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## **Employee Motivation in the Professional Services Industry**

*A case study on employee motivation through incentives and its effect on  
competitive advantage within top tier management consulting firms*

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# SUMMARY

*Title:* Employee Motivation in the Professional Services Industry: A case study on employee-motivation through incentives and its effect on competitive advantage within top tier management consulting firms

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*Keywords:* Incentives, Motivation, Agency Theory, Resource-based View (RBV), Professional Services Industry (PSF), Management Consulting

*Purpose:* The purpose of this study is to understand interest alignment and potentially competitive advantage within management consulting firms, as a consequence of the firm's ability to incentivize and motivate its employees. In doing this, the authors examined various interest-aligning incentive mechanisms and their linkage to a specific firm's competitive advantage.

*Methodology:* The study is a qualitative case study based on qualitative respondent interviews with employees at the case company. 5 interviews were conducted including 3 Associate Consultants, 1 Manager and the Head of Human Resources. Interviews were transcribed, coded,

and categorized. Analysis was done through both an inductive (pattern matching) and deductive approach (grounded theory).

*Theoretical perspective:* The theoretical framework is based on the agency theory framework regarding interest-aligning and performance enhancing incentive mechanisms, and on the resource-based view (RBV) regarding human capital and competitive advantage. The two, often competing perspectives, are combined in a framework which integrates extrinsic, hedonic intrinsic and normative intrinsic motivation as well as aspects of reward systems, job design and socialization regimes.

*Empirical foundation:* The empirical foundation of this study comprise of gathered secondary data regarding the professional service industry and Strategy Inc, as well as conducted interviews with key people at Strategy Inc.

*Conclusions:* The findings of this paper indicate that the use of a mix of interconnected incentive mechanisms are related to the case company's competitive advantage, as they contribute to interest alignment. The firm adopts various incentive mechanisms which can be linked to the agency theory, as well as aspects of the RBV linked to competitive advantage. This linkage proves interesting for future research of interest alignment in PSFs.

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# INTRODUCTION

## **Theoretical background**

Managers and workers make many decisions that contribute to the profitability of a firm (Besanko, Dranove, Shanley, & Schaefer, 2010). How companies motivate their employees to perform well and contribute to the profitability of the firm is thus an important question to all companies and an important aspect within the field of strategic management. This study is based on the agency theory which is regarded as one of the most important contributions within the fields of organizational economics, business management, and information systems research (Basu & Lederer, 2011; Oh, Gallivan & Kim, 2006; Gefen & Carmel, 2008). Furthermore, it involves the resource-based view (RBV), which has been a dominant paradigm within strategic planning since the 1990's (Prahalad & Hamel, 1990).

The agency theory offers insight into the different incentive mechanisms a firm can utilize to maximize employee performance (Eisenhardt, 1989; Jensen & Meckling, 1976). The theory, which has been criticized for having a conservative stance and for neglecting social aspects and behavioral research (Hirsch, Friedman & Koza, 1990; Zogning, 2017; Perrow, 1986), is supplemented by the RBV framework related to human capital and competitive advantage. While the agency theory argues that a manager's main concern is organizing activities efficiently, the RBV posits that managers choose actions to best capitalize on a firm's unique resources and capabilities (Combs & Ketchen, 1999). Within the RBV, human capital has long been seen as a critical resource (Pfeffer, 1994). This study looks beyond a singular view by combining the two,

often competing perspectives (Combs & Ketchen, 1999), to furnish a richer description of important organizational phenomena.

Many scholars have identified linkages between the agency theory and the RBV, specifically within the field of corporate governance and sustained competitive advantage (SCA) (Barney, Ketchen & Wright, 2011). Lockett and Thompson (2001) discuss the links between RBV and the agency theory, suggesting that the explicit use of the RBV in economics has been limited by the problems of causal ambiguity, tautology, and firm heterogeneity. Together, RBV and the agency theory can explain observed differences in performance as dependent on internal factors in the firm, rather than on product market structures (Lockett & Thompson, 2001; Barney et al., 2011). Current theory linking human resource practices specific to the enhancement of motivation with the creation and sustainability of competitive advantage is lacking (Pe'er, 2016). The overlaps between the agency theory and the RBV, when taking into account the lack of research in the field, constitute an interesting potential contribution to the strategic management theory.

The engagement of employees is regarded as especially important in professional service firms (PSFs), which provide services as their main product and use knowledge as their main factor of production. PSFs employ highly educated individuals in order to provide customized solutions to clients (Fu, Flood, Bosak, Rousseau, Morris, & O'Regan, 2015, 329) and are distinguished from other service organizations as they are knowledge-intensive rather than labour-intensive (Løwendahl, 2005). Some characteristics of PSFs include a high degree of information asymmetry, client interactions and customization of services (Løwendahl, 2005). Increased information asymmetry has placed new emphasis on the importance of creating goal congruence (Bjerndell & Severin, 2013). Within the agency theory, performance management is seen as

essential on all organizational levels, as it aligns interests of principals and agents (Scott, 2015). Thus, the agency theory sheds light on internal aspects within the firm related to interest alignment, through traditional controls and incentive mechanisms.

Furthermore, in the process of creating value for clients, human capital is considered to be the main asset of PSFs (Jensen, Poufelt, & Kraus, 2010) From a resource-based view, human capital often has the characteristics for sustained competitive advantage, as it typically is unique and difficult to imitate, substitute and transfer (Chan, Chaffer & Snape, 2004). Whereas managing human resources is essential for all types of firms today, it is particularly important for PSFs; the success of these firms is highly dependent on the effectiveness in managing human resources (Canavan, Scott, and Mangematin, 2013; Jensen et al., 2010). RBV adds to the agency theory view on PSFs as it enables an analysis of key characteristics related to performance management, such as human capital as a driver of a firm's competitive advantage.

## **Practical Background**

Management consulting firms are examples of PSFs (Løwendahl, 2005; Jensen et al., 2010, 2015) which typically provide organizational change management assistance, development of coaching skills, process analysis, technology implementation, strategy development, and operational improvement services (Bessant & Rush, 1995).

Strategy Inc<sup>1</sup> is one of the world's elite management consulting firms and is considered one of the "Big 3" management consulting firms by revenue (Szczerba, 2016). On the surface, Strategy Inc's business model is similar to its competitors in the industry. Strategy Inc relies on a partner

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<sup>1</sup> "Strategy Inc" is a pseudonym for the case company, which is anonymous in this study.



group to build strong relationships with its clients, selling consulting projects staffed by small teams of highly qualified professionals recruited from leading undergraduate and graduate institutions (The Economist, 2013). It is also, much like other top tier management consulting firms, regarded as one of the most prestigious employers in the industry as well as characterized by high performing employees and long working hours (Adams, 2015). Considering these aspects, the authors deem Strategy Inc representative for the professional service industry, particularly the management consulting industry, and an excellent fit for this case study.

However, Strategy Inc's recent results have indicated that they do something differently. Strategy Inc has been listed as one of the best places to work for in the US for several consecutive years, making it the leading company within its industry in this regard (Glassdoor, 2017). Furthermore, Strategy Inc's estimated revenue in 2017 was 2,3 billion USD; an increase of about 15 percent, which is comparatively higher than that of its competitors (Forbes, 2017). The company has been described as possessing a competitive advantage in numerous contexts, with sources generally referring to the company's long-term success (Anonymous article 1, 2017<sup>2</sup>). In addition, Strategy Inc's employee turnover rate has been described as one of the "lowest in the industry" at under 10 percent annually (Anonymous article 2, 2017). The rest of the industry is characterized by an employee turnover rate of 15 to 20 percent (Bachelor, 2011). Furthermore, Strategy Inc has created an operating model that is highly focused on developing its most important asset; its employees.

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<sup>2</sup> The article is anonymous as it reveals the name of the case company. This applies to all anonymous articles.

The company constitute a good foundation for a case study; as it is both knowledge- and labour-intensive, operates in a rapidly changing industry (European Commission, 2012; Kaplan, 2017), regards its employees as key assets, and is assumed to have a competitive advantage.

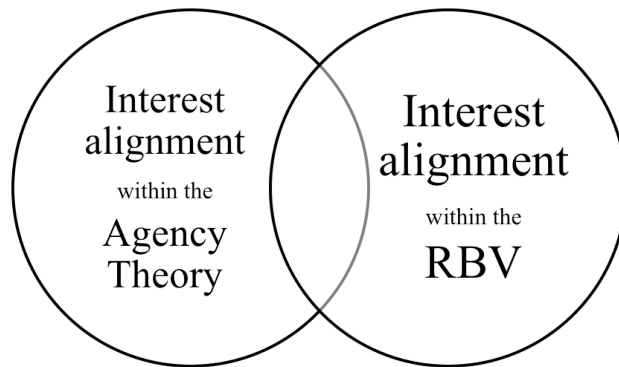
## **Purpose**

The purpose of this study is to account for interest alignment and competitive advantage within management consulting firms, as a consequence of its ability to incentivize and motivate its employees. In doing this, the authors examined various interest-aligning incentive mechanisms and their linkage to a specific firm's competitive advantage. The study is mainly based on the agency theory framework and on RBV, and aims furnish a richer description of various complex organizational phenomena. A fundamental part of the study is establishing how RBV and the agency theory framework can act as complements, considering previously proposed linkages between the two perspectives. A top tier management consulting firm with an assumed competitive advantage within the professional service industry is studied. The agency theory framework and RBV, together with an interest alignment framework presented by Gottschalg and Zollo (2007), constitute the basis of the analytical framework, and will be used in answering the following question;

*How are incentive mechanisms used in a top tier management consulting firm  
and how do they relate to interest alignment?*

Figure 1 illustrates the purpose of our study illustrated in a venn diagram. The intersection of the circles demonstrates the potential common elements related to interest alignment that can be identified within the agency theory and RBV.

