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From Values to Value: Value Rationality and the Creation of Great Strategies

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Abstract. This paper proposes that strategies with superior value-creation and value-capture potential—that is, great strategies—can originate in the personal values of strategists. We root our argument in Max Weber’s idea of value-rational action as an innate human capacity expressed in value rationality, which refers to actions that derive their logic with reference to a value system. We build on psychological research on personal values to propose that values are complex cognitive resources, distinct from mental representations, beliefs, ideologies, identities, and emotions, that, when deployed in strategy making, affect the attributes of the strategies created. We specify how values affect the value-creation and value-capture potential of firms’ strategies by theorizing four distinct functions of values in strategy making: as attentional structures, as valuation lenses, as design principles, and as identity markers. As attentional structures, values direct strategists’ attention to specific issues and often unconventional solutions; as valuation lenses, they change the evaluation of relevant markets and resources; as design principles, they influence the prioritization and integration of activities; and as identity markers, they facilitate audience engagement and mobilization. Our theory offers a new basis for understanding the sources of novel strategies and pathways to superior value creation by firms.

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Keywords: values • strategy formation • creative strategies • resource-based view • opportunity creation • competitive advantage

1. Introduction

In the 25 years since its initial public offering in 1992, Starbucks has delivered approximately 18,000% in shareholder returns and currently has 26,000 stores in 75 countries (Meyer 2017). What makes these numbers that much more impressive is that Starbucks has achieved them in an industry that had not experienced major technological breakthroughs and was a stable oligopoly with declining demand when Starbucks joined the fray (Rindova and Fombrun 2001). Economic opportunity and economic logic, therefore, cannot readily explain Starbucks’s market entry and strategic choices. The often-told origin story for its success is as follows: “In 1983, [former CEO] Howard [Schultz] traveled to Italy and became captivated with Italian coffee bars and the romance of the coffee experience. He had a vision to bring the Italian coffee-house tradition back to the United States. A place for conversation and a sense of community. A third place between work and home” (Starbucks 2017). What

this story does not tell is why among the millions of people who visited Italy, many of whom were coffee aficionados, it was Schultz who made this observation and decided to build a business around it. And why in building the business, he developed the distinctive and profitable growth strategy that set Starbucks apart from the industry even at its inception (Rindova and Fombrun 2001).

In this paper we argue that one possible answer to these questions rests with Schultz’s personal values. Defined as overarching “core conceptions of the desirable within every individual and society” (Rokeach 1973, p. 2; Schwartz 1992), values constitute cognitive resources with pervasive effects on attention, interpretation, and action. Schultz has been outspoken about his values and has explicitly identified them as a source of guidance for this strategic choices (Schultz and Jones 1997). In particular, he has frequently spoken about how growing up poor in the projects in New York City, watching his father struggle to find income, especially

after an injury, instilled in him values focused on social justice, sociality, and community. Collectively, these values defined Starbucks' market positioning strategy as a "third place," its product strategy focused on "romancing the coffee," and its human resources strategy that includes generous training and benefits for all employees, including part-time ones. The company's website provides a succinct summary of this perspective: "From the beginning, Starbucks set out to be a different kind of company. One that not only celebrated coffee and the rich tradition, but that also brought a feeling of connection. Our mission [is] to inspire and nurture the human spirit—one person, one cup, and one neighborhood at a time." (Starbucks 2017).

Clearly, many big and small decisions were made in developing and implementing these strategies.¹ What we argue, however, is that the deeply held personal values of strategists such as Schultz provide distinct cognitive resources that affect many key aspects of the strategic choices involved. Values, we argue, provide strategists with attentional structures, valuation lenses, design principles, and identity markers that lead to distinct patterns of allocation of attention, selection of resources and target markets, design and integration of activity systems, and stakeholder audience engagement, all of which affect the value-creation and value-capture potential of the strategies created.

Strategy researchers have given limited consideration to the role of values in strategy creation, despite the fact that the idea that strategists' personal values affect strategy formation goes back to the origins of the field (England 1967, Guth and Tagiuri 1965, Tagiuri 1965). Andrews (1980) argued that the study of strategy requires attention to the personal values of strategists, as they often dominate economic logic. Hambrick and Hambrick and Mason (1984) included values among the perceptual filters in their "upper echelons" perspective, and Finkelstein and Hambrick (1996) articulated specific hypotheses about how values could affect the strategy-making process, suggesting, for example, that strategists with more egalitarian values would be more likely to gather information from lower levels of the organization. More recently, Gavetti and Rivkin (2007) linked values to the heuristics strategists use and argued that personal values are a neglected construct in understanding the origins of strategy. Ott et al. (2017) highlighted values as an important element of entrepreneurs' identities that shape strategy formation in entrepreneurial settings. Thus, although strategy researchers have recognized the importance of personal values in the process of strategy formation, current understanding of the origins of strategy has not incorporated values in a significant way.

