A Value-Oriented View of Strategy

Working paper

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Firms create both value and values and these two roles are tightly connected. Strikingly though, management literature lacks a model of strategy that considers both. Addressing this gap in the literature, this paper outlines a novel view of strategy based on a value-oriented model of firms, markets, and competition. It describes how value and values are created through economic, social, and cognitive mechanisms and how this is done in market forums moderated by firms. As such, the paper extends the predominantly economic notions of competition and strategy with social, cognitive and normative dimensions thereby articulating an expanded repertoire of competitive actions that are available to practitioners.

Firms create value. Through their superior ability to organize and coordinate activities, they are able to produce products and services that are valued by society and hard to produce otherwise. Economists and sociologists have acknowledged and theorized this role of firms for over more than two centuries (Weber, 1947; Parsons, 1956b; Say, 1971/1803; Smith, 1991/1776) and also in today’s strategy and organization theory, discussions on value creation abound (e.g., Priem and Butler, 2001; Holcomb, Holmes Jr., and Connelly, 2009; Pies, Beckmann, and Hielscher, 2010).
Firms also create values. Through their focus on the production of products and services and through their marketing and competitive activities, firms promote capitalist and other values within and outside their boundaries. Amongst the values that firms promote are wealth, and the exchange value and use value of commodities and labor (Graeber, 2005; Harvie, 2005; Harvie and Milburn, 2010; Willmott, 2010). As with the first role, though to a lesser extent, also this role of firms has been acknowledged by economists and sociologists over the last two centuries (e.g., Kluckhohn, 1951; Parsons, 1956a; Clegg, 1981; Smith, 2006/1790; Marx, 2006/1867).

Both roles of firms need to be considered if we are to understand what firms are, what kind of activities they engage in, and what is their impact on society. The notion of value cannot be defined without reference to some kind of values; and, on the other hand, values cannot be realized without some form of value creation. Yet, strikingly, extant strategy and organization theory lacks a model of firms that considers both. On one hand, there are theories providing explanations of how firms create value. Examples are the resource-based view (Rumelt, 1984; Wernerfelt, 1984; Barney, 1991) and transaction-cost economics (Coase, 1937; Williamson, 1979; Williamson and Winter, 1991). On the other hand, there are theories explaining how firms create and influence values within and outside their boundaries. Examples are theories on firm legitimacy (Rao, 1994; Suchman, 1995) and institutional theory (DiMaggio and Powell, 1983; Powell and DiMaggio, 1991). We are not suggesting that, in order to combine the two roles, these theories should be integrated into a universal and complete ‘Theory of Strategy’. Yet, given the current disconnect between theories on value and theories on values, a model that can bridge between both worlds is urgently needed, for in practice the two cannot be separated.
The only theory that, to our knowledge, explicitly combines both roles of firms is stakeholder theory (Freeman, 1984; Donaldson and Preston, 1995; Jones and Wicks, 1999). It stresses the instrumental and normative role of values in firms and argues that value creation is enhanced when there is agreement between stakeholders on which values are important. Thus, it explicitly recognizes the role and mutual interdependence of value and values in firms. However, despite its development over the past 25 years, stakeholder theory still leaves important questions unanswered when it concerns how firms create value and values (see Laplume, Sonpar, and Litz, 2008 for a review). Its perhaps most serious omission is that it underemphasizes firms’ role in creating values, in influencing the norms and expectations of their stakeholders. With its libertarian and Rawlsian basis of distributive justice, stakeholder theory presumes that stakeholders have particular values and interests ex ante and that the main task of firms is to find a way to satisfy as many as possible of these through value creation (Freeman, Wicks, and Parmar, 2004; Freeman, et al., 2010). Thus, stakeholder theory takes values largely for granted and as such does not explain how firms engage in the creation of value and values.

The objective of this paper is to address these limitations of extant strategy theory. Starting from the observation that firms create both value and values, it develops a value-oriented view of strategy. Our analysis starts in the next section with summarizing what is known from previous literature about the nature, objects and plurality of value and values. We then move on to an analysis of the mechanisms through which value and values are created, which is followed by a discussion on the particular role of firms and markets herein, and a discussion of the implications for competition and strategy.
Our analysis leads to three contributions to the strategy and organization literature. First, we contribute by introducing a richer model of firms that captures their dual role of creating value and values. As such, this paper brings together two largely separated streams of literature into one model of the firm. Second, and in accordance with the first, we provide an alternative to the mainstream economics-based and demand-sided notion of markets. By conceptualizing markets as forums, as interacting communities moderated by firms, we stress their complementary nature to firms rather than seeing them as alternative form of organization. Finally, our analysis leads to a model of competition and strategy that goes beyond the mainstream Porterian model (Porter, 1985). Drawing from the first two contributions, the paper provides a notion of competition that extends the current focus on economic value creation towards a broader model that includes social, cognitive, and normative notions of competition. As we shall conclude, these three contributions provide researchers and practitioners with a novel and richer interpretation of what strategy and strategizing could mean. More generally, by its explicit focus on value and values as the outcomes of firms this paper answers to recent concerns that strategy and organization theory fail to sufficiently consider the consequences of organizations (Bartunek, 2002; Clegg, 2002; Hinings and Greenwood, 2002; Prichard and Mir, 2010).

