wilson, 1961) (generally also extrinsic)	Financial benefits that provide similar utility across firms. <ul style="list-style-type: none">• Salary• Health insurance	Financial benefits whose utility to employees depends on the firm's complementary assets. <ul style="list-style-type: none">• Discounts on a firm's differentiated products (e.g., REI, Nordstrom, Avon)• Stock options with high future expectations for returns
Intrinsic/intangible	Personal satisfaction from engaging in work that is innately enjoyable (Gottschalg & Zollo, 2007)	Fulfilling work that is comparable across firms <ul style="list-style-type: none">• Opportunity to teach high-quality MBA students• Opportunity to engage in doctoral training	Idiosyncratic opportunities for fulfilling work at a company (due to complementary assets) <ul style="list-style-type: none">• Google offers autonomy and resources to top workers that is less valuable elsewhere• SpaceX offers employees a chance to create interplanetary colonization• Tesla offers employees a chance to kill the internal combustion engine
Extrinsic	External rewards, tangible or intangible, that aren't derived directly from the work itself (Gottschalg & Zollo, 2007) (often pecuniary)	Nomination for an industry award/recognition for strong performance	Company sponsored recognition/ award for strong performance (only coveted within the firm)
High powered	Rewards that are closely tied to individual performance (Zenger & Hesterly, 1997)	Pay for performance or piece rate incentive systems	Recognition of top performers (e.g., employee of the week) if it is highly respected & embedded in the firm's social system
Low powered	Rewards that are loosely tied to individual performance (Zenger & Hesterly, 1997)	Salary—Especially when based on criteria such as seniority or when there is little variance among individuals in the same job	Idiosyncratic company attributes that attract and motivate workers (e.g., social mission, desirable culture)
Solidary	Motivation derived from group membership and identification; status	Identification with an industry or professional association that spans firms	Identification with idiosyncratic company culture

TABLE 1 (Continued)

Incentive type	Definition	General example	Firm-specific example
Purposive	from association (Clark & Wilson, 1961) (typically low powered)		• Culture of fun at Zappos or Southwest airlines
	Motivation by a higher goals, purpose, or mission beyond firm profitability (Clark & Wilson, 1961) (typically low powered)	Shared industry mission such as finding a cure for cancer or providing high quality patient care	Identification with idiosyncratic company mission • Tom's delivering shoes to children in 1st world countries • TATA group enhancing social welfare in India

interested in colonizing planets are uniquely motivated at SpaceX. In contrast, many intrinsic incentives are linked to a profession or industry as opposed to a specific firm. Thus, a doctor who enjoys helping others or a professor who likes teaching may find fulfillment at many organizations. As such, intrinsic incentives alone are insufficient to explain firm-level differences.

There are many types of incentives explored in extant literature and Table 1 provides examples of both general and firm-specific forms *within* each category. This shows that firm-specificity is a distinct dimension from those explored previously. Thus, formally defining firm-specific incentives opens avenues of research on incentives despite the rich existing incentive typologies.

3 | WHERE DO FIRM-SPECIFIC INCENTIVES COME FROM?

The various examples above and in Table 1 show how firm-specific incentives may arise from a firm's idiosyncratic resources. For instance, the utility that an employee can gain from working with a star colleague stems from the firm's unique human capital. Similarly, the utility associated with a desirable reputation relies upon the firm's ability to consistently earn that reputation. Other firms may find it cost prohibitive (or impossible) to develop similar sources of utility due to incompatible systems, routines, missions, or cultures. Thus, imitation may be hindered since such resources tend to be path dependent, socially complex, or causally ambiguous (Barney, 1991).

Considered in this way, it is clear that these incentives are a natural extension of RBV logic highlighting firms' idiosyncratic resource bundles. Thus, idiosyncratic resources can translate into *product* market advantages by facilitating unique value propositions. Following from this logic, it is natural to acknowledge that resources can create unique utility for workers (in the *resource* market for human capital). While an exhaustive list of firm-specific incentives is likely impossible, many of the resources studied in the strategy literature may support firm-specific incentives. Table 2 offers a typology of these resources and maps them to potential firm-specific incentives.³ We touch briefly on the main resource categories below.

³Our examples illustrate resources that often promote competitive advantages apart from any employee utility they create. This is not a necessary condition. Idiosyncratic resources unrelated to product market performance may create FSI. Thus, a location that workers desire may offer no advantage other than in the resource market.

3.1 | FSIs arising from externally-facing resources

Externally-facing resources are distinct from internally-facing resources in that their value largely depends upon the perceptions of outside stakeholders. Stakeholders may evaluate what the firm produces and make judgments that drive decisions to engage with the firm. When positive, these perceptions may function as resources the firm can leverage. There are at least two categories of these perceptions that lead to different types of FSIs: (a) Perceptions of the firm's products or services—that is, what we make, and (b) perceptions of the firm's identity—that is, who we are.

FSIs from perceptions of the firm's products/services. Status and reputation often drive stakeholder decisions (Bidwell et al., 2015; Rider & Tan, 2014; Stern, Dukerich, & Zajac, 2014) since they offer signals of quality that can be hard to observe. In addition to signaling customer value, such indicators can provide worker utility (Cable & Turban, 2003; Turban & Cable, 2003). Thus, when employees gain utility from the firm's differentiated products over rivals' products, employee discounts may become highly preferred firm-specific incentives. These can be high-powered incentives if they are linked to individual performance. For example, Avon attracts workers who value their products and their top performers receive higher discounts to create high-powered firm-specific incentives.

A firm's status or reputation may also create low-powered incentives. All employees have access to these by affiliation: it is hard to imagine granting some workers greater access to a firm's status than others. Thus, Apple employees are often emphatic about the company's products and their enthusiasm stokes motivation to work for the company. One former Apple employee noted:

You can get paid a lot of money at most places here in the Valley... I think working in a company like [Apple], and actually being passionate about making cool things, is cool... Sitting in a bar and seeing that 90% of the people there are using devices that your company made—there is something cool about that, and you can't put a dollar value on it (Lashinsky, 2012, p. 94).

This employee realized substantial non-monetary utility from Apple's reputation for making cool products. Wegman's reputation as the best grocery chain or Nordstrom's reputation for extreme customer service may also allow them to create unique worker utility.

FSIs from perceptions of the firm's identity. In addition to perceptions of the firm's products and services, external perceptions of the firm's identity can also create employee utility. Rather than being an assessment of *what the firm makes*, this reflects *who the firm is*. In other words, external stakeholders may assess the firm's enduring values, goals, and characteristics (Albert & Whetten, 1985; Ashforth & Mael, 1989; Brickson, 2005). Perceptions of the firm's identity can drive purchasing as consumers consider what values they want to be associated with (Frake, 2017).