Gavetti and Rivkin (2007) identified three approaches in current research on strategy creation: rational, evolutionary, and cognitive. These three approaches, they argue, involve different assumptions

about the mechanisms that strategists employ to process complex information and develop the integrated understandings required for strategy formation. The rational perspective emphasizes deductive application of economic logic, the evolutionary perspective emphasizes trial-and-error learning, and the cognitive perspective focuses on cognitive processes and structures that shape strategists' idiosyncratic representations of situations (Gavetti and Rivkin 2007). These three perspectives reflect fundamentally different assumptions about the rationality employed by strategists. The rational perspective espouses the assumptions of neoclassic economics that individuals have full and relevant information and develop strategies by solving optimization problems within objective constraints (Rivkin and Siggelkow 2007). The evolutionary perspective adopts the assumptions of boundedly rationality—namely, that limits to information, cognitive capacity, and time lead strategists to satisfy and engage in a limited search (Winter et al. 2007). The cognitive perspective also assumes that strategists are boundedly rational but places greater emphasis on the variation in their idiosyncratic cognitive structures through which strategies are conceived (Porac et al. 1989; also see Kaplan 2011 and Narayanan et al. 2011 for reviews).

Despite their differences, the three perspectives share an interest in explaining how strategists conceive of effective *instrumental* action(s). German sociologist Max Weber contrasted instrumental actions that are "more or less universally based on principles of deductive reasoning and means-end relations" (Von Scheve 2016, p. 186) with value-rational actions that are motivated and rationalized with reference to "internally binding values" (Kalberg 1980, p. 1167). Drawing on this distinction, we argue that to fully appreciate how strategists conceive of strategies in general, and great strategies in particular, we need to incorporate value-rational actions and value rationality in the analysis of strategy creation. Specifically, we build on Weber's notion of *value-rational action* as an innate human capacity, to theorize how strategists' personal values affect strategy creation. We use the psychological research on personal values to posit that values are complex cognitive resources, distinct from mental representations, beliefs, ideologies, identities, and emotions, that, when deployed in strategy making, affect the attributes of the strategies created.

We offer a new conceptualization of the sources of originality in the creation of strategies. At the core of our theory is the argument that values orient strategists toward looking beyond traditional facets of a given environment and lead them to more proactively search for alternatives that express their values, rather than respond to externally imposed pressures and demands. Values point to an alternative way of

thinking about how firms may overcome the limitations of cognition, action, and legitimation that limit their ability to develop new strategies and pursue new opportunities (Gavetti 2012). At the same time, values pose distinct challenges and pitfalls in the creation and implementation of values-based strategies.

2. Rethinking Strategy Creation Through the Lens of Weber's Theory of Rationality and Action

Weber's analysis of rationality and its diverse manifestations has been acknowledged as one of the most important themes in his work. He distinguished among four innate action capacities in humans—*affectual*, *traditional*, *value-rational*, and *means-end-rational* or *instrumentally rational*—and theorized four types of rationality that organize these action capacities in patterns of social action—*practical*, *theoretical*, *substantive*, and *formal* (Kalberg 1980, 2012).² While different in content, all four types of rationality refer to mental processes through which people give coherence and meaning to fragmented, ongoing experience and instill regularities in patterns of social action.

Practical rationality encompasses “every way of life that views and judges worldly activity in relation to the individual's purely pragmatic and egoistic interests” and “accepts given realities and calculates the most expedient means of dealing with the difficulties they present” (Kalberg 1980, pp. 1151–1152). It therefore attends to the capacity of people to pursue their interests by navigating existing realities. Individuals and collectives vary in the sophistication of means contained in their practical rationalities based on their repertoires and skills. Furthermore, societal doctrines also create variation by placing “psychological premiums” on different patterns of instrumental actions (Kalberg 1980, p. 1152). Societal doctrines are examples of another type of rationality—*theoretical rationality*, which refers to the construction of abstract concepts, frameworks, and worldviews applied to understanding given realities. *Theoretical rationality* orients action through cognitive representations without being associated with a specific action capacity. For example, neoclassical economics as a *theoretical rationality* intensifies instrumental action patterns that are consistent with its assumption of utility maximization by individuals and profit maximization by firms. *Formal rationality* mirrors practical rationality's tendency to use means-ends calculations to solve ongoing problems, but it orders and coordinates action by reference to universally applied rules, laws, and regulations.³

Substantive rationality, similar to practical rationality, is associated with a distinct—*value-rational*—action capacity. As a result, it can directly shape action patterns but “not on the basis of a purely means-end

calculation of solutions to routine problems but in relation to a past, present, or potential ‘value postulate’” (Kalberg 1980, p. 1155; Weber 1968, pp. 85–86). A value postulate, Kalberg (1980, p. 1155) explains, is “[n]ot simply a single value, such as a positive evaluation of wealth or of the fulfillment of duty”; rather, “a value postulate implies entire clusters of values that vary in comprehensiveness, internal consistency, and content.” *Substantive rationality* therefore supplies “a unique ‘standard’ against which reality's flow of unending empirical events may be selected, measured, and judged” (Kalberg 1980, p. 1155; Weber 1946, p. 294). In the rest of the paper, for clarity, we refer to it as *value rationality*.