**Figure 1.** The potential intersection between interest alignment within the agency theory and the RBV.



# THEORETICAL FRAMEWORK

## The Agency Theory

The agency theory is based on the relationship that occurs when a *principal* hires an *agent* to take actions that will affect the outcome of the principal (Besanko et al., 2010). This relationship exists in all contractual agreements and are commonly exemplified by the relationship between an employer and an employee (Ross, 1973). Given human assumptions of self-interest, bounded rationality<sup>3</sup> and risk-aversion, it is possible to assume that the agent (e.g. an employee) will not always act in the best interest of the principal (the employer) (Jensen & Meckling, 1976). Given that both parties in this relationship are utility maximizers, the principal will aim to maximize the difference between his payment to the agent and the value generated by the agent's actions, whereas the agent's priority is to maximize his own pay-off from these actions. This conflict of interest gives rise to *agency problems*. The theory focuses on how the principal can overcome these problems through efficient contract governance (Eisenhardt, 1989; Jensen & Meckling, 1976; Ross, 1973).

The agency theory builds on assumptions of incomplete contracts and diverse goals; agency problems do not only arise because of the obstacle of aligning the conflicting goals of principals and agents, but also because of difficulties incentivizing agents to perform in the way principals expect them to. If this was possible, the principal would be able to overcome the agent's opportunistic behavior in the establishment of complete contracts. These two problems are

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<sup>3</sup> Bounded rationality is the idea that human rationality is bounded because there are limits to our thinking capacity, available information, and time (Simon, 1982).

referred to as the problems of *hidden action* and *hidden information* and gives rise to *agency costs*, i.e. the expenses of the principal to ascertain that the agent performs their part of the contract. An optimal contract minimizes these costs (Besanko et al., 2010; Eisenhardt, 1989; Jensen & Meckling, 1976).

The agency framework is important as it seeks to address key issues for any firm, such as how the firm should measure the performance of its employees, how it should use those performance measures to reward employees and risks associated with tying rewards to specific performance measures. Increased profits, spanning from reduced agency costs, can derive from a firm's ability to devise performance measures that allow it to reward exactly the activities it wants its employees to pursue, linking pay to performance. However, it may be difficult to devise good measures of an employee's job performance, and managers must be able to distinguish good and bad measures of performance. The agency theory, considering the economics of performance measurement, addresses the various ways that firms reward employee performance (Besanko et al., 2010; Eisenhardt, 1989; Jensen & Meckling, 1976).

### ***Incentive Mechanisms***

The principal can reduce agency costs with the use of incentive contracts. These contracts can incorporate either *performance-based incentives*, where the agent's incentives are aligned with those of the principal by tying pay to performance, or *implicit incentive contracts*, where the agent is rewarded based on subjective evaluations of their productive efforts (Besanko et al, 2010; Eisenhardt, 1989). The incentive tool most frequently used by employers to motivate employees is performance pay, typically in forms of a bonus system (Besley and Ghatak, 2014). Performance pay can resolve problems of hidden action and information, as employees will use

private information to maximize performance. Other common incentives include risk of being fired, pay raises, promotion, peer recognition, vacation time and work flexibility (Besanko et al., 2010).

Performance-based incentives have the benefit of using explicit information in contracts; information which can be enforced by an outside party or arbitrator. Performance-based contracts have proved to align objectives and is likely to affect the selection of employees to primarily consist of high-performers. On the other hand, Besanko et al. (2010) argue that the objective performance measures used in these contracts may fail to capture all aspects of performance, especially when tasks are complex. In these cases, implicit incentives may incorporate subjective measures so that firms can reward employee actions that cannot be quantified. Some implicit incentive mechanisms include subjective performance evaluations such as peer reviews, management through objective systems such as agreed goals, merit rating systems such as BSC or budgets, promotion tournaments and the threat of being fired. The costs of subjective performance evaluations include weakened incentives as supervisors may find it personally unpleasant (Besanko et al. 2010; Eisenhardt, 1989; Jensen & Meckling, 1976).

Besley and Ghatak (2008) suggest that firms also frequently employ status incentives to motivate agents. Status rewards are defined as “a positional good - such as a job title or medal - whose value comes from its scarcity” (Besley & Ghatak, 2008, 206) and can for example consist of a change of job title or awards such as for example ‘employee of the month’ (Besley & Ghatak, 2008; Bhattacharya and Dugarb, 2012). The value of the status reward, i.e. the amount of status

that the employee receives, is dependent on its scarcity and how clearly the rule behind the reward is defined (Besley & Ghatak, 2008).

## **Human Resources and the Resource-based View**

### ***The Resource-based View***

For a company to compete over time, it has to sustain the sources of its competitive advantage; “the ability of a firm to outperform its industry” in terms of making higher profits than its competitors (Besanko et al., 2010: 367). The *Resource-based View* (RBV) explains the sources of *sustainable* competitive advantage in terms of the firm’s distinctive resources and capabilities (Besanko et al., 2010; Barney, 1991). To provide firms with a competitive advantage, resources and capabilities have to be valuable, rare, inimitable and non-substitutable (Barney et al., 2010). In turn, the attained competitive advantage produces positive returns (Peteraf, 1993).

Resources and capabilities can be seen as bundles of tangible and intangible assets, including a firm’s organizational processes, routines, management skills, as well as the information and knowledge it controls (Barney et al., 2011). Resources are commonly seen as the assets that are tied semi-permanently to the firm (Wernerfelt, 1984) or factors of production, while capabilities refer to a firm’s activities and skills based in human competencies (Markides & Williamson, 1996; Besanko et al., 2010; Barney, 1991). Research attention has frequently been devoted to defining the processes through which certain resources and capabilities affect firm performance (e.g. Wernerfelt, 1984; Barney, 1991; James et al. 1999). Valuable, rare, inimitable and non-substitutable resources are generally used to explain a company’s SCA (Barney et al., 2011).

Many studies (Pringle and Kroll, 1997; Youndt et al. 1996) have indicated that human capital may provide firms with preeminent sources of competitive advantage in rapidly changing business environments (Chan, Chaffer and Snape, 2004:18). Human assets also possess the characteristics for sustainable competitive advantage, as they “are often hard to imitate due to scarcity, specialization, and tacit knowledge” (Coff, 1997: 374).

### ***Human Resources and Sustainable Competitive Advantage***

Wright, McMahan and McWilliams (1994: 304) define human resources as “the pool of human capital under the firm's control in a direct employment relationship”. They distinguish these human resources from human resource *practices*, which are the activities dedicated to managing the human capital and ensure that they act in line with organizational goals. In applying the concept of sustainable competitive advantage, they conclude that the criteria do not apply to HR practices. However, it applies to human resources when these take forms of a highly skilled and highly motivated workforce; creating a potential basis of sustainable competitive advantage (Wright et al., 1994; Dunford, Snell, & Wright, 2001).

## **Motivation and Interest Alignment**

While agency theory deals with the proper governance of resource decisions, resource-based theory emphasizes appropriate management of firm resources (Jensen & Meckling, 1976). Given the two perspective's different emphases they are generally treated as independent approaches. However, several research contexts have combined the two views to explain complex organizational phenomena (Combs & Ketchen, 1999). The role of high levels of motivation for human assets to be a potential source of competitive advantage has been discussed by several

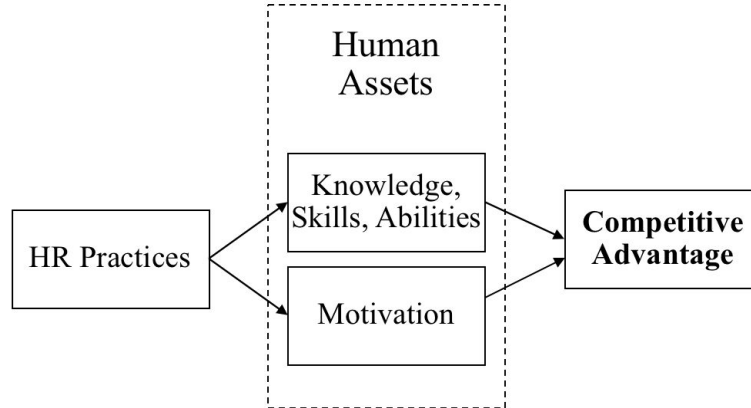


scholars (Wright et al., 1994). Furthermore, extensive research within human resource management and strategic management has pointed out the importance of employee motivation and the related issues of agency cost, indicating a potential overlap (Pe'er, 2016; Coff & Kryscynski, 2011).

As the agency theory suggests, individual and organizational goals are generally not contingent (Jensen & Meckling, 1976). Incentive mechanisms reward employee actions which have a positive effect on firm performance, leading to interest alignment (Ross, 1973). Boxall (1998) implied that one major task of organizations is the alignment of interests in order to create a talented and committed workforce. A successful accomplishment of this task can result in a human capital advantage. According to Gottschalg and Zollo (2007), interest alignment theory complements the resource-based view, as it combines the views of the employees' *ability* to perform certain tasks with the motivation to do so. The extent to which employees "are motivated to behave in line with organizational goals" is seen as what translates into actual firm performance.

Pe'er (2016) developed a framework explaining the relationship between human resource practices, human assets and competitive advantage. The illustrated relationship depends on employee motivation, as well as on a variation of skills, abilities and knowledge (See Figure 2). The framework captures the two relevant aspects of the human resource base: its skill set and its level of motivation. In doing this, Pe'er opens for understanding the competitive advantage of a firm as related to motivation.

**Figure 2.** Human Resources and Competitive Advantage.



Gottschalg and Zollo (2007) further emphasize the role of human resources practices as fundamental in the alignment of interests. These practices are in turn regarded as controlling the adjustment of the three levers to align interests, which consist of a reward system, changes in the job design, and a socialization regime. Organizational traits, such as goals, norms, and values, as well as individual preferences regarding the different determinants of motivation are affected by the joint impact of these levers (Gottschalg & Zollo, 2007). These three levers then have an effect what Gottschalg and Zollo (2007) call extrinsic, hedonic intrinsic, and normative intrinsic motivation.