Just as organizational identity matters to customers, workers can gain significant utility from employers with preferred identities. Thus, some firms have unique missions that provide utility by connecting workers to a greater sense of doing good. Employees may see this mission-driven utility as uniquely available at the focal firm (Brown & Yoshioka, 2003). For instance, TOMS donated a pair of shoes to a child in need for each pair sold—They gave away their millionth pair in 2010. Not only did this have great consumer appeal, it also generated substantial employee utility. Many TOMS employees directly distributed shoes to children—getting on

TABLE 2 How FSIs arise from idiosyncratic resources

Resource category	Resource sub-category	Potential firm-specific incentives arising from the idiosyncratic resource	Research on utility arising from the resource
<i>Externally facing:</i> What we make (perceptions of our products or services)	Reputation	<ul style="list-style-type: none"> Working for one of the few companies in the industry on the Fortune most admired list (e.g., Berkshire Hathaway) Working for one of the few companies in the industry on the Fortune best companies to work for list (e.g., Wegmans Food Markets) 	(Cable & Turban, 2003; Turban & Cable, 2003)
	Brand value	<ul style="list-style-type: none"> Receiving a service award tied to the brand (e.g., a Golden Buzz award at Pixar) Receiving discounts on the firm's valued products and/or services (e.g., discounts at Nordstrom or Disney) 	(Gallus & Frey, 2016; Vomberg, Homburg, & Bornemann, 2015)
	Status	<ul style="list-style-type: none"> Working for a high status firm in the industry (e.g., McKinsey in management consulting or Deloitte in accounting) 	(Bidwell et al., 2015; Rider & Tan, 2014)
<i>Externally facing:</i> Who we are (perceptions of our organizational identity)	Mission/purpose	<ul style="list-style-type: none"> Pursuing social good (e.g., making shoes for the poor at TOM's shoes or alleviating poverty at TATA) 	(Bode & Singh, 2018; Bode, Singh, & Rogan, 2015; Burbano, 2016; Carnahan, Kryscynski, & Olson, 2017)
<i>Internally facing:</i> Technical system (the physical resources, knowledge resources, and technical systems that enable our production)	Knowledge/ intellectual property	<ul style="list-style-type: none"> Working with innovative technology (e.g., working on EV technology at Tesla) Working on proprietary technology (e.g., Google's search algorithm) 	(Gambardella, Panico, & Valentini, 2015; Hackman & Oldham, 1976, 1980; Stern, 2004)
	Location	<ul style="list-style-type: none"> Proximity to desirable geographies (e.g., workers living close to their homes or in communities known for family friendliness) Embedded relationships with the local community (e.g., membership in local clubs and/or friendships in local neighborhoods) 	(Holtom, Mitchell, & Lee, 2006; Lee, Mitchell, Sablinsky, Burton, & Holtom, 2004; Mitchell, Holtom, Lee, Sablinsky, & Erez, 2001)

TABLE 2 (Continued)

Resource category	Resource sub-category	Potential firm-specific incentives arising from the idiosyncratic resource	Research on utility arising from the resource
<i>Internally facing: Social system (who we have, how we relate, how we interact, etc.)</i>	Physical space	<ul style="list-style-type: none"> Unique workspaces (e.g., leisure areas at Google, interaction spaces at Apple) 	(Hatch, 1999; Oksanen & Stähle, 2013; Xu, Shen, & Wyer, 2012)
	Human capital	<ul style="list-style-type: none"> Working for inspiring business leaders (e.g., Steve Jobs at Apple or Elon Musk at Tesla) Working with thought leaders (e.g., Walter Carothers at DuPont) Working with a complementary team (e.g., Kevin Durant moving to the Golden State Warriors to play with other stars) 	(Coff & Kryscynski, 2011; Kehoe, Lepak, & Bentley, 2018; Oettl, 2012)
	Culture	<ul style="list-style-type: none"> Experiencing positive relationships at work (e.g., Southwest Airlines) Having fun at work (e.g., Zappos) 	(Gittell, 2005; Nahapiet & Ghoshal, 1998)

Abbreviation: FSIs, firm-specific incentives.

their hands and knees, cleaning the children's feet, and putting on their new shoes. In contrast, Sketchers tried to imitate TOMS with a new line called BOBS. While the concept was identical, BOBS was seen as a marketing ploy rather than an authentic effort to help children. The programs triggered very different perceptions of the firms' core identities and, likely different employee utility.

3.2 | FSIs arising from internally-facing resources

Internally-facing resources may be harder for external stakeholders to observe. They help the firm carry out day-to-day activities to deliver products or services efficiently and effectively (Lado & Wilson, 1994). We categorize these internal resources broadly as relating to the firm's technical system (Carmeli & Tishler, 2004; Hall, 1993) and its people system.

FSIs from the firm's technical system. Firms often have unique resources and capabilities that may not be visible or salient to external stakeholders. This could include intellectual property (e.g., patents or other knowledge resources), supplier relationships, physical facilities and even the location. Such assets can also offer employee utility. REI, for example, offers employee sabbaticals coupled with steep employee discounts (50–90% off) for gear and services purchased from their partner vendors. One REI employee noted, "It allows people who earn retail wages to afford the amazing gear that lets them pursue the outdoor activities that they love. It allows them to own the product they are selling, making it easier to get the customers interested"

(Glassdoor, 2019). This leverages REI's supplier network—a resource rivals may lack but may not be salient to customers.

Firm-specific incentives may also be derived from unique physical assets or locations. Apple spent \$5 billion on its 2.8 million square foot Cupertino campus. The edifice is architecturally striking and includes many attractive features for employees (exercise facilities, medical services, nearly 9,000 trees, and ergonomically-sound offices). Since few firms can build a comparable headquarters in such a desirable location, the physical asset may create firm-specific utility.

FSIs from the firm's social system. Many types of firm-specific incentives arise from people-related resources. For example, some workers are motivated to work with exceptional star employees (Kehoe et al., 2018; Oettl, 2012) who offer benefits such as spillovers or mentorship. Future stars may be attracted to work with current stars to enhance their potential (Oettl, 2012). Thus, unique stars may create important firm-specific incentives for others.

FSIs may also stem from team-based resources. Just as workers may derive utility from stars, they may also value working in effective teams that engender a positive and motivating work environment. Effective teams can adjust to and utilize individuals' capabilities while also providing social support and encouragement.