A core aspect of Weber's argument is that these rationalities differ not only in the means by which they guide action—interests, abstract ideas, rules, or values—but also in their effectiveness in introducing regularities of action. Whereas Weber was concerned with their effectiveness in coordinating social action to supersede individual interests, here we draw on the commonalities between coordinating social action and coordinating strategic actions to consider their effectiveness in guiding strategy creation. *Practical, instrumental rationality* enables the pursuit of individual interests (in a manner consistent with neoclassic economics assumptions); however, its strategic effectiveness is constrained by its tactical and reactive focus on means-end calculations that address immediate problems.⁴ In strategic contexts, such rationality is evident in tactical responses to competitive moves, as well as reactive responses to competitive and institutional pressures. Even major strategic moves, such as merges and acquisitions, can be tactical and reactive when undertaken in response to deteriorating industry profits or firm lack of competitive advantage. *Formal rationality* addresses the problems of divergent interests and ad hoc solutions by orienting action toward means-end calculation using abstract rules. It improves consistency and coordination at scale—by standardizing decision rules and criteria—but leaves little room for insights and distinctiveness. Standardization of decision techniques—making decisions “without regard to persons” Kalberg (1980, p. 1158)—reduces the likelihood of suboptimal and/or opportunistic choices while also reducing generative variation. Thus, *formal rationality* is unlikely to generate the distinctive strategic choices that are broadly recognized as the bases of strategy (Porter 1996, Siggelkow 2001). *Theoretical rationality* can contribute to the generation of great strategies when the abstraction processes that it involves address important, previously unsolved problems. However, both problems, and the theories developed to address them, are often defined within the perspective of a given value rationality; *theoretical rationality* often systematizes these values into abstracted and relatively coherent worldviews.

Value rationality can be critical to understanding the genesis of novel and unconventional strategies because value-rational action differs from instrumental action in important ways. Kalberg (1980, p. 1167; italics in original) explains, “To Weber, the individual who value rationally orients his action . . . acts methodically in reference to an *ethic of conviction* (*Gesinnungsethik*) and rationalizes action ‘from within’ in *all* spheres of life.” Two strategy-relevant effects of value rationality are highlighted here: First, in contrast to instrumental actions that respond to problems as presented by the external context, value rationality rationalizes actions intrinsically, based on the inner compass of the value postulate. As a result, value-rational actions are likely to be more autonomous and less driven by external conditions. Second, value rationality engenders conviction, which integrates actions across domains and over time. Value-rational actions, therefore, are likely to exhibit greater consistency (which at times may manifest as rigidity—a point we return to in the Discussion section) over both space and time, resulting in clearer strategic trajectories and designs.

This by necessity brief overview of Weber’s typologies of action and rationality provides the background for understanding why a broader perspective on rationality may be beneficial for the study of the genesis of strategies and why theorizing values as the foundation of value rationality is important for developing a fuller appreciation of the values-based processes through which strategies obtain different—and potentially superior—value-creating potential.

3. Values as Complex Cognitive Resources

A value is “a conception, explicit or implicit, distinctive of an individual or characteristic of a group, of the desirable, which influences the selection from available modes, means, and ends of action” (Kluckhohn 1951, p. 395). Rokeach (1980) stressed that values are “shared prescriptive or proscriptive beliefs about ideal modes of behavior and end-states of existence” (p. 262). Schwartz and Bilsky (1987, p. 551) offer the following summary definition of values as: “(a) concepts or beliefs, (b) about desirable end-states or behaviors, (c) that transcend specific situations, (d) guide selection or evaluation of behavior and events, and (e) are ordered by relative importance.”

These definitions point to several characteristics of values that define the distinctive effects of, and mechanisms associated with, value rationality. First, values are transsituational and can direct and *integrate many specific choices* across domains of activities (Schwartz and Bilsky 1987). They are also relatively *stable* over time, although they change, to an extent, with time and across situations (e.g., Seligman and Katz 1996).

Second, values are *goal and standards defining*, as they refer to desired and desirable states of existence and the means to achieve them (Rokeach 1973). Values help individuals to determine which goals they consider important and which they will pursue (Moll et al. 2016, Rohan 2000). Schwartz (2016) further states that what distinguishes one value from another is the type of goal or motivation that it expresses. Third, values are *normative* as they express moral sentiments about what is deemed “good” (Tappolet and Rossi 2016). They reflect both our *ideals and oughts* and serve as standards by which we assess our actions and those of others, as well as situations as a whole (Higgins 2016, Hitlin and Piliavin 2004). Actions that support one’s values are seen as more attractive, and more important values are more likely to be expressed in action plans for behaviors consistent with them (Schwartz 2016). Fourth, values are *affect-laden*, and individuals experience strong emotional responses when their core values are threatened, challenged, or fulfilled (Feather 1995, Schwartz 2016). According to Marini (2000, p. 2828), values “synthesize affective and cognitive elements to orient people to the world.” Finally, values “are intimately bound up with a person’s sense of self” (Feather 1995, p. 1136). They are *tied to one’s personal identity*, which emphasizes a sense of personal autonomy and is “experienced by individuals as ‘core’ and ‘unique’ in a way that group- and role-identities are not” (Hitlin 2003, p. 118). Recent research seeking to integrate values with the notion of self (see Hitlin and Piliavin 2004 for a review) sees values as constitutive of personal identity (Hitlin 2003).