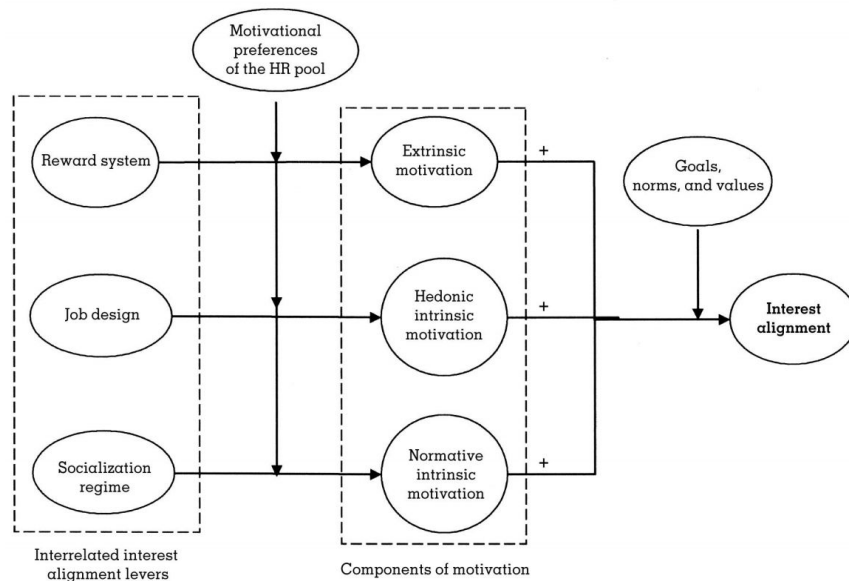
***Extrinsic motivation*** is defined as “the desire to obtain tangible or intangible external rewards” such as money, power or recognition (Gottschalg & Zollo, 2007: 421). The impact of extrinsic motivation in terms of behavior outcome depends on the reward system in place.

***Hedonic intrinsic motivation*** is defined as “the desire to engage in enjoyable, self-determined, and competency-enhancing activity”. This motivation varies with the degree to which the individual perceives the characteristics of the task and the task context as positive or negative (Hackman & Gersick, 1990).

*Normative intrinsic motivation*, on the other hand, is defined as “the desire to comply with organizational norms and values” and explains how employees are motivated in different ways as part of the social community of their firm, depending on whether this behavior is congruent with organizational norms and values (Gottschalg & Zollo, 2007).

Figure 3 describes how the three levers interact with different types of motivation and leads to interest alignment. According to this model, developed by Gottschalg and Zollo (2007: 423), organizations can influence interest alignment by adjusting the *Reward Systems*, *Job Design*, and *Socialization Regimes* as each of these affect a different component of motivation. The total impact of these levers will depend on the organizational goals, norms and values, as well as the motivational preferences of the HR pool.

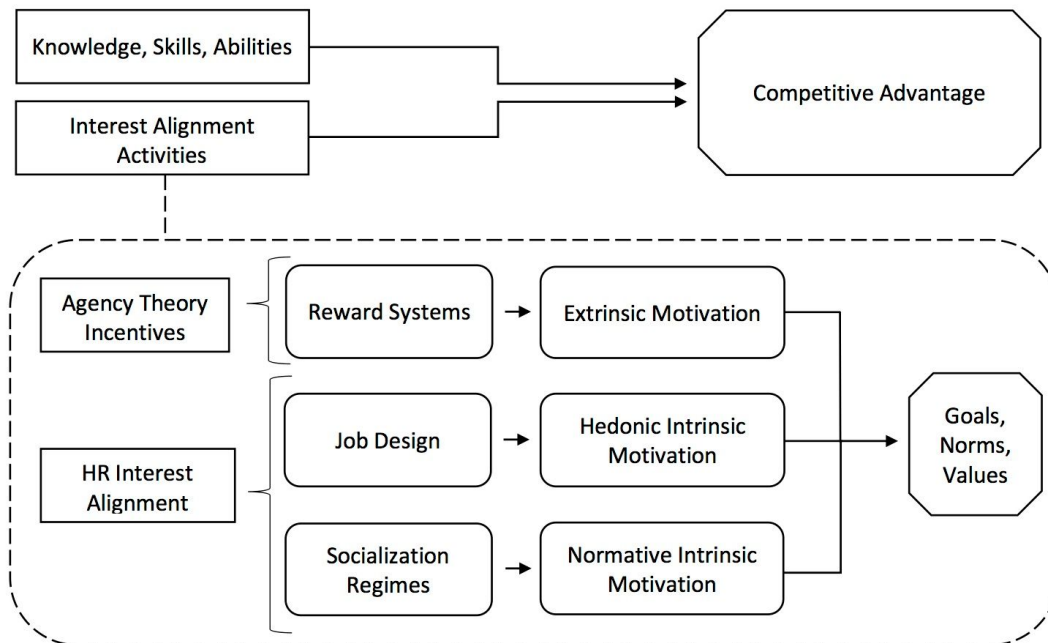
**Figure 3.** Interest alignment levers and different types of motivation.



The authors propose a framework combining these two models, showing how interest aligning activities may lead to competitive advantage. The proposed framework is described in Figure 4.

The figure incorporates aspects of how employee motivation is enhanced through HR activities related to interest alignment. It also describes how Gottschalg and Zollo's (2007) interest alignment levers and motivation components is related to the model of competitive advantage suggested by Pe'er (2016). According to the proposed framework, the three motivation-enhancing efforts of reward systems, job design and socialization regimes; each affecting the different types of motivation, leads to interest alignment. This, in turn, relates to competitive advantage in the professional service firm, as their main resource consist of human capital. According to this framework, the knowledge, skills and abilities of the firm's employees combined with the conducted interest alignment activities is what creates the basis of the firm's competitive advantage.

**Figure 4.** Preliminary Theoretical Framework - Motivation brought on by interest alignment activities leading competitive advantage.



# METHODOLOGY<sup>4</sup>

## Research Design

Since the research question concerns a complex causal relationship, the research design takes the form of a case study; attempting to explain the phenomena through the use of a unique case (Bryman & Bell, 2013; Yin, 2009). The case selection was based on a specific set of criteria outlined later in this chapter. The research question is of the nature “how”, which is a suitable question for a case study to answer (Yin, 2009). The details of the inner workings of Strategy Inc provide practical insight on what they are doing differently compared to their competitors and how this affects their organization and ultimately their success. A case study also provides the opportunity to extend or create new theoretical constructs based on empirical observations (Eisenhardt, 1989). This study aims to build upon the theoretical concepts outlined in the previous chapter based on the findings in order to create a better understanding of employee motivation and incentive mechanisms within an organization. Lastly, it should be mentioned that qualitative case studies are often criticized for lack of external validity (Bryman & Bell, 2013); a concern which is explored further in this chapter in the section of validity and reliability.

## Approach

There are three ways to proceed in a qualitative study. First is “Theory comes first”, where a theoretical framework is chosen and a hypothesis is tested through this framework. The second is “Theory comes last”, where the theory is developed through data generalization and analysis.

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<sup>4</sup> The Methodology chapter is a modified version of the methodology chapter of an unpublished document titled ‘Employee Turnover in Elite Consulting Firms: An Agency Theory Perspective’; an earlier draft of this research paper. This paper is therefore included in the references.

And finally, “Theory, data generalization and data analysis are generated simultaneously in an iterative approach, moving back and forth from data analysis, interpretation, and theory construction (Mason, 2017, 227-228). These correlate with the deductive, inductive, and abductive research approaches, respectively (Bryman & Bell, 2013). The approach for this research effort follows the abductive research approach. Some stages of the undertaking were more inductive, other more deductive. For example, selection of a case followed the inductive approach. A pattern was noted in the case organization, Strategy Inc, and an effort was made to explain this pattern in a purely logical sense. On the other hand, data collection was done in a deductive manner, where interview questions are formulated and proposed based on theoretical ideas. Lastly, the data analysis had elements of both inductive and deductive reasoning; often referred to as abductive approach. Data was analyzed through the use of two separate frameworks, pattern matching and grounded theorizing, in order to ensure that all aspects of the study data were taken into account (see: Data Analysis).

## **Selection**

***Selection of Case Study*** The selection process in case studies tends to differ from many other forms of research designs. According to Eisenhardt (1989), the best option is to choose a distinct case that allows for more transparency and thus the ability to build upon, extend and replicate existing theory. In a brainstorming session, each of the group members presented alternatives for case companies or organizations. The prerequisites for these being that (1) the authors would have an opportunity to get access to interviews with key people (2) the company presented a distinctive case from which a theoretical problem could be identified and (3) the company was of good size and influence to make sure that our study carried validity and was able to add

something new to the field of strategic management (read: analytical generalization). The choice of a distinctive case is important. Upon deliberation the group came to the conclusion that Strategy Inc not only filled these requirements, but also provided the greatest opportunity in achieving an interesting, worthwhile study. Criterion 1 was satisfied as one of the group members knew an individual employed at the company. The aspects which made Strategy Inc unique in the industry (outlined in Practical Background) were taken into account when evaluating criterion 2 and 3. It was found that the company was both unique and prominent enough to constitute a sound case.

***Selection of Respondents*** Respondents were selected through “snowball sampling”; the process by which potential respondents are found through referrals (Bryman & Bell, 2013). We already had a contact within Strategy Inc that referred us to the HR department, whom in turn referred us to the respondents. The HR department played a vital role in the selection of respondents. In a preliminary meeting with a representative within the HR department the research question was detailed, the expected results were deliberated upon, and potential interview questions were proposed. In return, the HR representative granted the research group the names of people based on said theoretical question presented and their ability to provide valuable data. This is called theoretical, or strategic, sampling where the selection of groups, categories, or units is based on the basis of their relevance to the research question (Strauss & Corbin, 2008). In other words, “theoretical sampling means seeking pertinent data to *develop* your emerging *theory*” (Charmaz, 2014). In turn, contact with each individual was pursued by a member of the group. Once contact was established, the respondent was briefed an interview time was agreed upon.

## **Research Instruments**

Data was collected in the form of interviews, the most important source of data in a case study (Yin, 2009). Holme and Solvang (1997) make the case that one of the strengths in qualitative interviews is that the methodology itself resembles everyday conversation, meaning that the data collection is less reliant on the guidance of the interviewer as the interviewee is also able to steer the conversation. Interviews can be conducted through two means. Either they are conducted over the phone, or in person in a meeting setting (Patel & Davidsson, 2003). The interviews which were part of this research project were conducted through physical meetings in Strategy Inc offices. Additionally, Skype calls were orchestrated in the event where a physical interview could not be carried out.