Company culture is also part of the social system. Some firms have unusual cultures that create substantial worker utility. For example, such cultures may strengthen interpersonal relationships (Gittell, 2005) or create a fun work environment (Hsieh, 2010). Culture can be inimitable since it is embedded in complex social interactions and tends to be path dependent (Barney, 1986a).

4 | WHEN DO FIRM-SPECIFIC INCENTIVES FACILITATE COMPETITIVE ADVANTAGES?

We have established that some firms can offer unique worker utility due to their idiosyncratic resource bundles. What is not yet clear are the conditions under which firm-specific incentives facilitate competitive advantages. We adopt the typical definition of competitive advantage from the resource based view (RBV): when a firm captures more economic profit than the breakeven competitor,⁴ with economic profits capturing the gap between customer willingness to pay and the firm's economic costs of production (Chadwick, 2017; Molloy & Barney, 2015; Peteraf & Barney, 2003). If we focus narrowly on human capital, then economic profit is the difference between the use value of human capital and the costs of attracting, motivating, and retaining that human capital, all else equal. Our core point in this section is that under some conditions firm-specific incentives help the firm to realize a factor market advantage in the market for human capital. That is, these advantages may accrue because the resource owners (i.e., employees) prefer the focal firm due to its firm-specific incentives granting it access at a lower cost (Barney, 1986b).

4.1 | Clarifying initial assumptions: General skills, uniform preferences, accurate perceptions

In order to establish the core logic for why firm-specific incentives may facilitate competitive advantages, we start with three extreme assumptions (which we then relax as we extend our

⁴The breakeven competitor has revenue equivalent to the economic cost of production (Peteraf & Barney, 2003).

theory). First, we assume there is no firm-specific human capital. This highlights that FSI can facilitate competitive advantages even with generic human capital. Second, all workers have similar preferences. This allows us to focus on conditions under which advantages arise even in the extreme case of homogenous worker preferences (e.g., no assortative matching). Third, we assume workers accurately perceive the utility from a firm's incentives. This allows us to temporarily set aside the challenges of imperfect and asymmetric information. Again, we will relax all of these assumptions as we extend our propositions. We also assume throughout that firms have the managerial ability to effectively align the incentives available to them with their goals.⁵

4.2 | Multi-level mechanisms linking FSI to firm performance

The core mechanisms connecting firm-specific incentives to firm performance follows the logic of Coleman's (1990) boat, where firm choices impact firm outcomes via their impact on individuals. Here, firms choose the bundles of incentives that provide worker utility. A voluminous body of classic and modern organizational research maps the many individual-level pathways through which this utility leads to individual productivity (March & Simon, 1958; Simon, 1945). Firms that offer more utility are generally more likely to attract and hire better human capital than their rivals, which would generate higher individual productivity, *ceteris paribus*. This employee utility may also engender higher employee engagement (Shuck & Wppard, 2010), commitment (Mathieu & Zajac, 1990), organizational identification (Albert, Ashforth, & Dutton, 2000), job embeddedness (Lee et al., 2004) and job satisfaction (Judge, Thoresen, Bono, & Patton, 2001), which leads to higher employee motivation and retention, *ceteris paribus*. While multiple vibrant organizational literatures explore the nuance connecting incentives to individual productivity, the overall conclusion is that firms offering more utility are likely to have higher average individual level productivity (summary shown in the individual mechanisms box in Figure 1, see March & Simon, 1958 for detailed classic explanations of the pathways and mechanisms within this box).

This high-level summary of the individual literature underscores the baseline that firm-specific incentives may allow some firms to offer more overall worker utility than rivals, especially when such incentives comprise a substantial share of the overall incentive bundle. A firm-specific incentive that provides only a tiny portion of the total worker utility may not significantly drive attraction, motivation, retention and, ultimately, individual productivity. Consider a firm that offers the best salad croutons in the world in their employee lunch package. This unique incentive may provide more utility than competitors' croutons, but likely has no significant effect on total employee utility, and thus, on performance. In contrast, a firm-specific incentive that provides a significant percentage of total worker utility has a much greater likelihood of driving performance. Consider, for example, Burbano's (2016) finding that workers may accept up to a 44% wage discount to work for firms with a positive social mission. This suggests a strong social mission could reflect a large percentage of total utility in the bundle. If a firm-specific incentive provides such a large portion of total utility, the firm may experience significant attraction, motivation, and retention benefits. This, in turn, may result in higher individual productivity (quantity and quality) due to both superior selection of workers and superior motivation from those hired. Assuming a positive relationship between individual

⁵We make this assumption for convenience of presentation, but we recognize that firms may vary in the extent to which they can effectively align employee interests through incentives (Gottschalg & Zollo, 2007).

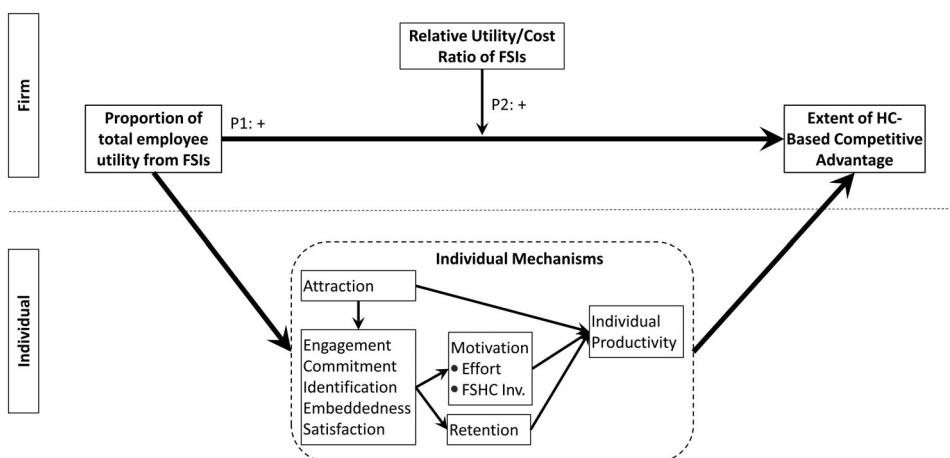


FIGURE 1 Multi-level mechanisms for how firm-specific incentives drive competitive advantage

productivity and the likelihood that a firm realizes competitive advantages (Crook, Todd, Combs, Woehr, & Ketchen, 2008),⁶ these positions imply the baseline proposition that firms with greater proportions of their total employee utility from firm-specific incentives will be more likely to realize human capital-based competitive advantages, holding constant other critical factors that may explain firm level performance differences.⁷ Formally:

Proposition 1 *The extent of competitive advantage from a firm-specific incentive increases as the proportion of total utility from the firm-specific incentive increases in the overall utility bundle, ceteris paribus.*

4.3 | Utility/cost ratio and competitive advantages

Proposition 1 establishes the primary connection between firm-specific incentives and human capital-based competitive advantage, but these advantages are only possible if firm-specific incentives provide a utility to cost advantage of some kind, what we will refer to as the *utility/cost ratio*. By utility/cost ratio we mean the amount of utility an employee receives (in utils) per unit cost (in dollars) to the firm of creating and offering that utility.⁸ This is important because, thus far, we have only discussed the superior utility from firm-specific incentives without discussing their costs. It is certainly possible that firms could create firm-specific incentives that

⁶Ployhart and Moliterno (2011) and Ployhart, Nyberg, Reilly, and Malarich (2014) articulate the complex relationship between individual-level human capital and performance and firm-level human capital resources, which may or may not facilitate firm-level performance and competitive advantages.