Collectively, these attributes characterize values as *complex cognitive resources* encompassing cognitive, normative, and affective elements. Feather (1996) views them as associative networks, with each central value linked to a set of attitudes, beliefs, and knowledge structures, as well as to other values and their networks.⁵ Among the different conceptions of desirable means and ends that individuals may hold, values are distinguished by being overarching, defining of our goal structures, and reflective of ideals about the self and the world (Feather 1996, Higgins 2016, Hitlin 2003). Furthermore, they are both individual and shared, integrative and heuristic lenses through which people engage in the world (Schwartz 2016).

These present-day findings on values as complex cognitive resources corroborate Weber’s notion of “value postulates” as clusters of related values (Weber 1968) and explain why values undergird other cognitive and emotional processes, such as allocation of attention, selection of personal norms, interpretations of social norms, and formation of beliefs and attitudes toward specific objects and events (Seligman and Katz 1996). They also highlight the mechanisms through which values facilitate autonomous action, oriented toward both the ideals and the “oughts” associated

with the chosen values, and an expression of a personal individuating identity *and* a shared worldview around salient values.

Values are distinct from other related constructs such as norms, principles, ideologies, identities, and emotions but are closely intertwined with them. As Scott (2013, p. 64, italics in original) explains, “*Values* are conceptions of the preferred or the desirable . . . *Norms* specify how things should be done; they define legitimate means to pursue valued ends.” Thus, norms, which refer to “expectations about what are appropriate or inappropriate attitudes and behaviors” (O’Reilly 1989, p. 12), give expression to central values of a social group (Homburg and Pflesser 2000). Similar to norms, *principles* are cultural expressions of values (Kooiman and Jentoft 2009). They have been characterized as norms commanding that something be realized to the maximum extent feasible (Alexy 2000). *Ideology* shares with values an emphasis on ideals but differs from them in being a “highly organized” belief system that attempts to appeal to its adherents rationally through “coherence and comprehensiveness” (Swidler 2001, p. 106), whereas values are “less cognitive” and more often “absorbed through one’s socialization” (Inglehart 1990, p. 373). While the relationship between values and *identities* is the subject of some debate, evidence indicates that individuals assemble values to structure their identities into a coherent self (e.g., Hitlin 2007). Finally, values form on the basis of individual emotional experiences and collective emotional expressions (Von Scheve 2016) but differ from *emotions* in their explicitly moral orientation toward good and bad (Higgins 2016).

4. Strategic Functions of Values

The complex characteristics of values affect key processes in strategy creation, such as allocation of attention, valuation, choice prioritization and integration, and audience engagement. In deciding which aspects of the environment to respond to, values serve as attentional structures that direct strategists’ attention to value-threatening problems and value-affirming solutions. In selecting markets to serve and resources to use, values serve as valuation lenses, directing a firm’s choices toward resources that are value relevant but may be of little or no interest to existing competitors. In integrating strategic choices across domains, values serve as design principles that give coherence to a firm’s course of action and system of activities.⁶ In engaging stakeholders, values serve as identity markers, creating community around common values. Each of these functions could enhance the value-creation and value-capture potential of the strategy conceived through a value-rational logic.

4.1. Recasting the Environment: Values as Attentional Structures

The cognitive perspective in strategy research has demonstrated the effects of cognitive and attentional structures on the processes involved in strategy formulation and implementation (Ocasio 1997, Porac and Thomas 2002). Strategists’ cognitive structures are mental representations of their environments, strategies, business portfolios, and the state of their organizations (Porac and Thomas 2002). Like mental representations, values influence behavior by affecting what people attend to and perceive, and how they interpret situations. Unlike representations, which are concerned with accurate environmental mapping, value postulates selectively reallocate attention to aspects of the environment that either threaten or offer opportunities to attain cherished values. As a result, they magnify the importance of value-relevant situational cues and alter actors’ situational awareness. As a result, similar cues may acquire different magnitude and emotional charge for individuals with different value orientations, leading to fundamentally different interpretations of the situation and its implications for a strategic course of action.

For example, in developing the strategy for Whole Foods, founder John Mackey broke ranks with the traditional natural food cooperatives and health-food stores, which he found to be too doctrinaire in their values about food and health, allowing “little room for entrepreneurial creativity” (Mackey and Sisodia 2014, p. 3). By reading the work of Adam Smith and others, he developed a different value set that he now characterizes as “conscious capitalism” (Mackey and Sisodia 2014, p. 32). This broader set of values facilitated the recognition of an opportunity to serve the health-food needs of a market that extends beyond the niche customers of traditional health-food stores, and it helped adopt a broader merchandising mix to include ice cream and chocolate, which traditional health-food stores eschewed (Koehn and Miller 2007).