An interview guide and interview questions were created based on the theoretical framework (See: Appendix A). The purpose of the interview guide was to ensure that important overall themes and questions would be discussed during the interview. This document was not shared with respondents. The interview questions, on the other hand, were sent out to the respondents in advance in order for them to better prepare for the interview. This practice is something that can strengthen the credibility and accuracy of the study (Bryman & Bell 2013). Interviews were scheduled in conjunction with this. Patton (2002) defines six main types of questions that can be asked within an interview which are experience, opinion, demographic and background, feeling, knowledge, and sensory questions. The interview guide and questions focused mostly on experience, opinions, and knowledge as these could most accurately be applied on the stated research question.



Five employees at Strategy Inc were interviewed in the data collection conducted from different Strategy Inc offices; three Associate Consultants (AC's), one Manager, and the Head of Human Resources. Table 1 outlines the alias used in the empirical study, the date of the performed interview and the interviewee's job title and job description.

**Table 1.** Interviews held with employees at Strategy Inc.

Alias	Date	Job Title	Job Description
AC1	April 27	Associate Consultant	Time at company: 10 months Responsibilities include: In charge of framing the problem, collecting and analyzing data, identifying insights and develop recommendations, advising the client, and help build a positive teamwork dynamic.
AC2	May 13	Associate Consultant	Time at company: 14 months Responsibilities include: Analytics, research, contact with companies, gathering information for the team, generating output, presentations, excel, etc.
AC3	May 26	Associate Consultant	Time at company: 10 months Responsibilities include: Researching solutions to business problems, analyzing data on clients, keeping contact with current clients, reach out to old clients, traveling to client sites, generating presentations, outlines, and plans.
HHR	May 16	Head of HR	Time at company: 10 years Responsibilities include: Establishing practices for hiring new employees and managing personnel, increase employees' job satisfaction, develop new hires to meet the needs of the company, and to manage the office's HR department personnel.
MGR	May 26	Manager	Time at company: 6 years Responsibilities include: Managing case teams (ensuring that case teams structures and solves problems in the right way), meet client's needs and driving client satisfaction practice.

The performed interviews were 15 to 45 minutes long. The semi-structured interviewing technique, where the respondent has the opportunity to depart from the line of questioning and

vary their answers, was utilized. This resulted in answers that were more unrestricted and flexible. Additionally, it gave the interviewer the opportunity to ask supplementary questions and delve deeper into the responses in order to achieve as an exhaustive answers as possible (Bryman & Bell, 2013). Semi-structured interviews are a common data collection method which can be less time consuming than other qualitative methods (Bryman & Bell, 2013; Yin, 2009). The aim is also to gain access to and better understand the respondent perspective (Patton, 2002). Responses were recorded both through shorthand notes by group members and through an audio recording device (given the respondent agreed to being recorded).

## **Data Analysis**

Upon gathering all the data, the data was transcribed into a text document. Notes and supporting documents were added in the margin to supplement the spoken word. Prior to any coding of the data, this document was read from start to finish by group members a number of times to give a sense of immersion (Tesch, 1990). Next, group members read the data word by word, highlighting key phrases which captured important thoughts and concepts while at the same time writing down notes on their initial impressions, thoughts and analysis (Miles & Huberman, 1994). These notes and highlights were later compared by the authors, and from them emerged labels of codes that were reflective of more than one key thought. These codes were then sorted into categories based on how they related or linked up with one another (Coffey & Atkinson, 1996; Patton, 2002). An example of such a category was “Monetary incentive mechanisms” which included the codes “Pay”, “Bonuses”, “Promotions”, and “Education funding/

scholarships”. Excerpts from the transcribed interviews were sorted based on their relevance to the codes and categories.

Two approaches were taken during the analysis of the data, one more deductive and another more inductive. The more deductive is called pattern matching. This is based on a conceptual or analytical framework created through existing theory. Based on this framework, data was analyzed to see whether data collected fit into the framework created. Pattern matching is one of the most desirable techniques for analyzing qualitative data, as it increases the internal validity of the study if data and frameworks fit together (Yin, 2009). By designing the framework from well-established parts of the agency theory, the choice to analyze data based on them was a strong and reliable foundation.

The inductive analysis was based on grounded theory. According to Glaser & Strauss (1967) grounded theory is more strongly linked to inductive data collection and aims to develop a theory. There is no predetermined pattern when data is collected. Grounded theorized the process of extrapolating explanations and theory from the analysis of the data. Furthermore, the analysis was done in a “constant comparative method” where data generalization and data analysis are produced iteratively and dialectically (Mason, 2017). Based on the initial data set, the research questions and theoretical reasoning were adjusted in this study. In other words, the study follows an iterative approach of moving between own data, the authors own experiences, and theoretical concepts (Blaikie, 2009; Coffey and Atkinson, 1996). Combining a deductive and inductive technique ensures that all aspects of the study data were included (Saunders, Lewis & Thornhill, 2009).

## **Validity and Reliability**

The study was based on a qualitative research design. To ensure that the research was replicable, proper documentation of the approach needed to be recorded. These measures ensure that the research carries a substantial validity and reliability (Yin, 2009; Bryman & Bell, 2013). A reliable study is one which, using same methods, has the ability of being repeated and would give same results. It could be difficult to achieve these criteria in qualitative studies because the social environment being studied may vary (Bryman & Bell, 2013). In this study it was uncertain whether the same company could be analyzed and the same people could be interviewed. Furthermore, it proved uncertain if the company would have the same policies or if the perceptions of these policies would be the same. This makes this study difficult to replicate.

The study was somewhat limited by the case company's policies, as the company name could not be published and a pseudonym, "Strategy Inc", had to be used. This also affected the credibility of the study, as the references revealing the company name could not be published. In these cases, "anonymous source" is used in the citation. This might somewhat affect the reliability of the sources, as they can not be examined by an outside party.

Analytical generalization - the studies' ability to be applied outside of this particular case - is also an important concept to take into account. On this note, it is likely that this study can be analytically generalized to other other management consulting firms as well as other professional service firms due to the homogeneous nature of these companies.

# **EMPIRICAL STUDY**

The following section begins with an overview of the professional services industry, based on secondary data, followed by details about the company and relevant empirical findings from the conducted interviews with Associate Consultants, a Manager and the Head of HR.

## **The Professional Services Industry**

The professional service industry consists of various different types of firms, amongst them management consulting firms (Løwendahl, 2005; Jensen et al., 2010, 2015). The consulting industry is considered one of the biggest and most mature global markets with an appreciated total market value of \$250 billion in 2016. The global management consulting industry has seen a steady growth during the last few years - 4.1% between 2011-2016. Appendix B illustrates the market growth from 107 billion USD in 2011 to 133 billion USD in 2016. The growth is projected to slow down slightly in the future, accounting for the industry's overall transformation, with changing client demands, rapid digital technology developments, employee expectations, and other external factors that affect the nature of jobs and competencies required in the future (World Economic Forum, 2017; The Economist, 2011).

The professional service industry can be considered as an industry sensitive to changing conditions in the external environment. The industry growth has historically been closely tied to the development of the global economy (The Economist, 2011; Canbäck, 1998). This is confirmed by the market development after the financial crisis of 2008, when the PSI saw a

significant downturn during its aftermaths between the year of 2009 and 2011 (Bjerndell & Severin, 2013).

The main management consulting firms within the PSF's are referred to as the 'Big 3'. These are the leading consulting firms, not only by revenue, but also by prestige ratings (Vault, 2017). These three firms share several common traits; they all operate globally and have all adopted an "up or out strategy"<sup>5</sup>, utilize a similar value chain, provide similar services, have comparable hiring-processes, and near identical pay grades (Anonymous source 3, 2015; Anonymous source 4, 2013). In 2015, around 20 percent of "Fortune 100 Best Companies to Work for" were professional service companies; a higher proportion than any other industry. According to an analysis by Sue Lam (2015), all the top 100 professional service companies use similar incentive tools to attract and keep employees.

## **The Case Company**

Strategy Inc advises on strategy, marketing, organization, operations, IT, and M&A across all industries and geographies and is considered one of the "Big 3" strategy consulting firms. Strategy Inc has over 50 offices in countries all around the world, with nearly 10 000 employees globally. With a growing presence in Europe, Asia, and Southeast Asia and a notable presence in Europe, the company is truly global. Strategy Inc is headed by both a Worldwide Managing Director and a Chairman of the Board, as well as Regional Managing Directors for the firm's main business regions (Anonymous source 4, 2017).

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<sup>5</sup> The "Up or out" policy of requiring employees to race up the promotion ladder or face being eased out, is commonly regarded as a sign of the PSIs hard-nosed approach to doing business (Financial Times, 2011).

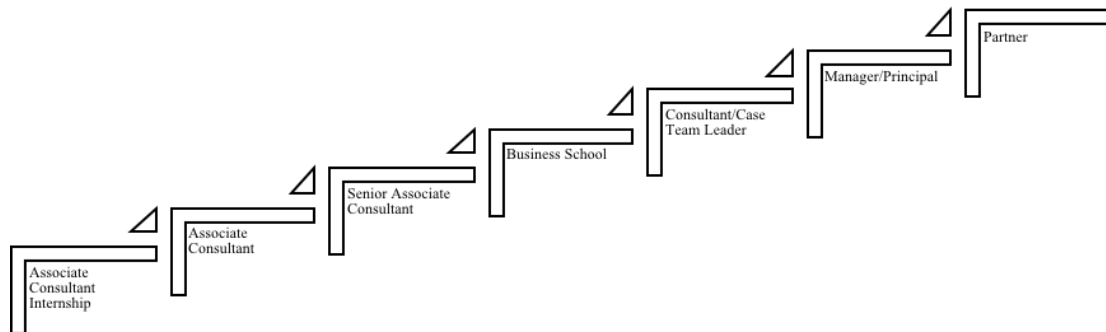
Strategy Inc works with over 5000 companies, of which many are listed as Fortune's Global 500 companies<sup>6</sup>. The company also has an extensive alumni network. Strategy Inc's employee turnover has been described as the "lowest in the industry" at under 10 percent annually (Anonymous source 4, 2017). Strategy Inc's estimated revenue of 2,3 billion USD in 2017 represents a 15 percent increase and was comparatively higher than that of its competitors (Forbes, 2017).