**ON VALUE AND VALUES**

There is long tradition in theorizing value and values in the strategy and organization literature. In this section, we will summarize some of that literature in order to demarcate and define what is meant with these terms.
**On Value**

Definitions and discussions on the nature of value abound in strategy and organization literature. A widely cited example is the resource-based view of the firm, which defines value as follows: “Resources are valuable when they enable a firm to conceive of or implement strategies that improve its efficiency or effectiveness” or when they exploit “opportunities and/or neutralize threats in a firm’s environment” (Barney, 1991: 105). Based on the economic ‘advantage-value-return’ and ‘value-price-cost’ frameworks, the resource-based view focuses primarily on how firms are able to generate rents and profits (Bowman and Ambrosini, 2000; Peteraf and Barney, 2003; Erturk, et al., 2010). Resources are valuable when they enable firms to realize this. In this (neo)-classical economic view, value is assumed to be an objective characteristic of resources and it is seen as an input variable that needs to be considered rather than one that needs to be explained. Yet, the critical debate on the notion of value in the resource-based view demonstrates that avoiding such explanation skirts fundamental attributes of the notion of value (Priem and Butler, 2001; Kraaijenbrink, Spender, and Groen, 2010).

More elaborate views on the notion of value have been discussed elsewhere in the literature. Scholars outside the mainstream strategy and economics literature have engaged themselves in scrutinizing and defining the notion of value. Some definitions put forward there are:

“Value is the way in which an individual actor’s actions take on meaning, for the actor herself, by being incorporated into a larger social whole” (Graeber, 2005: 37)

“Value…is the way people represent the importance of their own actions to themselves. By representing this importance they have a guide to their action. Value however does not spring out of individuals isolated from the rest of society. Any action, or process, only becomes meaningful…by being integrated into some larger system of action” (De Angelis, 2005: 66)
“For Marx, value is that which is created by human labour and, in particular, by human labour in the abstract—and whose measure is money. (Harvie and Milburn, 2010: 632, original italics)

“Value is the capacity of a good, service, or activity to satisfy a need or provide a benefit to a person or legal entity” (Haksever, Chaganti, and Cook, 2004: 292)

Running across these definitions is the idea that value implies a meaning in a larger ‘system’. These can be systems of any kind – a customer who values a product, a firm that values a resource, or society which values productive labor. Irrespective of the particular kind of system that is referred to, value in these definitions is always an expression of the meaning of something. This implies that valuation is a matter of relating parts (e.g., things, people, or activities) to a larger whole in which they have meaning (Graeber, 2001; 2005). This notion of value is a broadly accepted one that can also be found in, for example, Austrian capital theory (Menger, 1871; Lachmann, 1956), and in Parsons’ functionalist analysis of social systems (Parsons, 1951; 1956a).

Of these various definitions, we prefer the one by Haksever, Chaganti and Cook (2004) for this paper. This definition is suitable because it explicitly associates value with goods, services and actions, while the other three definitions focus exclusively on actions. At the bottom-line, it may always be actions that are directly or indirectly valued. Yet, an exclusive focus on actions does not acknowledge that it is sometimes the actions themselves that have value, while at other times it may be the fruits of these actions that are valued. Another reason to prefer this definition is that it explicitly acknowledges that the ‘larger systems’ in which these goods, services, and actions obtain meaning include both persons and legal entities such as organizations. Finally, this definition is relatively simple compared to the other definitions without losing the richness of the concept.
There are two aspects on which Haksever, Chaganti and Cook’s definition needs amendments. The first is that the notion of ‘services’ as it is interpreted by them (as in ‘service industries’) is not needed. Services are comprised of goods and activities and are therefore already captured by these terms. Given this redundancy, we think it should be omitted from a definition of value. The second amendment is more important. By its focus on the value of goods, services, and activities, this definition, as well as the other definitions, disregards that also relations between people can have value (Harvie and Milburn, 2010). Friends and family, for example, can have substantial value – or meaning – for people, based on what they are rather than for what they do. To acknowledge this more humanized notion of value, we define value as the capacity of a good, activity, or relationship to satisfy a need or provide a benefit to a person or legal entity.