⁷It is important to clarify that potential advantages from firm-specific incentives could be swamped by other competitive factors that have a larger overall impact. A firm with a poor technology but a valuable FSI may underperform a firm with superior technology but only generic incentives. We hold many key factors constant here to focus our theory on the strategic importance of FSIs.

⁸We use the concept of ratio here in the same way we might consider price per dozen for eggs or kilometers per liter for vehicles. It is the amount of utility per unit cost. We do not intend to invoke the technical mathematical definition of a ratio.

are incredibly costly relative to the worker utility they create. For example, Facebook recently spent more than \$300M USD to construct a new office building to help attract talent. This unique building houses about 3,000 employees making the capital cost around \$100K USD per employee. It is certainly possible that Facebook will gain more than \$100K USD per employee from this investment, but the returns to this investment may also be far less than the costs. Thus, for a firm-specific incentive to facilitate competitive advantage, it must deliver human capital benefits that are more valuable to the firm than the costs of creating and providing the incentive.

In addition to the simple requirement of having a favorable benefit-to-cost comparison, to support a competitive advantage firm-specific incentives must also have a superior utility/cost ratio relative to other incentives that rival firms could offer. Compensating differentials logic suggests that employees accept exchanges between different types of utility (Rosen, 1986). Thus, even if a rival firm cannot imitate a particular firm-specific incentive, they could substitute that utility with a different incentive and stay competitive. If the rival's incentive has a utility/cost ratio advantage relative to the focal firm's specific incentive, then the rival can offer the same amount of utility at a lower real cost. In this case, any potential advantage likely goes to the rival. Alternatively, the rival's incentive could have the same utility/cost ratio as the focal firm's specific incentive. In this case, the firms are likely to achieve competitive parity. Thus, if multiple firms have firm-specific incentives with similar utility/cost ratios, then no firm is likely to realize an advantage—that is, this would result in competitive parity from FSIs. We may see this in the airline industry where multiple airlines offer employee discounts on their own unique but comparable routes, which negates any associated advantages for any one airline. Thus, for a firm-specific incentive to facilitate a competitive advantage, it must have a higher utility/cost ratio than other incentives that competitor firms could offer (including cash and cash-based incentives).

It is important to note that when a firm has a firm-specific incentive with a larger utility/cost ratio than other incentives in the labor market the firm could leverage this incentive in at least two ways: (a) increase productivity (quality and/or quantity) from human capital through superior attraction, motivation, and retention and/or (b) lower the real costs of human capital.

Increase productivity from human capital. The first path follows the logic from Proposition 1—that is, the firm offers more total utility to employees than competitors while keeping costs similar to competitors. Accordingly, these firms better attract, motivate, and retain human capital in ways that create more total value for the firm. In this path, the firm leverages 100% of the firm-specific incentive to increase employee productivity and value creation through human capital.⁹

Lower the costs of human capital. Along the second path, the firm attempts to offer the same total utility to employees as competitors at lower real costs for the total incentive package. In other words, the firm attempts to displace other incentives (such as cash) with the utility from the firm-specific incentive (Rosen, 1986). If it can successfully leverage the firm-specific incentive in this manner, the firm will attract, motivate, and retain human capital at a similar level as competitors, but do so at lower total cost than competitors. Since the focal firm has similar total value creation as competitors, the competitive advantage will manifest through lower real costs.

⁹We mean productivity both in terms of higher volume and/or higher quality. We are agnostic as to whether employee productivity here increases volume, quality, or some combination of these.

Of course, these paths represent two extreme ways that firms could leverage firm-specific incentives when, in practice, they choose along the spectrum, meaning that they may choose a mix of offering more total utility than rivals (to enhance their productivity and value creation potential) at lower total incentive costs (to enhance their cost position) than rivals. Along any path above, however, a firm-specific incentive must have a larger utility/cost ratio than any other incentive a competitor can provide in order to facilitate a competitive advantage. Moreover, the extent of competitive advantage from a firm-specific incentive likely reflects the difference between the utility/cost ratio for the firm-specific incentive and the utility/cost ratio for the next best incentive in the labor market. A higher utility/cost ratio means a greater difference in total utility (holding costs constant), or a greater difference in incentive costs (holding total utility constant). Thus, the extent of higher total value creation and/or lower incentive costs increases as the utility/cost ratio of the firm-specific incentive increases relative to other incentives. Thus:

Proposition 2 *The extent of competitive advantage from a firm-specific incentive increases as the utility/cost ratio of the firm-specific incentive increases relative to other incentives in the labor market, ceteris paribus.*

4.4 | Where do superior utility/cost ratios come from?

There are a variety of explanations for why a given incentive may have a higher utility/cost ratio than other incentives in the labor market. We focus on two tightly coupled explanations here: (a) natural byproducts of normal business activities, and (b) high scalability.

FSIs as natural byproducts. A key factor that impacts the utility/cost ratio is the extent to which these incentives arise as natural byproducts of the firm's normal business operations. Firms tend to invest in creating resources and capabilities to enhance product market performance, not necessarily to create worker utility. Consider, for example, Apple's reputation for making some of the most desirable products in the world. Apple invests substantially in R&D to make desirable products, and they invest heavily in branding and marketing to increase customers' willingness-to-pay. These substantial investments enhance their reputation in order to improve product market performance as opposed to increasing worker utility. Apple would make these investments even if the result had no associated worker utility. Thus, most costs associated with these activities are appropriately attributed to their costs of making and marketing their products, not the costs of creating employee utility. As such, the utility from this reputation is a natural byproduct of otherwise normal business activities. The utility available to workers is therefore created at very low marginal cost, even though the underlying resource may be costly.