Strategy Inc has created an operating model that is highly focused on developing its most important asset; its employees. These principles extend from Strategy Inc's hiring and training process as well as the emphasis on professional development, the focused promotion and the compensation structure (Anonymous source 5, 2018). Strategy Inc's organization follows the top tier consulting firm's typical model: undergraduates are hired as Associate Consultants (ACs) who work for 2-3 years before exiting or pursuing an MBA, while MBA-graduates enter as Consultants and rise from there to Case Team Leader, Principal, then finally Partner (See Figure 5).

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<sup>6</sup> The world's largest companies in terms of revenue (Fortune, 2018).

**Figure 5.** Career Structure at Strategy Inc.



Although Strategy Inc has adopted a more typical “up or out”-policy, it maintains a people-oriented focus and culture - which is regarded as essential to the company’s recruiting success. The firm adopts similar policies globally when it comes to its employees (Anonymous source 4, 2017).

## **Reward System**

### ***Monetary rewards***

Strategy Inc, like all businesses, utilizes monetary rewards when motivating employees. The empirical findings prove that pay and bonuses are higher at Strategy Inc when compared to companies in other sectors. On the other hand, when compared to the direct competition, pay is virtually homogenous. Associate Consultant 1, 2, and 3 (AC1, AC2, and AC3) all identify monetary compensation as a competitive incentive mechanism standardized across the industry. AC2 stated the following:

*“We’re pretty well paid compared to our peers in other companies [in other industries].”*



MGR expressed that pay is a big motivator to stay at one specific firm as the salary is “the same” as the direct competition:

*“Incoming employees are offered a highly competitive pay and benefit package - similar to [Strategy Inc]’s competitors - but definitely higher than anything else in the country.”*

AC3 expressed a similar point of view, but identified bonuses as playing a more direct part in motivating them to perform. Performance based bonuses is another incentive mechanism which is also utilized within the firm. According to the ACs, bonus size is directly linked to seniority and bonuses are a big motivator, albeit other motivation factors play a role as well. The Head of Human Resources (HHR) said that:

*“bonuses depend on the office’s performance, region performance and individual performance.”*

### ***Recruitment, Promotions and Threat of Getting Fired***

According to HHR, a typical career path starts with a six-month internship as an Associate Consultant, which may lead the intern being hired as a full-time Associate Consultant. HHR added that:

*“[another] typical way of getting hired is the formal application process of taking an exam which tests analytical skills. After achieving an excellent score and interviews, the subject may be hired as an Associate Consultant as well [and] two and a half to three years the Associate Consultant gets the option of direct promotion to a pre-MBA position as Senior Associate Consultant. After working as a Senior Associate Consultant for about one year [...] the employees are encouraged to attend an MBA with available sponsorships and extensive support to get into the world’s top business schools. Before attending business school, the employees sign a contract which requires them to return to*

*[Strategy Inc], where they then return and continue as Consultants for between three to four years.”*

(See Figure 5)

HHR explained that the next promotion leads to becoming a Manager or Principal for four to five years followed by becoming Partner. Every promotion along the career path does not only imply new responsibilities, but also a significant salary increase at every step. Additionally, there are many opportunities of making a transfer to another office in the world or conducting externships at other companies. MGR placed great emphasis on the human resource efforts conducted at Strategy Inc:

*“A lot of employees are attracted to [Strategy Inc] because of the name but HR [also] has an Influence on this. [This is achieved] through selective recruitment, employee development, and offering employees great [...] training opportunities”*

When it comes to the workload, the first interviewee, Associate Consultant 1 (AC1), expressed that:

*“the normal hours you work a week [as an AC] is 60 hours. But depending on the case that could go all the way up to 110 hours which means working on the weekends.”*

Strategy Inc has adopted an "up or out" policy. AC1 found the policy pressuring, but understands why it is necessary and that it serves a purpose. According to ACs, the ‘up’ part is a big motivation to work hard and perform and achieve, while the fear of the ‘out’ part keeps them from becoming lazy or falling behind. They see it as a necessity to keep employees working at such a high standard of productivity. While being ‘let out’ is a very real threat, AC1 also pointed out that:

*“I have only seen few people being let out - or not get promoted [...] they are not kicked out, just not promoted”*

AC1 asserted that it is usually done in a very “human way”, and that employees who are laid off are supported in finding a new job and continuing their career somewhere else. AC2 described that he perceives the up-or-out policy as “something good”, but also stressful because of the possibility of losing their job. AC2 found the policy favorable for two reasons:

*“First of all it gives you a lot of motivation and visibility in terms of ‘I know that I’m not going to be here for ten years with the same salary’. I know that I always will be progressing or I will be out of here. And second of all, [...] they will not kick you out of the door [...] They will give you letters of recommendation, they will let you stay three months at [Strategy Inc], while also telling people that you work at [Strategy Inc]. So then you have a clear advantage because you can go and look for a job while telling people that you still work at [Strategy Inc]. They actively tell you to [let potential employers know where you’re working]. We call it ‘soft landing’.”*

The ‘soft landing’ that is mentioned is confirmed by AC3, who said that the people that do not get promoted are allowed to stay for a while while they find a new job. This is beneficial as headhunters are more likely to higher them while they are still employees of Strategy Inc. According to MGR, this system facilitates the best way out for employees who “aren't able to take the heat”. Furthermore, HHR explained that most employees know in advance that they are on their way out:

*"You get a score of five: constantly exceeding, frequently exceeding, strong - about 80% of the people - inconsistent, underperforming. If you're underperforming or inconsistent you have 1 more review and then you're told to find another opportunity."*

### ***Progression Tracking and Reviews***

Strategy Inc has adopted a standardized system to evaluate employee performance. AC2 explains that employees at Strategy Inc are evaluated on a regular basis, with formal reviews happening two times a year. These formal reviews lead to a specific grade. The feedback and grades they receive can be compared against an international benchmark. Various evaluation process determines an employee's chances of being promoted. AC1 stated that after each case:

*“You're usually rewarded with a case review - which goes towards you record - and this is used for your promotion - which you know when it's coming so people really want to get these reviews and they are excited about getting another case because it's another shot at getting another review.”*

All the ACs described this formal feedback process as clear in terms of understanding when and how promotion opportunities occur. AC1 expressed that:

*“You know exactly what you should be doing, which skills you should have developed every step of the way along you career path. [...] There is feedback along the way at every level.”*

According to AC2, the process encompasses actions both within and outside the company, adding that whether or not an employee is promoted should not come as a surprise since comprehensive employee reviews are done every six months. He added that:

*“[the system] one of the things that I most like of my company - that it's totally transparent structured – your career progression. [...] We have a lot of visibility into what our future looks like at [Strategy Inc].”*

*“[Evaluators] understand what is expected of you at your tenure, so they will always judge you based on that.”*

MGR reiterated this point and made it apparent that there is a lot of communication between Associate Consultants and higher ups. In general, most promotions are foreseeable and HHR made a point that the only promotion that is not set at a certain time, is between partner and principal.

It appears Strategy Inc employees are also exposed to informal feedback by their peers, as perceived by AC3:

*“[ACs] are always looking out for one another. One part of the job is informally reviewing your colleagues. This helps you both in terms of helping you better yourself and in terms of knowing what's next for you in the company.”*

*“If you're highly evaluated - if colleagues are giving you positive reviews - you're most likely going to be up for promotion. [...] If they are negative reviews, you know that you need to pick it up or you may be let out soon.”*

AC1 reiterated this by stating that this system ensures that ACs know beforehand whether or not they will make it to the next promotion with enough time to start performing well and improving. In summary, review metrics are standardized across the company. MGR described that managers review ACs on three general criteria: team building, client facing and problem solving. Employees get a score based on the review and their bonuses are based on it. The motivation behind it is that it is hard to measure employee performance and therefore the system considers individual's reviews.

## Job Design

### *Variance and Work Challenges*

The work at Strategy Inc consist of many different tasks and a great variance depending on project. Both AC3 and AC1 described their work as varied and that the learning curve is very steep, two things that motivate them personally. AC1 gave a little more insight on what their job encompasses:

*“As an associate consultant I’m in charge of framing the problem, collecting and analyzing data, identifying insights and develop recommendations. Advising the client is a very important part of my role. This means being able to ask the right questions, discuss and test ideas and convince the client to take action. And finally, as part of the team I’m expected to help build a positive teamwork dynamic.”*

Additionally, ACs added that a lot of the work is done in travel cases. The work is almost always done in a new location or in a new industry. No project is like the previous one. Every project differs in the problem, location, company, time frame, etc. AC2 reiterated this:

*“We work a lot with [different analytical tools], it varies from case to case. Your case might require you to conduct a bunch of meetings, a bunch of expert calls [...] we’re used to always doing something different, getting with a different client, a different problem.”*

The day-to-day workload at Strategy Inc is very dynamic and flexible, according to MGR. An example of such a process is education opportunities, where a lot of opportunities are afforded to Associate Consultants, according to MGR. HHR testified that:

*“To some extent it's a bureaucratic organization with documented processes and well structured systems, like any firm - the career path for instance. Everything is in place for a reason. But of course it's an organization with people and people aren't static.”*

### ***Exposure and Opportunities***

AC1 described that they in their work as Associate Consultants are put into contact with very influential people. They work with top management of ‘Fortune 500’ companies and have the opportunity to:

*“learn from professionals who are Harvard graduates of MIT graduates and are experts in multiple industries.”*

MGR said that they personally did not like this, since it leads to employees who are tempted by lucrative job offers at some of the client companies as exit opportunities become very attractive for Strategy Inc employees. AC2 described the job as “life-changing” due to the amounts of doors it opens in their career.