On Values

The body of knowledge on values has a long history within the realm of ethics and religion. Western theorizing on this notion has taken off with Nietsche (1994/1887) and ever since this controversial philosopher, numerous others have contributed (see Joas, 2000 for an excellent historical overview). For the purpose of this paper, we shall limit the discussion to definitions of value that have appeared in the management literature. Examples are:

“Values are desirable end states that influence choices or actions” (Fu, et al., 2010: 226)

“When we talk about values…we are talking about practices, actions or relationships, the process of valuing. The idea of values refers to that which people hold dear, esteem or cherish; a value system refers to ethical framework constructed around a set of values” (Harvie and Milburn, 2010: 632)

“(W)e can define values as central desires or beliefs regarding final states or desirable conducts that transcend specific situations, guide the choice and evaluation of our decisions and, therefore of our conducts, becoming an integral part of our way of being and acting to the point of shaping our character”(Argandoña, 2003: 16)
“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: 395)

As expressed in these definitions, values refer to judgments of what is right and wrong, or good and bad. They are the standards by which we evaluate something. The definition by Fu et al. (2010) is a teleological one, assuming a desired future state against which choices and actions are judged. As many choices and actions that people make, are not that future- or goal-oriented and since oftentimes ‘desirable end states’ cannot be conceived of ex ante, this definition of values is too restrictive. The other three definitions are less dependent on this teleological notion and therefore more suitable. These refer to the ‘desirable’ as such, which can also refer to something in the present.

For reasons similar to the ones given above, we adopt Kluckhohn’s (1951) definition in this paper. This definition expresses that values are conceptions of people, individual or collective. Furthermore, it explicitly acknowledges that values play a role in the selection of modes, means, and ends of action. Thus, it articulates that there is always something, some object, that is valuated. This makes it compatible to our definition of value above, since that definition also articulates objects that have value (goods, activities, and relationships). The strength of Kluckhohn’s definition furthermore lies in its emphasis that values can be implicit or explicit and thus that they play a role even when people are not explicitly aware of them.

As these definitions of value and values reveal, the two are tightly interconnected. While value refers to some sort of service – in the Penrosian (1959) sense of the word – that is provided by goods, actions, or relationships, values refer to the standards of evaluation that are used to assess
that service. Both concepts need the other to obtain significance. Thus, the notion of value has no meaning unless it is related to some notion of values and, vice versa, the notion of values has no meaning without something that is valued.

The Plurality of Value and Values

As the plural form of the term values already suggests, there is a plurality of values that people use as standards of evaluation (Mills, et al., 2009). As emphasized by various scholars, people have a diverse system of values – family, religious, economic, aesthetic, and so forth – that they adopt when they value something (Graeber, 2001; Boltanski and Thévenot, 2006; Harvie and Milburn, 2010; Willmott, 2010). Sometimes these values may conflict and one and the same good, action, or relationship may be assessed differently dependent on the particular value system of reference that is applied (Boltanski and Thévenot, 2006). An example of this in the management literature is the competing values approach, which explicitly recognizes trade-offs between four types of values that are assumed to be important for effective organizations (Quinn and Rohrbaugh, 1983). Another example is the widely used distinction between ‘exchange value’ and ‘use value’ (e.g., Bowman and Ambrosini, 2000). As Adam Smith (1991/1776) already reminded us, something that has the greatest value in use, may have no or little value in exchange, and vice versa. This implies that the way something is valued depends largely on the particular value system that it applied.

In addition to the plurality of values – in conceptions of the desirable – there is also plurality in value – in the capacity to satisfy needs or provide benefits. This is evident in economic and strategic conceptions of value where companies are recommended to be different from
competitors by lowering costs or providing additional benefits to customers (e.g., Porter, 1985). Along that line, companies have found different ways of creating value for their customers. Thus, also with respect to the creation of value, there is a plurality of systems leading to different types of value. Furthermore, not only can one good, action, or relationship be valuated differently, there are also different goods, actions, and relationships that can provide similar value or that are valuated similarly.