As this example illustrates, values alter one’s ecological awareness, creating possibilities to perceive events and interactions that may be invisible to others. Decision-making research provides support for this idea in finding that values-focused thinking is associated with generating a larger number of alternatives and with covering aspects of the problem not covered in alternatives-focused thinking (Léon 1999). Keeney (1996, p. 537) further argues that “[a]lternatives are relevant only because they are means to achieve your values.” Values therefore direct attention toward opportunities to enact them, leading strategists to consider different problems and opportunities than they would within an instrumental rationality focused on immediate problems. More formally, we propose the following.

Proposition 1. *Values provide strategists with attentional structures that recast the environment in value-relevant terms and direct attention to different cues, leading to the identification of different problems and opportunities.*

4.2. Pursuing Opportunities: Values as Valuation Lenses.

Understanding value postulates as a search and selection mechanism helps explain how they guide strategists toward discovering distinctive and undervalued resources and underserved market segments (Rindova et al. 2011). Whole Foods's initial strategy provides an informative example. Within a year of its founding in 1980, the original Whole Foods store (Safer Way, at the time) was damaged by flash flooding, but it reopened in only 28 days thanks to the efforts of its employees and the community. Following this event, Mackey placed community at the center of the firm's resource-sourcing (Rindova et al. 2012) and competitive-positioning (Siggelkow 2001) strategies by building local supply relationships and delegating product mix decisions to the store level. He even sourced the store designs from local artists, making them inviting hangouts that offered prepared food. Both choices implemented community and belonging ideals; they also became key differentiators in an increasingly crowded organic and natural foods market (Koehn and Miller 2007).

As this example illustrates, values change how strategists view and value resources, enabling them to identify resources that are relevant to the firm's strategy but likely less valued by others, and thus enabling them to lower costs. A similar logic applies to the selection of target markets. Because value postulates enable strategists to view industries and markets as contexts that are either consistent or inconsistent with their values, they are likely to see them not only as economic contexts but also as social, relational, and cultural contexts. As a result, they can rethink offerings as means for expressing and enacting their own values, and providing the means for like-minded customers to do the same. The attractiveness of such value propositions and competitive positioning will in turn depend on the extent to which their choices (a) enable others to express their values through such value-tailored offerings and (b) generate superior offerings as a result of lower costs and/or better fit with previously unmet needs. We therefore propose the following.

Proposition 2. *Values provide strategists with distinct valuation lenses, which enable them to select different target market segments and resources for the pursuit of their strategies. These differences in product-market positioning and resource selection reduce ex ante competition in both product and factor markets, thereby increasing the value-creation-and-capture potential of their strategies.*

4.3. Prioritizing and Integrating Choices Across Domains: Values as Design Principles

Recall that value postulates not only orient action—by guiding attention allocation and valuation—but also directly shape the pattern of actions by affecting goal structures, sustained commitment to actions, and coordination of actions across domains. These action effects of values have important implications for strategy creation. First, value postulates serve as the basis for the prioritization of actions and persistence over time. Because values determine what we consider important and which goals we choose to pursue, they provide the basis for specific value-consistent action (Rohan 2000). The more important a value, the more likely people are to form action plans to connect their behaviors to the value (Gollwitzer 1996). Thus, we can expect that strategists will prioritize actions that are consistent with their value postulates and will sustain commitment and persist in those actions. The role of values in prioritizing and persisting in value-consistent actions is seen in Whole Foods's operationalization of its value for community. It was formalized as early as 1985 in the company's "Declaration of Interdependence," which has guided choices about procurement activities (working with local suppliers), store design (inviting local artists to express their creativity), merchandising (providing a local product mix), and human resource management (team-based hiring and merchandising). In combination, these choices ensure appropriate levels of autonomy to leverage effectively the unique outcomes generated through such decentralized processes.⁷ Importantly, it is precisely some of these community-centered aspects of its model that protect its competitive position in the increasingly crowded organic and natural foods groceries market. Thus, value postulates guide the creation of strategies that prioritize value-consistent actions across multiple areas of firm operations, including shaping firm actions relative to positioning in product markets, relations with resource suppliers, and exchanges with the general environment.

Second, as the example above illustrates, values also enable the integration of choices made across different domains, such as resource sourcing and product offerings, into meaningful and effective business model designs. On the face of it, values-based resource sourcing may appear idiosyncratic and as of questionable value-creation potential, as it is not based strictly on rational calculation of relative costs. However, in the example above, it is evident that the value postulate provides a design principle—and one that is normatively sanctioned and potentially emotionally laden—that ensures consistency of choices across multiple domains, resulting in a coherent design of integrated, mutually reinforcing activities. We therefore propose the following.