There are many opportunities within the company as well. AC2 described how the homogenous nature of the company throughout its global offices allows employees to transfer to other offices if they wish for up to six months. AC1 elaborated:

*“We sometimes have people transferring from the Boston office and they face the same working conditions as they had in their home office.”*

### ***Training and Education***

Training at Strategy Inc is extensive; employees regularly attend trainings in order to improve their professional skills and industry knowledge. AC1 praised the learning opportunities as a source of motivation:

*“Another way to get rewarded is learning; that’s one of my main rewards from the job. It’s a job that is very, very interested in you growing as a professional”*

HHR stated that employees are motivated by the fact that they work at a company which provides them with great opportunities to excel in their careers and their capabilities. When asked about how an employee can improve their skills, AC3 said that management, even though they demand individual responsibility, they are fairly open in terms of helping employees improve on their weaknesses and:

*“If I receive a negative case review or feel like I have a skill that I need to develop I can always go to the staffing manager or my mentor and they will help me in some way. The staffing manager could place me in a case which helps me excel in my capabilities [...] my mentor will give me advice. But more than helping me along the way, they will tell me what to work on. Right now, for instance, when I had some trouble working efficiently in PowerPoint, I was told to take a two-hour course which is provided to all employees at Strategy Inc [...] We do have webinars and seminars - they kind of expect you to learn ‘on the go’. If I still feel like I need to get better, it is expected of me to do that on my free time.”*

In terms of trainings, AC1 pointed out that the trainings usually treat a particular tool or industry, and that all trainings are of international character. He said that:

*“[employees] start to specialize into certain industries or certain capabilities and [management] do provide a lot of training material for [employees] to become an expert in what [they] choose.”*

AC2 described how employees have the option to travel to special training sessions and that they are invited to attend seminars and courses all over the world.

After about three years at Strategy Inc, Associate Consultants with a bachelor degree have the opportunity of being sponsored with an MBA education. AC2 declared that employees are almost guaranteed a spot at one of the top-ten universities in the world. HHR elaborated:



*"the potential of pursuing an MBA with a scholarship from [Strategy Inc] also works as a great motivation."*

MGR reiterated this point by stating that the MBA sponsorship provides employees with an incentive to stay at the company until their MBA, as it requires them to come back to the company afterwards:

*"Associate Consultants sign a contract committing them to coming back to [Strategy Inc] for at least 2 years after their sponsored MBA. Usually they stay longer than that anyways."*

## **Socialization Regimes**

### ***Culture and Employee Relationships***

In the recruitment process, candidates' analytical skills are not only accounted for; emphasis is also put on a candidates' teamwork and social skills. Recruiters look for employees that are humble and empathetic, possessing the ability to collaborate with both colleagues and clients. Strategy Inc also has a deliberate routine which fosters socialization and comradeship amongst employees. AC2 stated that the company culture was one of the main advantages of the job. HHR provided the following motivation for these efforts:

*"we aim to build long-term relationships with our staff. We do this by creating a culture so that staying is highly valued. It is important as employees will have many opportunities to leave to other companies: there is an "externship" programme to place employees with outside companies for six months and an active programme to reach out to former staff who might be tempted back to the firm."*

This, according to the ACs, results in the company living up to its reputation as an open working environment with a legitimately supportive culture. According to AC1:

*“people who leave [Strategy Inc] usually stay in contact with the friends that they made at the office.”*

The “Airport Rule” – which states that a hiring manager must feel like they would be able to spend 24 hours in an airport with a candidate in order to consider them for a position – is a doctrine presented by AC1. He insisted that this rule leads to an “extremely friendly” environment. According to this associate, Strategy Inc pays more attention to this ideology than direct competitors. HHR reinstated that:

*“[Hiring managers] try to not only take into consideration more quantitative aspects, but also see if there is chemistry. The so-called ‘Airport Rule’ is key in how we chose our candidates. A personality-fit is very important to us.”*

Furthermore, managers formally promote activities which enable socialization; going as far as to taking these into account during promotion rounds. MGR stated that its important that ACs are reviewed holistically and that ‘giving the extra 10 percent’ and exceeding expectations is as important as completing expected day-to-day activities. At Strategy Inc ‘giving the extra 10 percent’ has a different meaning, though, as AC1 elaborated:

*“[Giving the ‘extra 10 percent’] is participating in organizing activities which foster social interactions. And this goes into your reviews. So everyone has a clear incentive linked to their potential for a promotion. Your potential for a promotion is directly linked with participating in organizing and executing these activities that create this environment of collaboration and friendship.”*

AC3 explained how this system is part of a greater effort to foster genuine human relationships amongst the employees. As soon as ACs are hired they are socialized with their hiring class. They are immediately placed in a 2 week ‘boot camp’ with other new hires where they get to

know each other and start to build relationships. AC1 said that the socialization efforts continue to have an effect as employees settle into the company:

*"one of my most active WhatsApp group is with my [Strategy Inc] colleagues, my [Strategy Inc] class ... The people are truly, really open. "*

Communication from higher ups and employees also seems to be very relaxed and genuine. AC2 shared that when ACs are in a case, partners usually invite the whole team to have lunch or dinner with them. AC3 said that it feels like they try to include everybody into the team as they make it clear that they want everyone to participate. AC2 also stated that:

*"[I] don't think it's normal for somebody so junior in the company to have such a direct and open relationship with partners."*

All-in-all, these measures lead to a very unique atmosphere at Strategy Inc. According to AC1, this atmosphere leads to:

*"People who leave the company are asked what they will miss about [Strategy Inc] the most. Everyone, or 99 percent, say its the people. Working with a lot of talented, ambitions, warm-hearted people."*

AC2 reiterated this sentiment, making a point that although the company is more relaxed, it does not fall behind in professionalism:

*"[Strategy Inc] is the cool company, its more fun, it's slightly more relaxed."*

*"for being more of an open company related to its direct competitors, as well as a more friendly [and] kind environment [the company has a] a more fun vibe regarding it, while also having the same recognition and opportunities in the more serious part."*

HHR drove this point further by stating that the company profile and culture plays a big part in attracting talent. Since other competitors have similar monetary compensation as Strategy Inc,

potential employees are more likely to choose Strategy Inc based on their perception of the company profile rather than on financial incentives. The internal HR corporate moto is:

*"Once [an employee at Strategy Inc], always [an employee at Strategy Inc]."*

### ***Teamwork***

Strategy Inc promotes several team building activities and guidelines. HHR developed, saying that it is important for Strategy Inc to have a diverse environment, both in terms of personality and experience. According to MGR this diversity leads to the creation of highly dynamic and efficient teams; an important asset for the company. AC1 stated that:

*"[Managers] rate how well you perform within a team - as in if you're a good team player, if you foster cooperation, if it's nice to be around you or not [...] Your potential for a promotion is directly linked with participating in organizing and executing these activities which create an environment of collaboration and friendship."*

As previously presented, Strategy Inc's review system is based on 3 pillars; one of which is team building. Employees get a score based on the review and their bonuses are based on it. Cooperation is favored over competition in the organization. HHR expressed that Junior Partners experience unusually little competition as they split what they earn from cases amongst them. HHR added that Strategy Inc:

*"offer employees to be part of a firm that values teamwork and fun - a lot compared to other consulting firms. It's a very demanding job and not having to compete with your peers is something we push a lot."*

There are a number of activities focused on creating a unique atmosphere at the company. AC2 deliberated that there are always some kind of social events organized at the company and that a small percentage of every case budget goes to doing something enjoyable with the team. There is

also a great focus on supporting fellow colleagues in times of need. AC1 gave the following anecdotes:

*“We usually support each other so that people don't miss important moments in their family life.” “There's also this WhatsApp group amongst ACs - ‘Collaboration is Amazing’ - whenever you don't know how to use a tool or whenever you need information about certain industries which other associate consultants might have worked with - you can get help from other associate consultants.”*

### ***Mentorship***

A big focus within the company is put on mentorship system. Strategy Inc has adopted a system that ensures that junior consultants always have an advisor who plays a part in, for instance, improving their professional skills. AC1 clarified that this dialog between mentor and mentee occurs on a daily basis. He stated that:

*"when I got [hired] I was assigned with a colleague who had been at [Strategy Inc for] 6 months to a year before me, and this is a person that I could go to with any questions regarding [Strategy Inc]; with any worries."*

The mentorship system becomes even more crucial later in an ACs career. AC2 described that after being at Strategy Inc for some time ACs have to choose someone that is significantly superior to them to be their mentor. This person is usually a professional with at least ten years in the industry:

*“they're extremely talented - they're extremely successful. They basically take you in and coach you so that you can achieve the same level of success as they did. You actively have trusting, open relationship to help you throughout your journey in [Strategy Inc].”*

MGR felt that the mentorship allows managers to have a greater impact on the quality of the work at Strategy Inc and that the program has been expanded since they started as an AC almost

over five years ago. MGR enjoyed the opportunity to “influence the future of the company” through their mentorship sessions with ACs.

# ANALYSIS

## **Reward System and Extrinsic Motivation**

***Monetary Rewards*** Strategy Inc's monetary incentive mechanism of pay is regarded as an important motivator for Associate Consultants. The pay is competitive and performance measures allow the company to reward the activities it wants its employees to pursue, linking pay to performance. Pay is further linked to performance via Strategy Inc's bonus system which correlates to seniority and overall performance. This incentive mechanism is in line with those outlined in the agency theory.

***Recruitment, Promotion, and Getting Fired*** As evident in the empirical findings, the possibility of recruitment (as an intern) or promotion (as an employee) is a great driving factor in motivating employees to perform at a higher level. Likewise, the threat of being fired plays a role in incentivizing employees to constantly perform at a high level. If performance expectations are not met by employees, it is made clear for them that their job security is in peril, further motivating employees to adapt proper mechanics to succeed. As expressed by both ACs and HR, these explicit motivation mechanics are appreciated and inspire employees to work harder. These motivations fall in accordance with the motivation tactics presented in the agency theory. A seemingly unique aspect to Strategy Inc's "up or out"-policy, is the so-called "soft landing". The "soft landing" aspect cannot be directly explained as part of a motivation process by the agency theory framework, as it undermines the effect of the original incentive of threat of being fired.