This same pattern likely applies for many of the firm-specific incentive examples we have highlighted previously. Firms may invest in moving up the status hierarchy because of expected product market gains as opposed to the utility that status offers to workers. Firms may incur significant costs to hire star workers to advance key business objectives, not necessarily because these stellar employees will create utility for co-workers. Firms may invest in physical workspaces that enhance productivity, not necessarily because employees prefer such workspaces. Thus, many firm-specific incentives can arise as natural byproducts of normal business activities associated with generating idiosyncratic resources that support a firm's strategic objectives.

This logic, then, suggests a firm-specific incentive's potential to facilitate competitive advantage increases with the extent to which it is a natural byproduct of otherwise normal business activities. A pure spillover engenders no real incentive cost since the costs are fully attributable to normal business activities. The TOMS vs. BOBS dichotomy highlights this logic. For TOMS, the positive effect of donating shoes on employee utility came as a direct spillover. Sketchers' benefits from BOBS, however, required additional investments above and beyond their core business. Investments like Sketchers' that are justified as contributing to worker utility may be less likely to facilitate advantages since the cost must be weighed against the utility generated.

Scalability of incentives. In addition to the incentives as byproducts explanation above, it is also likely that some incentives are more scalable than others. Having a corner office with a unique view may be a valuable firm-specific incentive that confers status and recognition—indeed, it is a form of incentive that many firms dole out very carefully (Gallus & Frey, 2016). However, there are a limited number of corner offices. It cannot be scaled up easily to motivate large numbers of employees. As such, it is harder to imagine such an incentive creating so much value for the firm that it can be a source of competitive advantage. Similarly, working with a unique star colleague is not easily scalable as stars can only work with a fixed number of colleagues before becoming overloaded (Oldroyd & Morris, 2012).

In contrast, some incentives have relatively low incremental costs to share broadly with many employees. Firm-specific discounts, like the Disney park discounts, do have a distinct variable cost per unit of employee utility. Each time an employee takes advantage of a discount, the firm incurs some unique variable cost associated with that transaction. However, it is relatively easy for Disney to offer these discounts broadly to employees and control the costs by putting some restrictions on when the discounts can be applied (e.g., avoiding the busiest days of the year so there will be excess capacity in the parks).

Taking it a step further, some incentives may have utility that does not decrease with consumption (like the Apple reputation). Indeed, some firms may have incentives that actually increase in utility with consumption. Consider, for example, the innovative work on compassion in organizations (Dutton, Worline, Frost, & Lilius, 2006; Kanov et al., 2004), which suggests that the more people who experience compassion within the organization, the more a resource of compassion grows within the organization. Not only is compassion non-decreasing, but by sharing it, more is created.

This is important because for these highly-scalable incentives, the firm can share more total utility with more employees without necessarily incurring significant additional incentive costs. If so, then the more scalable the utility from a particular incentive, the greater the utility/cost ratio for that incentive - relative to other incentives in the labor market.

5 | REAL-WORLD CONDITIONS AND COMPETITIVE ADVANTAGES FROM FIRM-SPECIFIC INCENTIVES

Propositions 1 and 2 point us to the high-level factors that may determine the extent to which firm-specific incentives facilitate competitive advantages, but, as noted, they are based on unrealistic assumptions of: (a) only general human capital, (b) homogenous worker preferences, and (c) accurate employee perceptions of incentives. We now explicitly relax these assumptions and explore the relationship between firm-specific incentives and competitive advantages in a more complex and realistic world.

5.1 | When firm-specific human capital matters: Relaxing the GHC assumption

Heterogeneous firm capabilities often reflect the idiosyncratic knowledge and skills of employees (Barney, 1991; Hatch & Dyer, 2004; Kor & Leblebici, 2005), so our initial simplifying assumption to exclude firm-specific human capital is unrealistic in many real world contexts. The presence of firm-specific incentives may actually increase firm-specific human capital in the firm. Scholars have emphasized the firm-specific human capital investment dilemma—that is, workers' reluctance to make firm-specific investments (Wang & Barney, 2006). This dilemma arises since such investments engender at least two types of risk: (a) behavioral/holdup risk—that is, the risk that the firm will act opportunistically after workers make firm-specific investments and insufficiently compensate them and (b) environmental risk—that is, the risk that the investment will lose value due to unforeseen events such as business failure or job separation (Hoskisson, Gambetta, Green, & Li, 2017). Given these risks, workers may be reluctant to make such investments. However, firm-specific incentives may increase firm-specific human capital in several ways.

FSIs help firm-specific human capital accumulate without conscious investment. First, since FSIs offer utility that is unavailable at other firms, one might anticipate that it is naturally associated with employment longevity and commitment. Over time, workers would be called upon to solve problems in the normal course of their responsibilities (Hatch & Dyer, 2004). In so doing, they will learn how to access knowledge within the firm (e.g., who knows what) and they will implement the firm's nuanced procedures, thus developing firm-specific human capital.

It would be relatively rare in this process for there to be clear decision points that employees evaluate as investments (Kryscynski & Ulrich, 2015). That is, firm-specific human capital accumulates without conscious investments as they address their responsibilities, and they are more likely to meaningfully engage their responsibilities when they receive more utility from firm-specific incentives. Accordingly, the firm-specific investment problem is mitigated because the skills accumulate without conscious investment decisions, and FSIs increase longevity.

FSIs generate trust that reduces concerns about behavioral risk. Firm-specific incentives may decrease perceived behavioral risk since they may enhance employees' sense of a personal relationship with the firm. Again, firms that offer more utility are likely to create greater employee commitment, engagement, and satisfaction. This, in turn, will help the firm garner a reputation for trustworthiness (Bosse, Phillips, & Harrison, 2009; Burbano, 2016) and, accordingly, employees may be more apt to believe the firm will not act opportunistically. Beyond general trustworthiness from offering utility, some FSIs directly enhance trust. Firms that create unique cultures of transparency and fairness or have reputations for ethical leadership may naturally engender high levels of employee trust. If so, firm-specific incentives may decrease employee perceptions that the firm will take unfair advantage of their firm-specific investments—relative to rivals.

FSIs divert attention from environmental risk. While firm-specific incentives may not affect employee perceptions of the firm going out of business, they may decrease employees' perceived risk of job change. To the extent that FSIs increase employee engagement, commitment, identification, and satisfaction, they are also likely to promote employee retention. Another way to say this is that when employees have higher engagement, commitment, identification, job embeddedness, and satisfaction, they are more likely to want to stay in the focal firm and will be less likely to search for outside opportunities. This is supported by recent findings that firm-specific knowledge tends to increase with employee job protections (Wang, Zhao, &

Chen, 2017; Wang, Zhao, & He, 2016). With less salient external opportunities, the perceived risk associated with firm-specific investments is likely lower and these investments are encouraged.