Proposition 3. *Values provide strategists with consistent design principles, which enable them to prioritize and integrate strategic choices across various domains, such as product markets, suppliers, and the general public. The systemic integration enabled by values increases the efficiency and reinforcing effects of diverse activities, thereby increasing the value-creation-and-capture potential of the strategy.*

4.4. Mobilizing Stakeholders: Values as Identity Markers

A values-based perspective shifts the analysis of audiences in two important ways. First, as discussed earlier, values-based strategies often explicitly target audiences with similar value orientations. For example, Whole Foods's growth followed the growth in LOHAS (Lifestyles of Health and Sustainability) consumers who incorporate environmental and social responsibility values into their purchase decisions and span traditional demographic groups (Organic Consumers Association 2002). Whole Foods's value proposition appealed not only to their instrumental rationality, evaluating offerings from the perspective of their immediate pragmatic needs, but also to their value rationality, evaluating its offerings as a means for expressing their own values of healthfulness and sustainability. To the degree that values-based strategies tap into values and identity resonances with stakeholders, they benefit from evaluation on dimensions that go beyond immediate product quality. Such evaluations may involve less detailed scrutiny on functional performance and more holistic or emotional evaluation of identity significance. Just as strategists who use values to scan the environment discover different problems and opportunities, so may consumers who use values to evaluate offerings arrive at different evaluations of desirability and willingness to pay. Furthermore, identity-based consumption is associated not only with greater willingness to pay but also with a greater willingness to engage through word of mouth, display of consumption practices, and community participation (Ravasi and Rindova 2008). In fact, firms such as Whole Foods (but also others such as Apple, Starbucks, Patagonia, Toms, and Tesla) interact with not only customers, employees, or suppliers but also communities of identity, in which interactions and exchanges may be shaped by common goals, standards, and ideals derived from shared value postulates.

Values connect internal and external audiences directly, as they are key elements of both organizational cultures (Schein 1983) and organizational and personal identities (Hitlin and Piliavin 2004, Ravasi and Schultz 2006). They provide the foundation by which collectives become communities—both within and outside organizational boundaries. Brand and user communities emerge around organizations whose products communicate meanings that extend beyond

simple functionality (Ravasi and Rindova 2008). Such communities are involved in both the attribution of value to products and the provision of resources in the resource-sourcing process. Such community mobilization processes may enhance and sustain the competitive position claimed through a novel and distinctive strategy. We therefore propose the following.

Proposition 4. *Values provide strategists with identity markers that enable them to engage and mobilize audiences both at higher levels and at lower costs, thereby increasing the value-creation-and-capture potential of the focal strategy.*

5. Challenges and Pitfalls in Employing Value Rationality

Our discussion so far has focused on the ways in which values provide strategists with novel bases for strategy creation and potential to gain competitive advantage. However, they also present distinct challenges and pitfalls that have to be recognized and managed carefully. Below we discuss three major challenges: making implicit values explicit, avoiding dogmatism, and navigating values-based conflicts with stakeholders.

5.1. Making Implicit Values Explicit

In understanding how strategists may engage with their values in the process of strategy creation, it is important to note that individuals vary in the extent to which (a) they are conscious of their values and (b) rely on values to guide their choices. Values are typically implicit in the sense that “[v]alue-based assessments of potential choices typically occur outside conscious awareness” (Schwartz 2016, p. 72). Using one's values does not require much cognitive effort (Feather 1995) nor does it require much awareness of either the values or their effects on assessing objects, individuals, situations, and one's own actions. Some past research has viewed the implicitness of values and the automaticity of cognition they generate as a reason to dismiss their relevance for understanding social action (see Von Scheve 2016 for a discussion). More recent work, however, has linked values to System I thinking in dual models of information processing (Kahneman 2003, Slovic et al. 2004).

The challenge created by the implicitness in strategists' use of values as cognitive resources in strategy creation bears similarities to the variation observed in research on the use of societal culture as a tool kit (Swidler 2001). While some individuals are unaware of how they use cultural symbols and scripts, others use them proactively to devise different strategies in different contexts (Swidler 2001). Similarly, whereas values are typically implicit, they can be articulated, and the more they are explicitly articulated, the stronger their effects are on actions (Schwartz 2016). However, value articulation requires considerable mindfulness.

Even when individuals articulate their values, they may be only partially aware of how values are related to their choices (e.g., Schwartz 2016); they may identify a small set of core values without recognizing that values operate in an interrelated system and are associated with networks of beliefs, attitudes, and intentions (e.g., Feather 1996). The challenge of articulating an entire interrelated system of values and their networks is similar to the causal ambiguity problem with the use of tacit knowledge within a firm (e.g., Lippman and Rumelt 1982). Essentially, because of the characteristics of values, strategists may struggle to clearly articulate and communicate their values and how they relate to firm strategies. However, as with other causally ambiguous resources, conscious attention, experience, systematic reflection, and other such mechanisms may enable strategists to increase their effectiveness in articulating their values and employing them in strategy creation. In fact, in early work on values, Rokeach (1973) devised a value self-confrontation intervention to help individuals consider their values purposefully and make them explicit so that they can be used in conscious behavioral change.