An important question when considering the plurality of value(s) is whether they are established objectively, or subjectively. (Neo)classical and Marxian theories of value are based on an objective notion of value. Despite important differences, both Ricardo and Marx (2006/1867), for example, assume that value can be established objectively by measuring the amount of labor required to produce a good (Marx, 2006/1867; Reinecke, 2010). Austrian economists such as Von Mises (1949), on the other hand, reject this and consider value a subjective notion that depends on individual differences and that is defined in interactions on the market. A similar discussion on objectivity and subjectivity is found in the literature on values. Some writers argue that values can be derived from objective principles or virtues (e.g., Aristotle). Others, though, argue that values are established subjectively (e.g., James), or even that subjectively defining what is valuable is the ultimate freedom that society ought to be looking for (Graeber, 2005). The fact that the value of something depends on the systems of value(s) by which it is created and valuated implies that value(s) can never be fully objective. Since the choice for a particular system of values in evaluating a good, action, or relationship is always subjective, any fully objective notion of value cannot hold. Furthermore, also within a particular system of values, there is always some subjectivity involved. Marx’s ‘objective’ labor theory of value, for
example, stands on an open concept of productive labor that requires subjective judgment in
distinguishing between what counts as productive labor and what not (cf. Harvie, 2005). On the
other hand, value is also not established in a fully subjective way. It is always people that define
what is valuable and what not and people are not isolated from each other and the world. This
means that someone’s value judgments are influenced by others with whom they interact and by
the situation they are in while acting (Dewey, 1939; Mead, 1967; Joas, 1997; 2000). This implies
that both value and values are created intersubjectively – between subjects – by human actors
situated in a particular context.

THE CREATION OF VALUE AND VALUES

As the previous section argued, value and values are created intersubjectively by human actors
that interact in a particular situation. But also things that may not be considered valuable are
created in this way. As some influential sociologists have even argued, all human action can be
characterized as intersubjective and situated interaction (Giddens, 1984; Joas, 1997; Emirbayer
and Mische, 1998). Thus, if anything, what distinguishes the creation of value and values from
other kinds of human action?

The answers given to this question have varied over time and between authors. Yet, there is one
consistent thread running through the various answers that we take as the basis for our analysis.
Whether it is literature on economics, sociology, or ethics, one common explanation that can be
found in all of them is that value and values originate from human actions aimed at self-
realization and self-transcendence. An example of how this idea underlies the creation of value
can be found in Von Mises’s (1949) economic treatise on human action. Von Mises argues that
the primary drivers of our economy are people’s dissatisfaction with the status quo combined with an imagined or observed more satisfactory state and the expectation that their actions will lead to this more satisfactory state. Value creation, then, is the result of people trying to substitute a more satisfactory state of affairs for a less satisfactory one (von Mises, 1949: 13). An analogous example with respect to the creation of values can be found in Joas’s (2000) interpretation of seminal works on the origin of values. As he concludes from reviewing the work of writers such as Nietsche, Durkheim, Simmel, and Dewey, “values arise in experiences of self-formation and self-transcendence” (Joas, 2000: 1).

As these answers suggest, both value and values result from people’s efforts to improve their situation. That is all good, but unless we have an idea about the mechanisms by which this is done, this abstract answer still does not tell us much. Fortunately, the literature, provides us with ample explanations of the more detailed processes underlying this general answer. Concerning the creation of value, there are various theories of the firm that all provide different explanations of how value is created. And, concerning the creation of values, there is a host of sociological theories explaining in detail how values arise. Below, we bring these various explanations of how value and values are created together into a general model that comprises three basic mechanisms through which value and values are created economic, social, and cognitive.

**Economic Mechanisms for Creating Value(s)**

The most widely acknowledged and theorized mechanisms of value creation are economic mechanisms. The literature on strategy and economics is rich in this respect and tends to consider it as the primary, if not only mechanism of value creation. In Pies, Beckmann, and Hielscher’s
(2010) terms, these mechanisms comprise the ‘basic game’, which “comprises the day-to-day operational business, including the production of goods and services, research and development, innovation, and the efficiency-oriented management of scarce resources” (2010: 269). Given the wide awareness of these mechanisms, we will not elaborate on them further in this paper.

Next to creating value, economic mechanisms also contribute to the creation of values. This is reflected in the ideas of a ‘technology push’ and Say’s Law, the idea that supply creates its own demand. By making new products or services available, firms change people’s notion of what is desirable and important. Consider examples such as PCs, mobile phones, and other gadgets of which we now feel that we cannot live without them. These products have changed our conception of what is valuable and what not. Economic mechanisms lead to the adjustment of values also in a more general sense. By creating wealth and providing people with new products and services, economic mechanisms change people’s lives. They enable people to raise their standards of living and thereby change their sense of what is important and desirable. In terms of Maslow’s (1998) hierarchy of needs, economic mechanisms enable people to move up from satisfying physiological and safety needs to satisfying needs of belonging, esteem, and self-actualization. Hence, economic mechanisms lead to the creation of new values and to changes into the relative importance attributed to these values through enlarging people’s possibilities.