Additionally, when employees are committed to and identify with their firms, they are more likely to engage in pro-social and organizational citizenship behaviors—that is, they tend to do what they feel is in the best interests of the firm. Since firm-specific human capital underlies many competitive capabilities (Mahoney & Kor, 2015), workers may welcome opportunities to invest in firm-specific human capital so they can become more valuable to the firm. Lastly, even if the firm-specific incentives do not decrease perceptions of behavioral or environmental risk, the utility from these incentives may still compensate them for this risk.

In summary, then, FSIs may promote retention and make the specificity of investments less salient, they may reduce employees' perceived risks linked to firm-specific investments, they may compensate employees for perceived risks, and they may increase employee desires to invest as a form of pro-social behavior. The implication of this argument is that firms with a greater reliance upon firm-specific human capital may benefit relatively more from firm-specific incentives. Since these firms need employees with firm-specific skills, the potential positive relationship between firm-specific incentives and competitive advantage may be enhanced considerably. Thus:

Proposition 3 *The extent of competitive advantage from a firm-specific incentive increases with the extent to which firms rely on firm-specific human capital for business performance.*

5.2 | Assortative matching: Relaxing the homogenous worker preference assumption

Assortative matching theory focuses on processes by which an employee's idiosyncratic skills are matched to a firm's unique production needs (Chapman & Southwick, 1991; Jovanovic, 1979). In addition to matching on skills, workers and employers also match on heterogeneous preferences. In fact, the notion that workers sort into firms based on their preferences is a basic tenet of the OB literature (Kristof-Brown, Zimmerman, & Johnson, 2005; Schneider, 1987). Explicitly acknowledging this shifts our conversation from a simple world where workers are indifferent to the source of utility to one where they have distinct preferences for a firms' unique incentives. For example, some employees may derive significant utility from working for a company with a fun and playful culture while others would be greatly dissatisfied in this culture. Thus, consider Chick-fil-A's deeply conservative values that put the firm at odds with some progressive social agendas. Many have engaged in boycotts due to moral disagreements with the firm while others have engaged in "buy"-cotts to counter this pressure. For some, conservative values make Chick-fil-A an ideal employer, and for others this might seem a very unfriendly place. In other words, a firm-specific incentive for some might be a firm-specific disincentive for others.

In this richer and more realistic world, employees sort into firms based on their preferences for the firms' unique incentive bundles. Thus, FSIs may attract, motivate, and retain workers who derive utility from those particular incentives and drive away potential employees who do not value them. While such incentives may create utility for many potential employees, they create unusually high utility for those who have pre-existing preferences for them. These workers are more likely to join the firm, stay at the firm, and exert more effort on the job. The

firm will thus realize more value from that employee's human capital than it could from an otherwise identical worker who does not prefer the firm's unique incentives. Further, if the incentives are observable externally, they may help firms screen potential employees as workers who do not value the incentive may not apply. This reduces the employer's screening and selection costs.

Note two important implications of assortative matching for our logic thus far: both the proportion of total utility from firm-specific incentives and the utility/cost ratio of the firm-specific incentives increase with the extent to which employees match to the focal firm based on their idiosyncratic preferences for the firm's incentives. Imagine a firm with identical incentives to all other firms with the exception of one randomly assigned firm-specific incentive. Further, imagine a population of workers whose preferences for all incentives are similar except for the firm-specific incentive, and preferences range from strongly negative (FSI creates much less utility) to strongly positive (FSI creates substantial utility), and on average the firm-specific incentive creates zero utility. In other words, the variation in preferences balances in the workforce.

If matching between workers and firms in this labor market is uncorrelated with the firm-specific incentive, then the proportion of total employee utility from the FSI is zero on average. This is because the firm is likely to randomly hire from the distribution of workers such that the average employee preference for the incentive is zero. As such, the incentive's utility/cost ratio is also zero because the average utility is zero.

But if employees match with the firm based on their preference for the firm-specific incentive, workers with a strong preference for the incentive sort into the firm and those who do not value the incentive will stay away. This means that the proportion of utility from firm-specific incentives is substantively higher than the proportion in the base case above without assortative matching. Additionally, this utility manifests without substantially increasing incremental costs beyond the cost of creating the incentive. Thus, sorting also increases the utility/cost ratio of the FSI because those who gain more utility voluntarily sort into it. Thus:

Proposition 4a *The proportion of total employee utility from firm-specific incentives increases with the extent to which workers sort into firms based on their heterogeneous preferences for that incentive.*

Proposition 4b *The utility/cost ratio for firm-specific incentives increases with the extent to which workers sort into firms based on their heterogeneous preferences for that incentive.*

In a world with assortative matching, we must also acknowledge the distribution of worker quality. At one extreme, consider a scenario where preferences for the firm's unique incentives negatively correlate with worker quality. This is clearly dysfunctional for the firm since its labor pool may be overwhelmed with low quality workers. Here, the firm's FSI could actually be a liability. At the other extreme, preferences for the firm's FSI may positively correlate with workers' ability to create value. In this case, the firm will be better able to attract, retain, and motivate top workers. For example, the highest quality law school graduates might sort into the highest status firms or the highest quality engineers might sort into the most innovative tech firms.

Finally, consider a scenario where preferences for the firm's unique incentives are uncorrelated with workers' ability to create value. Here, those who prefer the firm's idiosyncratic incentives sort into the hiring pool. They are not systematically better than other workers, but they are already positively aligned with the firm's FSIs and, therefore, will likely work

harder, stay longer, and potentially accept lower wages to do so. This alone suggests that the firm will realize some gains even without skill sorting. But if the firm has capabilities to select high-quality workers, they will choose the best workers from those who already value the firm's unique incentives. In sum, when employee preferences for a firm-specific incentive are not negatively correlated with worker quality, assortative matching enhances the link between FSI and competitive advantage.

5.3 | Employee perceptions: Relaxing the accurate information assumption

Recent developments in the firm-specific human capital literature suggest that firm-specificity may be hard to observe and actors' perceptions of the specificity of their human capital may be inaccurate (Coff & Raffiee, 2015; Raffiee & Coff, 2015). Similarly, we might expect employees to have different perceptions of the extent to which incentives are firm-specific. Some may perceive generic incentives as highly firm-specific while others perceive highly firm-specific incentives as quite generic. Accordingly, we now relax our assumption that workers accurately evaluate the utility from FSI. Broadly, we assume that human capital outcomes depend more strongly on worker perceptions than objective assessments (Nishii, Lepak, & Schneider, 2008).