*Progression Tracking and Reviews* Grades and reviews are examples of implicit incentive mechanisms which are in place in Strategy Inc. The size of the bonus depends on the particular employee's grade as given by various managers. The promotion race-incentive is enforced by a perceived "clear" perception of what a career at Strategy Inc looks like. Promotions also work as a motivation as getting a new job title often constitutes a status symbol. Employees are also reviewed by their peers; this serves as a social pressure incentive mechanism. Thereby, formal and informal reviews and grades play a big part in motivating employees to perform at a high level. A noteworthy finding is that reviews and grades do not only encompass performance measures, but socialization measures as well. This effectively motivates employees to actively strive towards socialization, a dynamic further explored in the section "Socialization Regimes and Normative Intrinsic Motivation".

Strategy Inc uses several incentive mechanisms which can be identified within the agency theory framework. Within the agency theory, these incentives can be seen as contributing to Strategy Inc's fundamental effort in overcoming agency problems and aligning goals. Assuming the agency problems of incomplete contracts, hidden information and hidden actions, Strategy Inc will to some extent experience difficulties monitoring employees' actions and information possession. Strategy Inc's competitive advantage can be seen as spanning from reduced agency costs as the firm recognizes that their employees and their performance are their main asset; thus identifying that incentivizing people is key to achieve better results. Through these actions, the company extrinsically motivated the workforce in a way that aligns the interests of the employee with the interest of the firm.



## **Job Design and Hedonic Intrinsic Motivation**

***Variance and Challenge of the Work*** The empirical results indicate that employees at Strategy Inc perceive the steep learning curve and challenging tasks as motivating in contributing to their personal development. The work can be carried out in different locations and in a wide range of industries, adding to this sentiment.

***Exposure and Opportunities*** The job design is motivating as it allows for exposure to professionals in top firms and from prestigious institutions. Employees perceive certain freedom as working at Strategy Inc is seen as opening “a lot of doors” to other professional opportunities. The job design also allows for freedom in terms of choosing location as part of the externship-programme. The company structure and policies are built up in a way so that transfers to other offices are also made possible, allowing for further geographical freedom. A noteworthy finding is how exposure to prestigious companies can be seen as a status-related motivation, as related to the agency theory.

***Education and Training*** A large part of the job design entails trainings specifically aimed at individual capacity building. For instance, after one year as a Senior Associate Consultant, the company may provide employees with a sponsorship for an MBA. This is regarded as motivating as it provides employees with great opportunities to excel in their careers and their capabilities.

Considering all above mentioned aspects, the job design itself functions as a motivation for employees in the sense it creates hedonic intrinsic motivation. A fundamental part of the job design is competence-enhancing: the steep learning curve, together with complex and varied tasks, adds to the perception of individual development. The job design is also motivating in the

sense that it is self-determined to some extent, e.g. in choosing mentors as part of the mentorship programme or having the option of switching office as part of the externship-programme. This adds to individuals perceiving the tasks positive to a larger extent.

## **Socialization Regimes and Normative Intrinsic Motivation**

***Recruitment Fit and Employee Relationships*** Strategy Inc takes great care in the recruitment of new talent. This is due to the fact that its talent is its most crucial asset, as aforementioned. It is in Strategy Inc's best interest to foster strong relationships between employees in order to promote teamwork. Strategy Inc face the challenge of preventing employees whom they have invested assets into from leaving the company. As evident in the collected data, Strategy Inc have both explicit and implicit mechanisms put into place to create synergy amongst its employees in the effort of enticing them to stay within the firm as long as possible. This is done by hiring policies such as the "Airport Rule", which screens employees for amiability and suitability to the group. Later, inter-employee relationships are fostered through socialization-promoting policies and activities. All together, these policies and practices foster greater fraternization within the workplace, evident by the AC's remarks that employees greatly enjoy the company of one another and perceive as though the relationships they have built up with their colleagues is of preeminent value.

***Mentorships*** Another practice that has taken a foothold within the firm is mentorship. This purpose served by this system is twofold; on one hand mentorship is essential to accelerating the learning curve necessary to ensure employees execute their workload at the level of excellence expected by clients. On the other hand, it reinforces the socialization work presented in the

previous passage. Mentors are able to have a direct affect on the rapport instilled within new recruits, and are more likely to do so in a way which benefits the company as they, themselves, have been integrated into the firm's culture, beliefs, and values. Furthermore, ACs display affinity towards the mentorship system as it gives them a sense of being welcomed and valued.

**Teamwork** Fostering teamwork is a vital part of most organizations and this rings true for professional service firms especially. This endeavor can be burdensome in and of itself but can become insurmountable if employees start to compete against one another. This is intuitively the case in some organizations characterized by archetypally overachieving employees such as elite management consulting firms and therefore more aggressive teamwork-promoting policies need to be instated. Strategy Inc does this first and foremost through their recruitment process, where they screen whether or not the candidate would fit into the existing team dynamics and atmosphere (see: 'Airport Rule') and continue this by promoting teamwork by directly linking bonuses and promotions to tangible measures of teamwork and teamwork-stimulating activities. Furthermore, communication systems are instated to foster cooperation. Lastly, these measures are supplemented by hardfast anti-rivalry policies such as the splitting of earnings amongst partners.

All the aforementioned policies and practices seem to contribute to an amiable and welcoming culture. It is apparent that employees value this culture and HR works diligently to develop and preserve it. In the end this culture works as a motivator for employees to work hard, cooperate, and keep working at Strategy Inc. In line with the theory, our findings indicate that socialization

regimes align the interests of the employees to the company in the sense it creates the normative intrinsic motivation; it creates the desire to comply with organizational norms and values.

### **Interest Alignment Activities lead to Competitive Advantage**

As explored in the theoretical framework, aligning the interest of the employee is a vital part in managing human assets. The empirical findings show that Strategy Inc focuses heavily on both interest aligning activities related to the agency theory (see: Reward Systems) but also through activities which cannot be explained by the agency theory alone (see: Job Design, Socialization Regimes). According to the theory, all these activities play a hand in aligning the interests of the employee to those of the company. The human capital asset is the one of the main determinants of competitive advantage within management consulting firms according to RBV. According to the theory, interest alignment complements the human capital asset. These complements are likely a big determining factor in the competitive advantage evident at Strategy Inc.

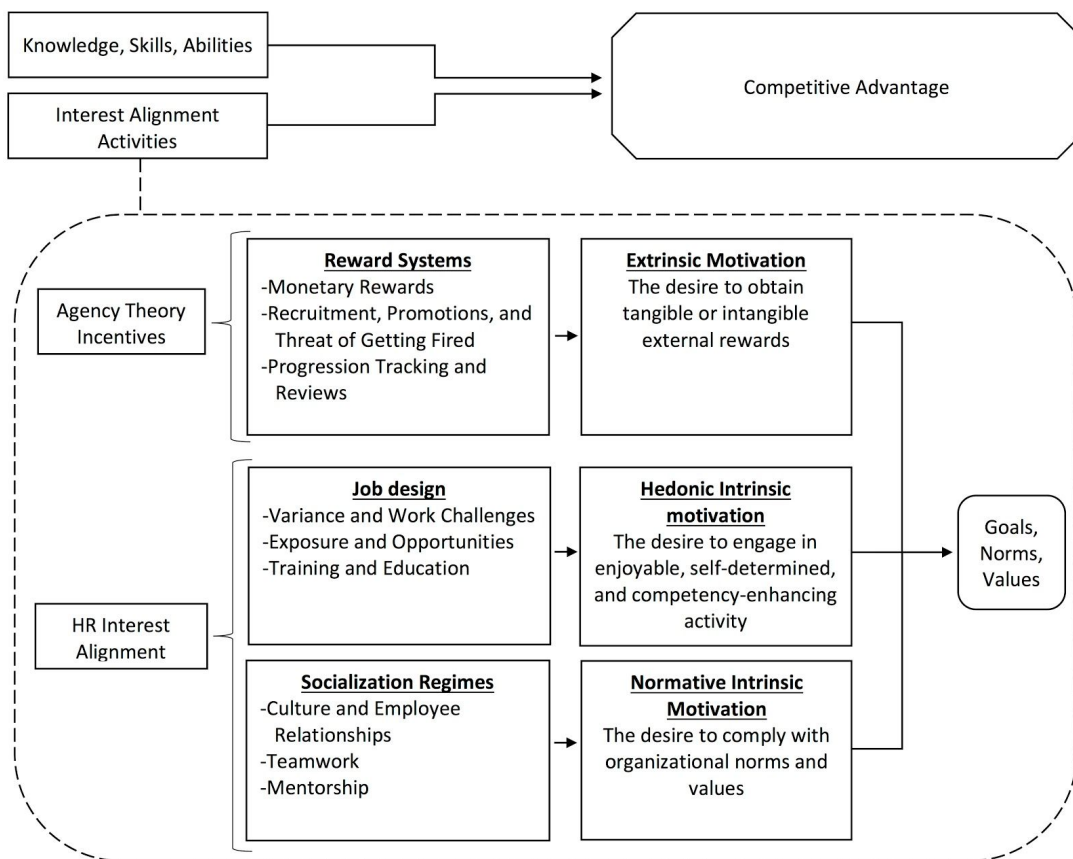
# CONCLUSION

The findings of this paper confirm that Strategy Inc adopts both implicit and explicit incentive mechanisms, as identified within the agency theory framework. The main explicit incentives are pay and a bonus system, whereas the often interconnected implicit incentives include grades and reviews, promotion races, status, as well as peer reviews. The agency theory partially explains how Strategy Inc's use of these incentive mechanisms leads to enhanced individual- and company performance, but fails to capture other important factors such as job design and socialization regimes. These practices fall more in line with the theory presented in the RBV related to competitive advantage. Therefore, a new model can be devised which illustrates how the application of these two theories overlap; how the RBV complements the agency theory in terms of effective management of human capital. The model is presented in Figure 6.