Social Mechanisms for Creating Value(s)

The traditional Marxian distinction between productive and unproductive labor presumes that value is only created in the economic ‘basic game’ of productive activities. Activities that are aimed at the distribution or circulation of value are considered unproductive and are therefore not
creating value. As stressed by Harvie (2005), though, the distinction between productive and unproductive labor is not as sharp as it may seem. As many firms show today, along with the economic mechanisms, also social mechanisms can create value. This is evident in the service-sector where social interaction is the primary good that is provided. Yet, social mechanisms provide value also in industries. Consider, for example, why people choose particular shops to buy their food or clothes. This is partly because of the quality of the products, but also because of the friendliness and helpfulness of the employees, or perhaps the likability of the owner. The idea that social mechanisms are sources of value is also the core assumption behind the literature on co-creation, where it is the personalized experience and interaction itself that provides value to the customers (Prahalad and Ramaswamy, 2004b; 2004a). Hence, social mechanisms may be just as crucial in creating value as economic mechanisms.

Social mechanisms also create new values. As much as economic mechanisms are considered the primary mechanisms of value creation, it is social mechanisms which are considered the primary mechanisms of creating values in the literature. The role of social mechanisms in creating and influencing values is widely recognized in the domains of politics and rhetoric, and in studies of, for example, legitimization (Suchman, 1995; Suddaby and Greenwood, 2005), social movements (Stevenson and Greenberg, 2000), firm reputation (Rao, 1994), and branding (Willmott, 2010). Each of these studies focuses on how social mechanisms are used to change people’s conceptions of what is desirable and what is not. Given this wide awareness of the role of social mechanisms in creating values, we will not elaborate further on these.
Cognitive Mechanisms for Creating Value(s)

The third category of mechanisms that create value and values are cognitive mechanisms. While economic mechanisms focus on cooperation and production and social mechanisms on communication and persuasion, cognitive mechanisms focus on people’s imagination and interpretation. With respect to the creation of value, cognitive mechanisms include the creation of new ideas and information and the envisioning that things might be otherwise than they are today. Such ideas and visions may trigger new economic mechanisms of value creation to realize them – such as the creation of firms by entrepreneurs (Witt, 2007). This role of cognitive mechanisms is emphasized in Austrian economics, which holds that it is people’s subjective judgment of resources that provides the basis for value creation (Penrose, 1959; Foss and Ishikawa, 2007; Kor, Mahoney, and Michael, 2007). Thus seen, cognitive mechanisms are complementary to economic and social mechanisms in the creation of value. Cognitive mechanisms, though, can also produce value by themselves, relatively independent of economic and social mechanisms. This occurs in the creative and information-based industries where it is ideas and information that are valued and bought by customers. Newspapers, artists, and search engines are just some examples of this.

Like economic and social mechanisms, cognitive mechanisms also create values. This can be direct, in the sense that people can imagine new values, new conceptions of what is desirable. People can also imagine the values of other people. Through ‘moral imagination’, they can project themselves in the position of ‘significant others’ or the general public to assess their own actions (Mead, 1967; Higgins, 1987; Smith, 2006/1790). The difference with the social mechanisms described above is that these values are imagined rather than a result of social
interaction. Cognitive mechanisms can be used more indirectly as well. As research in cognitive psychology has shown, people use various value-related heuristics and biases in their decision-making (Kahneman, Slovic, and Tversky, 1982; Gilovich, Griffin, and Kahneman, 2002).

Everyday examples are the ideas that we perceive a product more valuable when it is scarce, that a cheap product can’t be any good, and that as we see a product more often, our assessment of it becomes more positive. Firms use these cognitive mechanisms in their marketing and sales strategies in order to influence how people assess their products.

**Conclusion on the Creation of Value(s)**

As this brief discussion of these three pairs of mechanisms suggests, firms have a rich repertoire of mechanisms available for creating value and values. In practice, firms use these mechanisms in combination to increase the value that is experienced from their goods, actions, or relationships. If we look at today’s economy, we see that primarily social and cognitive mechanisms increase in relevance. Examples of Facebook, Twitter, and Google show the enormous amount of value that can be created by these mechanisms. In addition, these companies have also changed the values of numerous people across the planet. By equipping the individual with information and means to mass-communicate, they have promoted democratic and liberal values and have even facilitated revolutions in dictatorial states.