5.2. Values as a Source of Conflict

In addition to the explication challenge discussed above, a second problem surrounding value articulation relates to communicating values to various stakeholder audiences and achieving a common understanding across them. Essentially, even if a degree of clarity can be achieved about subcomponents of the value system, the same articulated values are likely to mean different things to different actors as a result of associative networks, and they may have different implications for action as a result of different attitudes toward specific objects (Feather 1996). This implies that strategists must work toward the socialization and acculturation of the rest of the upper echelons of their firm. That is, to create distinctive strategies, before developing strategic consensus, or “a collective heart and mind” regarding strategic priorities (Floyd and Wooldridge 1992, p. 27), senior executives may need to develop values consensus, or agreement regarding the values that will inform strategic choices. Indeed, continuing with the example of Whole Foods, a cofounder, Mark Skiles, left the company a few years after its founding in part because of disagreement with Mackey regarding the values behind the company’s strategy (Flock 2010).

In communicating personal values underlying their strategies to other key stakeholders, executives must exercise caution to ensure that the values do not lose their nuance and potency in the process of being explicated, devolving into generic platitudes or slogans. The more they are expressed in generic form, the more they are likely to be subject to varying interpretation, with potential negative consequences. At the

individual level, values are organized in a hierarchical and relational system, which guide interpretations and actions (e.g., Feather 1996). However, even when they are clearly articulated, values may not have the same meaning to employees and other stakeholders, who perforce personalize their meanings to fit within their own values and other cognitive structures. They assess the firm’s actions against their individual interpretations of the values and may react negatively when they perceive that managers are violating stated values even when managers may believe that they are not (Edmondson and Cha 2002). For example, Whole Foods has frequently come under criticism from employees, customers, and suppliers who may have a different interpretation of its stated values of promoting employee well-being, commitment to the natural environment, and support for organic agriculture from the values actually driving the company’s strategies (Burros 2007, Chen 2014). Illustrating differences in interpretations of the same values, Chen (2014) concludes her article about employee complaints about pay at Whole Foods with the conjecture that “[m]aybe Whole Foods employees have taken the ‘values matter’ credo to heart in ways that their boss didn’t anticipate.”

5.3. Values as Sources of Dogma

Personal values are deeply held and as such have powerful impacts on cognition and action (e.g., Higgins 2016, Rokeach 1973, Schwartz and Bilsky 1987). As distinct cognitive resources that can be leveraged in strategy creation, they pose an important question: To what extent should strategists rely on and adhere to their a priori values rather than respond to market feedback? Can and should they modify them to create a balance between consistency with their identity and the goals and mission of the firm? This challenge is illustrated in Mackey’s experience. When he started Safer Way, the natural foods grocer that was the predecessor of Whole Foods, the primary values behind his strategy were based in “progressivism (or liberalism or social democracy) and . . . the ideology that business and corporations were essentially evil because they selfishly sought only profits” (Mackey and Sisodia 2014, p. 2). These values underplayed profit making, and the strategy based on them led to losses and stagnation over the company’s first two years (Koehn and Miller 2007). As noted above, it was only after he read books by Adam Smith, Milton Friedman, Friedrich Hayek, and Ayn Rand, and incorporated into his value system new values that celebrated free-enterprise capitalism and profit making, did he arrive at Whole Foods’s business model that combined autonomy and stakeholder integration, and the balance of a transcendent purpose and profit making that undergirds the firm’s current, successful strategy and the encompassing notion of “conscious capitalism” (Mackey and Sisodia 2014).

This example suggests that whereas a priori values serve as important bases for strategy creation, executives may need to guard against dogmatism, defined as “(a) a relatively closed cognitive organization of beliefs and disbeliefs about reality, (b) organized around a central set of beliefs about absolute authority which, in turn, (c) provides a framework for patterns of intolerance and qualified tolerance toward others” (Rokeach 1954, p. 195). Research finds that dogmatism is associated with resistance to change and in particular to its subdimensions of cognitive rigidity and having a short-term focus (Oreg 2003). This research implies that dogmatic adherence to values that drive the creation of a strategy could result in limited search in the creation of firm strategy. Indeed, in their simulation study of search on a rugged landscape, Winter et al. (2007, p. 403; italics in original) find that “combining the guidance of local search with a moderate level of nonlocal *obsession*, is distinctly advantageous in searching a rugged landscape.” Their finding suggests that strategists should guard against potentially limited search resulting from dogmatic adherence to their value system. A common consequence of such dogmatism could be a disconnect between firm strategy and value-creation-and-capture potential in a given market, leading to a quixotic quest with a distinct, but unprofitable, strategy. Thus, values-based strategies should not be disconnected from market feedback, even while strategists filter market feedback through the lens of their value postulate.

To effectively adapt values to add dynamism in the doing mode of strategy, strategists face the challenge of making conscious choices that modify their value postulates without losing the distinct strategic advantages of the strategies based on the original value postulate. In other words, modification of the value postulate to enable dynamism is a strategic challenge of staying true to one’s value system yet being flexible in incorporating the right changes into the value system. The factors and circumstances that enable strategists to strike this tricky balance constitute interesting avenues for future research.