There are at least two reasons to consider perceptions of FSIs. First, workers may simply be inaccurate in their assessments. For example, they may incorrectly assess another firm's incentives as inferior since such information may be costly and/or hard to come by. This may reinforce their propensity to remain at their current firm. In contrast, an erroneous perception in favor of another firm may encourage voluntary turnover even if the result would be a poorer fit. A firm's external reputation may even exacerbate this. Consider that Costco's reputation for low prices may deter potential workers who incorrectly assume that wages are also low. In this way, perceptual bias may weaken the efficiency of assortative matching, which in turn, reduces the effectiveness of FSI.

Second, we anticipate that many firm-specific incentives may effectively be experience goods that increase in utility over time. This may especially be true of incentives tied to the focal firm's internal-facing social system. For example, workers may grow to appreciate corporate culture over time as they internalize the associated norms, values, and beliefs. Similarly, workers may develop deeper friendships and personal connections over time. If so, these firm-specific incentives may be more valuable in motivating and retaining workers than in attracting them. These internal facing, people-oriented incentives may not grant any advantage in recruiting and the firm may actually need to provide higher entry-level wages to attract new employees, but the long term benefits may be substantial as employees come to deeply appreciate these incentives with time.

At the same time, perceptual barriers may augment the effects of FSIs on employee retention. Even if a rival firm also has a desirable culture that might be a reasonable substitute, focal firm employees may perceive a significant short-term loss if they were to move. Inasmuch as employees intuitively recognize that it will take time to build new relationships and become immersed in a new culture they may also recognize the short-term loss in utility from moving. While only short term, this utility loss may still reduce employee willingness to leave the focal firm.

Accordingly, perceptions of firm-specific incentives may affect the extent to which firms realize associated competitive advantages. If employees do not recognize and understand

the unique utility from firm-specific incentives, firms are unlikely to realize advantages. Firms that are able to broadly disseminate information on their firm-specific incentives can accrue benefits through employee attraction advantages while firms that utilize experience goods as firm-specific incentives will reap advantages on the retention dimension. More generally:

Proposition 5 *The extent of competitive advantage from a firm-specific incentive increases with the extent to which employees accurately perceive the firm-specificity of the incentive.*

6 | DISCUSSION, FUTURE RESEARCH, AND PRACTICAL IMPLICATIONS

Our propositions (summarized in Figure 2) offer predictions for when FSIs are likely to drive performance heterogeneity. We expand on these contributions and offer directions for future research.

6.1 | Theoretical implications

Challenging the incentive homogeneity assumption. As mentioned earlier, strategy research implicitly assumes that incentives are easy to replicate—that is, they are generic by nature. Exploring FSIs responds to recent calls to chart pathways to human capital-based competitive advantages independent of firm-specific human capital (Campbell et al., 2012; Chadwick, 2017). In this vein, firm-specific incentives are a form of supply side constraint on worker mobility (Campbell et al., 2012). This logic relaxes the tension endemic in the strategy literature that firms have heterogeneous resources, yet have homogeneous access to incentives. We therefore create a new pathway for inquiry exploring the ways that firms may be able to leverage unique incentives to realize advantages, regardless of the firm-specificity of human capital.

Bridging strategy and SHRM paradigms. Closely related to the contribution above, strategy scholars have often eschewed the notion of general human capital as a source of competitive advantage (Molloy, Ployhart, & Barney, 2013) while SHRM scholars have long embraced the strategic role of general human capital (Wright, McMahan, & McWilliams, 1994). If incentives vary in firm-specificity, general human capital can be a source of advantage. As such, this work offers a more fully specified theory that bridges strategy and SHRM research.

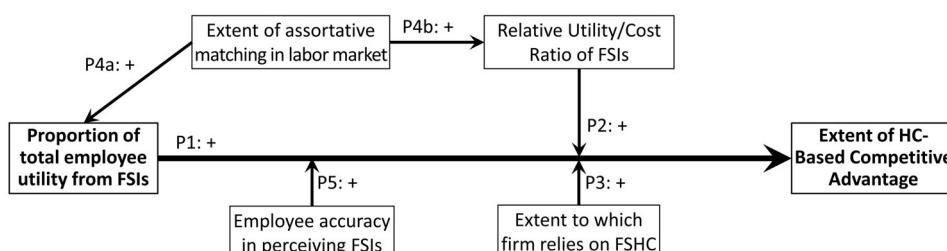


FIGURE 2 Moderators for FSI and competitive advantage. FSI, firm-specific incentive

Of course, we are not the first in strategy to suggest that general human capital may be a source of competitive advantage. For example, Campbell et al. (2012) argue that firms can realize such advantages when supply side constraints limit worker mobility. Similarly, Chadwick (2017) suggests that firms may leverage firm-specific resources, capabilities, and market conditions to realize advantages from scarce general human capital. Also, Molloy et al. (2013) formalize conditions under which general human capital may be a source of competitive advantage. Thus, FSIs extend this growing conversation challenging the deeply held strategy assumption that competitive advantages rarely stem from general human capital.

A second divide between strategy and SHRM paradigms is that strategy scholars emphasize firm resources that managers cannot easily control in the short term because of social complexity, causal ambiguity, and/or path dependence (Barney, 1991). In contrast, SHRM scholars tend to focus on policies and practices that fall within direct managerial control (Becker & Huselid, 2006; Chadwick & Dabu, 2009; Coff & Kryscynski, 2011). This divide between focusing on idiosyncratic resources as opposed to intentional policies often prevents productive dialog (Ployhart et al., 2014). The logic of FSIs embraces both perspectives and can provide common ground. Some incentives may arise from resources that are very hard for rivals to imitate, while others may be carefully planned and executed. The extent to which managers have direct control of an incentive should neither preclude it from being of interest to strategy scholars nor from being relevant for SHRM scholars. Strategy scholars may benefit from greater appreciation of tangible incentives that facilitate value creation and capture. At the same time, SHRM scholars may benefit from a more robust consideration of incentives that are beyond the managers' direct control.

This integration may manifest in the smart design of incentive systems, which includes customizing incentive bundles to idiosyncratic worker preferences (Rousseau, 2005), leveraging complementary resources to create unique incentives, socializing employees so their preferences align with incentives the firm offers (Morrison, 1993), leveraging incentives that are costly for rivals to imitate, and so forth. The thoughtful design of incentive systems seems to fit perfectly in the wheelhouse of SHRM researchers (Gerhart & Rynes, 2003; Gomez-Mejia, 1992; Gomez-Mejia & Balkin, 1992). This suggests an opportunity to more fully integrate the rich theories of incentive design in the SHRM literature with the smart design approach to FSIs. This line of research would be augmented by examining the extent to which FSIs can be excludable within a workforce. This would allow firms to think carefully about how to match specific FSIs with specific employees in order to maximize the benefits.