As long as we speak of creating material value, there is a relatively clear distinction between value and values. Yet, as we move from the economic to the social and the cognitive mechanisms, the distinction between creating value and creating values starts to disappear (Arvidsson, 2010). This is perhaps most extreme in co-creation and open source processes where
the process of value creation itself has become the main value to the contributors (Prahalad and Ramaswamy, 2004b; 2004a). In these processes it is the ability to make a difference that people value and that motivates them to contribute. The gradual dissolving of the distinction between creating value and creating values and between the roles of customers and suppliers that we find here has consequences for how we conceive of firms and markets. If firms are not exclusively responsible for supply and if markets are not exclusively responsible for demand, what is their role and what are they? The next section shall address these questions.

THE ROLE OF FIRMS AND MARKETS IN VALUE CREATION

Many writers have argued that the central purpose of firms is value creation (e.g., Parsons, 1951; Pies, Beckmann, and Hielscher, 2010). Considered as such, the role of firms is primarily an economic one that is demarcated and separated from the normative domain of politics and ethics. As we are reminded by Arvidsson (2010), people are used to this separation between economics and politics/ethics at least since Aristotle. There may be good reasons why economics and politics/ethics should be separate spheres. Yet, since we are not in the position to define what ought to be and what not, we shall not engage ourselves in that normative discussion. In the previous section we have seen, though, that, whether they ought to or not, firms do create values through various mechanisms. Furthermore, we have also seen that value creation is not the exclusive domain of firms. Thus, de facto, firms today do not exclusively create value, nor are they the only actors doing this.

All of this puts the traditional model of firms and markets under pressure. Some scholars respond by arguing that the boundaries between firms and markets are gradually disappearing and that we
are moving away from a ‘firm-centric’ view of our economy to one in which markets play a larger role in the creation of value (Prahalad and Ramaswamy, 2004b). Our response is different. We do agree that the traditional model of firms and markets is not suitable for many of today’s industries. Yet, rather than losing their central role, in our view, firms are becoming even more central than they were before – particularly in comparison to other organizations. By employing the three pairs of mechanisms distinguished above, firms fill in a very central role in today’s society, both in terms of the creation of value and the creation of values. Their role has expanded from the traditional role of economic value creation to social and cognitive ways of value creation and to the domain of ethics and politics. In this section we shall explore what this means for how we are to conceive of firms and markets.

**On Firms and Markets**

In outlining a value-oriented view of firms and markets, we first summarize the classical Marxian model of the capitalist system. Marx saw the market as the overarching sphere of circulation between, on one hand, industry that produced commodities and consumed people, and on the other households that consumed commodities and produced people (see Figure 1a). In the Marxian model, households, firms and markets have clearly demarcated roles. While households provide labor and receive commodities in return, firms provide commodities and receive labor in return. The market then, mediates between households and firms.

If firms create both value and values and if there are various mechanisms for doing so, the Marxian model is not suitable anymore and it needs to be replaced by the value-oriented model depicted in Figure 1b. There are a number of significant differences between the two models.
The first is that the concept of households is replaced with that of the individual. While households are perhaps most important in ‘producing’ people – both biologically and socially, the meaning of households as a subjects of analysis has little or no use in today’s society. Instead, it is the individual who has become the central market player. As depicted in Figure 1b, this individual is a networked individual that interacts, collaborates and shares information with others. Or, in Granovetter’s (1985) words, the model assumes a socially embedded individual.

A second difference is that the strict separation between production, consumption and circulation has disappeared. As argued above, from a value creation perspective, these roles/activities cannot be attributed anymore to either markets, firms, or individuals, since all contribute. Furthermore, rather than speaking of commodities and people, it is value and values that are considered the central outcomes of these activities. By abstracting from commodities and people to their value and values, a value-oriented model reflects a less fetishized notion of value than the Marxian model. It emphasizes that it is not the goods, actions, and relationships themselves, but their value that forms the primary object of analysis.
Third, from a value creation perspective, the market is not a separate sphere that is responsible for the circulation of value. Rather, the market is the interaction between individuals and firms. Thus, the role of the market is not limited to circulation, not to matching supply and demand. It concerns all economic, social, and cognitive interactions between firms and households and it is where value and values are created in mutual interaction between firms and individuals. This is an important difference since it replaces the traditional economic notion of markets as a mechanism for matching supply and demand to a much richer and dynamic concept of a forum for co-creating value and values. This notion of markets is an extended version of Prahalad & Ramaswamy’s (2004b; 2004a) one. In addition to acknowledging that individuals can co-create value with firms, a value-oriented notion of markets includes the co-creation of values, of developing standards of evaluation in interaction between firms and individuals.