6. Discussion

We have proposed a theory of how strategists’ personal values contribute to the creation of distinctive, integrated strategies with superior value-creation-and-capture potential. We built on Weber’s ideas about value-rational action and different types of rationality to argue that strategic management researchers would benefit from considering the role of value rationality in strategy creation. We then theorized how the psychological processes associated with values affect key processes in strategy creation, such as allocation

of attention, valuation, choice prioritization and integration, and audience engagement, and they generate different—value-rational—patterns in assessing the environment, selecting resources and target markets, designing business models, and mobilizing stakeholders. Understanding the role of values in generating value-rational action patterns has important implications for understanding the origins of strategies that have the potential to generate superior performance and sustainable competitive advantages.

First, by focusing attention on issues and solutions that are different from those addressed by incumbents, and by influencing the valuation of specific resources and markets, values shape the processes of opportunity discovery and creation. These ideas extend current thinking about how opportunities are created through entrepreneurial action and responsiveness to market feedback (Alvarez and Barney 2007). Whereas prior research has painted a picture of individual entrepreneurs engaging in testing market beliefs through novel offerings, our theory suggests that, to the degree that value postulates pattern collective actions, value-rational actions may express valued beliefs, thereby evoking positive responses from individuals who share the entrepreneur’s value postulates. From this perspective, opportunities are created not only by iteratively discovering latent needs but also by expressing spoken and unspoken values (Rindova and Fombrun 1999, Weber et al. 2008).

Second, values may alter the economics of offering products and services of a particular kind by altering the valuation lenses through which both input factors (resources) and outputs (products and target markets) are viewed. Fundamental to these processes are the distinctive perspectives that values provide, which shift one’s viewpoint on what is valuable and why. We made the argument that such shifts in perspective may result in accessing undervalued resources and underserved customers, both of which have the potential to change and improve the economics relative to competitors’ offerings. Value rationality is therefore not economic irrationality, and the use of value rationality does not imply absence of instrumental rationality. When a firm employs value rationality, it faces the question of how to combine economic instrumental rationality and value rationality (see Dalpiaz et al. 2016 for a discussion), and not how to replace the former with the later.⁸

Third, audiences, stakeholders, and communities play a major role in values-based strategies. We specifically highlighted potentially lower cost and higher levels of stakeholder audience engagement through identity resonance. Future research in the area can leverage the insights from social movements research, as social movements coordinate social action on the basis of values and identity (Inglehart 1990). Social

movements research has given close attention to the issues of identity conflicts (Rao et al. 2003) and value oppositions (Weber et al. 2008), which are important aspects of value-rational action. The upside of values-based strategies is that they may evoke audience excitement and support when they enable audiences to express cherished values through the firm's products and services. However, they may also involve various social escalation dynamics such as harsh criticism and boycotts (e.g., King and Soule 2007) based on perceptions that a firm has reneged on its values through its strategic actions.

In conclusion, in connecting human values to strategy and value creation, we have sought to broaden the perspective on rationality that informs strategy research and to draw attention to how the richness of human experience—expressed in our conceptions of the desirable and our capacity for value-rational action—can shape firm strategies and reshape industries.

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Endnotes

¹We adopt Andrews's (1980, pp. 18–19) definition of strategy as “the pattern of decisions in a company that determines and reveals its objectives, purposes, or goals, produces the principal policies and plans for achieving those goals, and defines the range of business the company is to pursue, the kind of economic and human organization it is or intends to be, and the nature of the economic and non-economic contribution it intends to make to its shareholders, employees, customers, and communities.”

²Only two of the action capacities—means-end-rational and value-rational—are associated with corresponding rationalities—practical and substantive. The different types of actions describe innate individual capacities, whereas rationalities describe ways of organizing actions at the collective level that give the individual action capacities certain ordered tendencies.

³Weber saw formal rationality as essential to the conduct of business and organizational life, but he also saw it as limited in its domains of application, and in the extent to which it supersedes individual interests.

⁴Kalberg (1980, p. 1164) notes that “the practical rational way of life, according to Weber, lacks a methodical character . . . [as it] continually reacts to changing situations instead of ordering them, for example, under an ethical postulate or an abstract rule.”

⁵Researchers agree that values are better understood and studied as systems (Kahle 1996), as it is the relative importance of multiple values that guides action (Schwartz 2016).

⁶We use the terms “action” and “course of action” interchangeably and follow (Gavetti and Menon 2016, p. 209) in viewing a course of action as “a combination of many components such as commodities, resources, or activities, which can be more or less interdependent.”

⁷Whole Foods also relies on a number of more centralized processes to generate various capabilities and efficiencies; however, its value proposition and strategic positioning are critically dependent on the community-centered, stakeholder integration model.

⁸Economic rationality itself can be a form of value rationality when the enactment of the values of the doctrine overrides the pursuit of pragmatic outcomes.

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