The framework illustrates the aspects of 'Knowledge, Skills, and Abilities' and 'Interest Aligning Activities' as leading to competitive advantage, which is in line with previous research presented in the theoretical framework. This study has maintained focus on 'Interest Aligning Activities'; the 'Agency Theory Incentives' and 'HR Interest Alignment'-activities identified at Strategy Inc. As outlined, reward systems identified within the agency theory framework, such as pay, performance pay, promotion races, grades, progression tracking and reviews, lead to extrinsic motivations. What the agency theory fails to capture is "Job Design" and "Socialization Regimes". These are referred to by the authors as 'HR Interest Alignment'-activities. 'Job Design' encapsulates the variance and challenges in the work, exposure to experts and opportunities, and training and education. 'Socialization Regimes' capture the aspects of

employee relations, teamwork and mentorship. These lead to hedonic intrinsic motivation and normative intrinsic motivation, respectively. All three forms of employee motivation are able to influence employee goals, norms and values, effectively aligning the interests of the employee with those of the company. Ultimately, the interest alignment aspect of these various types of motivation play a vital role in creating and maintaining a competitive advantage.

**Figure 6.** Revised Theoretical Framework



# DISCUSSION

This study provides a broader understanding of the incentive mechanisms used within the top tier management consulting firm Strategy Inc. From the empirical data and the framework devised from it, active measures undertaken by Strategy Inc's strategic HR department can be better understood. On a theoretical basis, this paper has shown that factors outside of those pertaining to the agency theory, are utilized to motivate employees to perform. Additionally, the paper has effectively provided a framework which can more thoroughly explain the interplay of different types of incentive mechanisms and their effect on competitive advantage, compared to what the agency theory or RBV can achieve on their own. The study indicates that the aspect of interest-alignment may function as a bridge between the two separate perspectives.

Practically, the findings of this study can be applied to better manage PSFs, management consulting firms in particular. The case study exemplifies which motivation practices can be implemented, their perception by the staff, and their potential effect on the company as a whole. It is likely that this framework and the incentive mechanisms in general can be applied to other PSF with similar results.

This study is limited in a number of different aspects. First of all, only five people were interviewed at Strategy Inc. Although these people were highly relevant to the purpose of the study, additional respondents would have provided a broader view of the company as well as strengthened the empirical results. Another limitation to this study is that the assumption that Strategy Inc has a competitive advantage in the industry. The authors made this assumption based on the following facts: the company is considered to be one of the 'Big 3' management

consulting firms, the financial results and general success of the firm have been outstanding, the company has a strong position in the market for a long time, and other sources which indicate that the firm in fact has a competitive advantage. Nevertheless, a more thorough market-oriented analysis must be undertaken to determine precisely if a competitive advantage exists and in what ways it manifests itself. Thirdly, the study suffers from an important validity problem which is out of the authors control. This is due to the secrecy and prestige of Strategy Inc. This prestige likely makes Strategy Inc reluctant to fully 'open up' and share all of their practices and policies with the authors. It is possible that the authors only received a generic, PR-department vetted description of the policies and practices of the firms in order to uphold the image of the company. The secrecy aspect also prevented the authors from using the true name of the company, which also somewhat demerits the study.

Potential areas for future research include incentives and motivation within the PSI. The authors propose a more elaborate study with a more quantitative approach. Studying the market across firms, related to certain performance incentives and motivation, could additionally be of great interest. Specific areas for future research include the potential areas of overlaps between the agency theory and RBV framework further, specifically regarding goal alignment and incentives.



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# ATTACHMENTS

## Appendix A: Interview Questions

*The structure of the Interview Questions.* The non-italic questions were asked to the respondents, whereas the italic text were used as development questions and thus not shown the respondent. The general theme headline was also not shown to the respondent.

### *Interview Guide: Head of HR*

Theme: General

What is your position?

How long have you been at Strategy Inc?

What are your responsibilities?

Theme: Recruitment

What are the main three criteria for potential employees looking to join Strategy Inc?

How are candidates screened to ensure they make a good fit? What capabilities do you look for in potential candidates?

Does Strategy Inc actively engage in talent scavenging from other companies?

*If yes:* What can these people contribute to the company?

How does Strategy Inc recruitment cycle differ from other companies in the industry?

Theme: Traditional incentive mechanisms

How do you measure incentives in Strategy Inc? How do you follow up (*e.g. BSC, standardized forms or procedures*)?

How do you work with creating incentives?

On which basis do you create the contracts used with employees?

What are the incentive mechanisms stated in the contracts?

Does Strategy Inc give bonuses based on performance?

How big are these bonuses generally (*percent*)?



Does the policy change often or has it been static all along?

What are the newest incentives introduced by Strategy Inc?

Can you elaborate on the “Up or Out” system at Strategy Inc?

What role does the MBA incentive play for employees?

When someone is back after doing an MBA, which incentives do you use *(to make them come back as well as stay)*?

Theme: Offering value to employees

What is the reason for Strategy Inc’s low turnover rate?

Do you perceive managers rely on contracts/the bonuses the employees get after a case to motivate them?

Why do you think Strategy Inc has such a low turnover rate compared to the rest of the industry? What do you feel Strategy Inc does differently to its competitors in this regard?

In what ways, outside of monetary compensation, does Strategy Inc attract talent?

Do you think Strategy Inc can offer employees something that competitors cannot?

Are training programs, seminars, employee education a big part of employee contracts?

### ***Interview Questions: Associate Consultants***

Theme: General

What is your position at Strategy Inc and what does that entail?

How long have you been at Strategy Inc?

Theme: General incentive mechanisms

What does an average day at work look like for you *(in terms of tasks)*?

How are you rewarded for your work *(e.g. money, bonuses, other rewards)*?

How does management deal with poor performance? For instance, are you offered guidance or assistance in the case your performance does not meet the expectations?

Are you familiar with the “Up or out” system? What do you know about it? How does it affect you personally?

Theme: Perceived added value from company

Apart from monetary compensation, how does working at Strategy Inc create added value for you in your personal and professional life? *Follow-up:* Do you think that other employees at Strategy Inc share this sentiment?

Are employees offered unique opportunities at Strategy Inc (*e.g. education, seminars, guidance*)? *If yes:* Have you partaken in these? What are your thoughts?

What do you feel Strategy Inc does differently to its competitors when it comes to employee relations and employee value?

### ***Interview questions: Manager***

Theme: General

What is your position?

How many employees do you usually work with as well as manage in a project?

How do you view your relationship to your teams?

Theme: Traditional incentive mechanisms

Do you give bonuses based on performance? How big are these bonuses generally (*approx.*) or how do they relate to performance?

Do you get bonuses yourself?

How else do you motivate your employees?

Do you rely on monetary incentives to motivate employees in cases or do you use other incentives? Which do you find most efficient?

Which do you think are the most effective incentives for consultants (*post-MBA*)?

Which do you think are the most effective incentives for associate consultants (*pre-MBA*)?

Theme: Dynamic Capabilities incentives

Does Strategy Inc provide you with any tools or training to help inspire your team?

Does Strategy Inc have any framework for you, as a manager, to help you motivate people in your team?

Do you perceive that you yourself created and executed your own incentives or do you follow the policy?

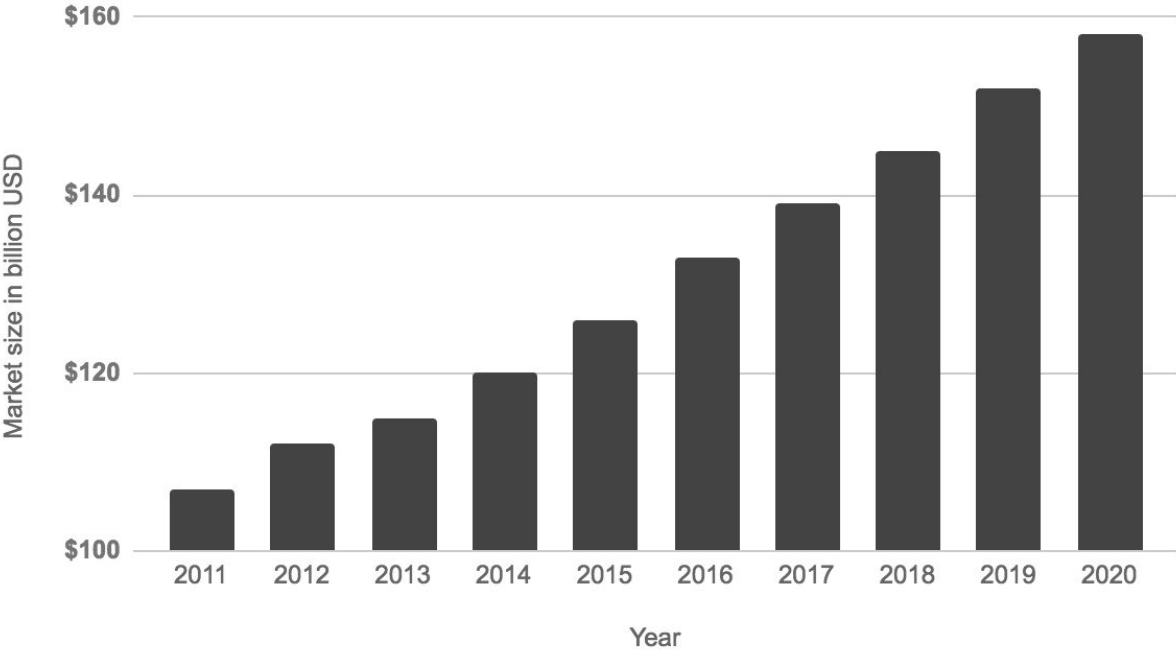
Why do you think Strategy Inc has such a low turnover rate compared to the rest of the industry? What do you feel Strategy Inc does differently to its competitors in this regard?

What made you come back or come to Strategy Inc after your MBA?

What are the pros and cons working in Strategy Inc?

### Appendix B: Industry Data

Size of the Global Management Consulting Market from 2011 to 2020 in billion USD



(Source: Statista, 2018)