With the market defined as a forum of interaction between individuals and firms, the role of firms changes as well. Rather than being the producers of commodities, or the suppliers of economic value, firms are the moderators of the market forum. They manage the creation of value and values by initiating, selecting, and coordinating activities and perceptions in the market forum. Like in a discussion forum, firms cannot dominate or direct the activities of individuals because they depend on the contribution of these individuals. Yet, they can influence where the market is heading. Along the same line as individuals, the model assumes firms interact as well. They compete and collaborate, for the same or different market forums.
IMPLICATIONS FOR COMPETITION AND STRATEGIZING

On the pages above we have described an alternative to the traditional view on the capitalist market system and elaborated on the mechanisms through which it operates. As summarized in Figure 1b, we have articulated what a capitalist system may look like when seen through a value creation lens. The challenge for firms is to set this system into movement and to keep it moving to their own advantage. Below we shall discuss two key strategic processes by which this is done: competition and strategizing.

**Competition by Value Creation**

Since Porter’s seminal works on competitive strategy – his five forces framework (Porter, 1980) and his value chain model (Porter, 1985) – there is a general awareness that firms do not only compete with similar firms in the industry, but also with their customers and suppliers and with potential new entrants and firms in related industries. As Porter’s notion of competition is still the most influential one today, we shall compare a value-oriented notion of competition to Porter’s one.

Compared to Porter’s model, a value-oriented view of strategy provides three further extensions of the notion of competition, thereby broadening the repertoire of competitive actions. First, Porter – along with many others – focuses primarily on economic mechanisms of competition through economic value creation. In both seminal books as well as related papers (e.g., Porter, 1981; Porter, 1991), Porter writes extensively on ways to outperform competitors by producing products and services that are either cheaper or provide more benefits to customers. The analysis
above articulated two additional mechanisms by which firms compete, social (through building relationships) and cognitive (through ideas and information). While Porter does not necessarily deny these mechanisms, they are not elaborated upon.

A second extension of the notion of competition lies in the idea that, next to value, firms also create values and that they have three mechanisms at their disposal to do so. Hence, next to competing on value, firms also engage in normative competition. This implies that firms compete by influencing the standards of evaluation in the market. In practice, firms do this every day, and there is a large literature on aspects such as legitimization, marketing, and politics that elaborates on these mechanisms. Yet, normative competition is not explicitly recognized and acknowledged as a way of competing in the literature on competitive strategy. By including it, a value-oriented view of strategy explicitly emphasizes that competition is always a combination of creating ‘something’ and influencing people’s perceptions about that ‘something’.

The third extension follows from the first two and concerns the actors a firm competes with. In addition to direct competitors, customers, suppliers, new entrants and substitutes – Porter’s five forces – firms also compete with organizations that influence people’s perceptions about the value of the firm’s products and services. This means that firms also compete with, for example, the media, churches, and politicians who have a substantial influence on people’s values and how people think. Especially with the ever increasing ease and speed with which people can communicate through the Internet, these actors form an important category with which firms compete.
Strategizing for Value Creation

When we consider firms, markets, and competition through a value creation lens, this has consequences for what it means to strategize. Along the line of our analysis above we can identify three dimensions: a) selecting a particular value system and/or value creation system, b) conforming to the constraints imposed by these systems, and c) transforming the constraints in order to enlarge the strategic option space.

The first dimension stems from the plurality of value and values discussed earlier. The basic question here is: what kind(s) of value a firm is going to produce and by what kind(s) of values it is going to be assessed. There are various ways by which value can be created and there are various systems of values by which firms and their outputs can be assessed. This implies that firms have a variety of possibilities when developing a strategy. This first dimension of strategy defines what firms will assume as stable for a starting point. Although the world is constantly changing and largely unknowable, firms have to fixate and select some initial mode of value creation and/or system of values to serve, otherwise they will be paralyzed and unable to act. For incumbent firms, this selection will often be path dependent and based on previous activities. Yet, they can also deliberately change direction and move towards different ways of value creation and/or different value systems. In doing so, they can start on either side: internally by selecting a particular way of value creation, or externally by selecting a particular system of values to serve. This choice corresponds to the inside-out vs. outside-in approaches frequently distinguished in the strategy literature (Hoskisson, et al., 1999). Yet, there is an important difference. The inside-out vs. outside-in discussion is one about strategy theories which assume a causal direction in one direction or the other. In our analysis, though, this selection is seen as a
choice to be made by the firm, not one of different theoretical approaches. Or, in other words, whether the firm starts outside-in by choosing a particular value system to serve, or inside-out by focusing on its way of value creation, is a strategic choice, just as well as the particular value system and way of value creation that are chosen.