A new lens for research on incentives. While much research has explored the potential benefits of different kinds of incentives (Benabou & Tirole, 2003; Clark & Wilson, 1961; Gallus & Frey, 2016; Gambardella et al., 2015; Hackman & Oldham, 1980; Osterloh & Frey, 2000; Sauermann, 2018), extant incentive categorizations are insufficient to explain heterogeneity in firm offerings. Table 1 shows how firm-specificity cuts across extant types of incentives. As such, existing categories may explain variance in individual behavior, but cannot explicate systematic firm-level incentive differences. Our work invites research on incentives to formally embrace firm-specificity as an important incentive dimension and examine when and how firm-specificity of incentives relates to firm-level performance differences.

6.2 | Directions for future research

Despite the contributions described above, the theory of firm-specific incentives is nascent and would benefit from additional inquiry. We see at least four unanswered questions.

What factors affect perceptions of firm-specificity of incentives? Predicting the extent to which incentives are perceived as firm-specific is fertile ground for inquiry. For convenience, we initially assumed that workers can observe and assess incentives at the focal firm and rivals. We also treated incentives as either firm-specific or generic. However, this is really a continuum. For example, some FSI may be available within a small subset of firms, such as the big four accounting firms, but unavailable outside of that group. However, what matters is how workers perceive them.

Of course, a number of factors may restrict workers' abilities to accurately assess FSI. Some internally-facing incentives, such as an organizational culture or interpersonal relationships, may be inherently hard to observe prior to joining the firm. Others, like reputation, are externally facing and observable prior to joining the firm, but may be hard to compare across firms. Many incentives, like technological capabilities, might be partially observable prior to gaining direct experience. These issues bring to light the potential discrepancy between the actual and perceived utility available to workers. Some firms may offer more utility, but prospective employees perceive it as less. Of course, workers may respond more to their perceptions than the reality. This is also important when firms have different firm-specific incentives such that workers have to compare apples to oranges when considering different employment options. It is not entirely clear how this may affect negotiations between firms and workers and subsequent employee choices. Future research may benefit from more fully accounting for nuances in perceptions of firm-specificity.

What is the cost of FSIs to the focal firm and to rivals? Another promising avenue for inquiry would explore the cost of FSIs both for the focal firm and for rivals. Firms invest to acquire resources over time and they likely choose to build or acquire key resources independent of any FSIs created. If the FSI is ancillary, the associated cost of leveraging those resources may be trivial. In that case, the utility/cost ratio will be very high and these resources could make immense contributions to competitive advantage relative to their cost.

At the same time, the cost of imitation for rivals could be especially high if, for them, the investment is not a byproduct of investments they would otherwise have made. For example, the cost to Sketchers of creating the BOBS brand as an FSI may have exceeded TOMS' if the new brand was intended to motivate their workforce. In addition, if the focal firm is leveraging an inimitable complementary resource to create a FSI, the cost could be prohibitively high for rivals (or imitation could be impossible at any cost). In this way, additional research unpacking the actual cost of FSIs as well as their benefits would be quite beneficial. Doing so, would have important implications for how strategy and SHRM scholars think about issues such as economies of scope. If firms account for the benefits to employee utility when assessing potential investments, investments that are otherwise uneconomical may actually pay off sufficient total returns across all stakeholders in the organization. Thus, not accounting for the spillover benefits of strategic choices does not accurately capture the benefits of such decisions.

Do FSIs matter equally for attraction, motivation, and retention? We might expect firm-specific incentives arising from different types of resources to be more (or less) visible and discernible by employees. All else being equal, FSIs arising from externally facing resources may be easier for workers to see and understand than the FSIs arising from internally facing resources. Consider, for example, a firm's reputation as a top employer. Potential employees can perceive this and may be more attracted to this firm due to its reputation. The internal culture and processes, however, are very hard to observe. Prospective employees may not know whether they will build meaningful relationships with new co-workers, or the extent to which the new culture will suit them. This suggests that FSIs arising from externally (as opposed to

internally) facing resources may be particularly valuable when firms recruit and select applicants. In contrast, internal-facing resources might only support FSIs after employees have experienced them. Thus, they are less salient at the hiring interface and more salient for retention and motivation of employees.

The key point is that the nature of FSIs may differentially affect the extent to which they affect worker decisions to join, stay, and/or exert effort. Since attraction, motivation, and retention are all key human capital challenges (Chadwick & Dabu, 2009), future research may unpack which kinds of FSIs provide advantages for each of these challenges. Particularly useful might be a typology that maps different FSIs separately to attraction, motivation, and retention outcomes.

What are the temporal dynamics of firm-specific incentives? Our theoretical exposition so far has been almost completely devoid of temporal dynamics associated with FSIs. We see at least three ways that examining temporal dynamics may significantly enhance our understanding of firm-specific incentives. First, we have theorized about FSIs as if they only have utility while the employee is actively employed by the focal firm—that is, the employee loses this utility upon exit. In practice, however, there may be instances in which employees retain some utility after leaving. The Bidwell et al. (2015) study of the Goldman Sachs effect may be one example. Employees leaving Goldman Sachs may retain some utility associated with their former affiliation with a high status firm. It may be useful to explore what types of FSIs may have employee utility that persists beyond the immediate employment relationship.

Second, we see an irony that the factors that make some incentives highly firm-specific and, therefore, strategically important for the focal firm may simultaneously make that firm's human capital-based competitive advantage highly fragile. Shifts and changes in firm performance or the external operating environment could quickly destroy the utility workers derive from certain FSIs. What happens to a company with a reputation for technological leadership when a new technology leapfrogs theirs? The utility associated with being technology leaders likely degrades very quickly. Future research may benefit from more carefully exploring the potential fragility of firm-specific incentives to shifts in competitive marketplaces.

Third, as we alluded to briefly in our theory, some FSIs may increase in utility over time. As individuals become more embedded in their firms and increase their positive social relationships (Mitchell et al., 2001) the utility from these FSIs increase. It is also possible that some incentives decrease in value over time as their novelty wears off. Future work may more carefully examine the trend in utility associated with various types of firm-specific incentives over time.

7 | CONCLUSION

Firm-specific incentives have important implications for human capital-based competitive advantages since they may explain how some firms can retain valuable human capital at discounts relative to rivals, independent of the firm-specificity of human capital. The exploration of these incentives challenges the implicit assumption in the strategy literature that firms are similarly able to offer incentives to workers. As such, it carries both theoretical and practical significance.

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