The initial selection for a way of value creation and/or a particular system of values has important consequences for the firm. The choices made here define what the firm’s constraints are and what is its ‘strategic option space’ – its latitude or discretion for strategic actions. The second dimension of strategy is conforming to these constraints. When firms conform, they choose to play according to the current rules of the competitive game. For this second dimension of strategy, firms are to find out who are the important competitors in the selected value system, and where there is latitude for the firm to create value. This second dimension corresponds to Porter’s notion of competition where the forces in the industry are known once a selection for an industry has been made, and to the notion of following the ‘dominant logic’ of an industry (Prahalad and Bettis, 1986; Bettis and Prahalad, 1995). Yet, the available competitive mechanisms in a value-oriented view of strategy are richer and include economic, social and cognitive mechanisms for competing on value and values.

The third strategy dimension is to transform the constraints in order to enlarge the firm’s strategic option space. Unlike the second dimension – where firms conform to the rules of the game – this third dimension expresses firms’ efforts to manipulate or modify value-related or values-related constraints to their own advantage. As such, they stretch or change the rules of the competitive game in such a way that it enables them to enlarge their latitude for value creation.
In practice, this third dimension differs from the second only in degree and intentionality. Whatever actions a firm will take, it will thereby always influence the constraints within which it operates, whether it intends to do so or not. What this third dimension articulates though, is that a firm’s competitive activities can be deliberately targeted at transforming constraints rather than conforming to them. This corresponds closely to what Kim and Mauborgne (1997; 2005) have called ‘value innovation’ or a ‘blue ocean strategy’. Yet, this third strategy dimension is broader by encompassing the innovation of values – developing new values or value systems that are associated with new needs that can be satisfied.

**DISCUSSION AND CONCLUSION**

This paper has outlined a value-oriented view of strategy that articulates how firms engage in the creation of both value and values. As such, the paper makes three contributions to the strategy and organization literature. First, it provides a model of firms that combines the creation of value with that of values. As such, this paper combines previous insights from the separate literatures on value and values into one, richer model of the firm. Second, and related, this paper provides a model of markets as forums where value and values are created through interaction between individuals and firms. Firms, then, are moderators that initiate, select, and coordinate activities and perceptions in the market forum. This model of markets adds to the current primarily economic and demand-sided notion of markets that we find in the mainstream literature and, arguably, better fits with the socially networked and information-based nature of markets today. The third contribution is that this paper provides a notion of competition that goes beyond Porter’s extended notion and includes economic, social, and cognitive competition on value and values. As such, this paper widens the repertoire of competitive mechanisms that extant literature
provides to firms. By these three contributions, this paper provides an alternative, value-oriented view of strategy. It shows how strategy goes beyond the creation of economic value and how it involves social and cognitive mechanisms of value creation as well as the creation of values. The novelty and implications of this view lie not in its separate elements but in bringing these elements together. Much of what has been said above is a call upon previous literature. By bringing this literature together in a value-oriented view of strategy, this paper answers to recent concerns that strategy and organization theory fail to sufficiently consider the consequences of organizations (Bartunek, 2002; Clegg, 2002; Hinings and Greenwood, 2002; Prichard and Mir, 2010).

Besides the implications directly associated with the above-mentioned contributions, this paper also has broader implications. In the introduction we discussed stakeholder theory as the only strategy theory so far that brings value and values together. One implication of our analysis is that it could be seen as an extension of stakeholder theory. As such, this paper may help to address some of stakeholder theory’s shortcomings and misconceptions. An important misconception about stakeholder theory is that it is a theory of value distribution. Stakeholder analysis is often seen as a balancing act where firms needs to find the right compromise between the needs of all stakeholders. Yet, Freeman strongly opposes to this and argues it is value creation that is most important (see, for example, the personal communication with Freeman reflected in Laplume, Sonpar, and Litz, 2008: 1179). With stakeholder theory itself remaining rather silent about the mechanisms by which value is created, this paper can contribute by articulating these mechanisms. Furthermore, our analysis of the mechanisms by which values are created challenges stakeholder theory’s assumption of ex ante defined stakeholder values. Along
that line we suspect that a further analysis of stakeholder theory from a value-oriented view of strategy will proof to be fruitful.

The paper has also implications for the broader literature on ‘theories of the firm’ (ToFs). Since Coase’s seminal paper on ‘The Nature of the Firm’, strategy scholars are invested in developing ToFs. At least twenty have been introduced to date and examples include transaction-cost economics (Coase, 1937; Williamson, 1979; 1981; Williamson and Winter, 1991), behavioral theory (Simon, 1947; Cyert and March, 1963), and the value-chain model (Porter, 1985; Stabell and Fjeldstad, 1998). Generally, the quest in this literature is for *the* best ToF and the ToFs developed so far are considered as alternatives that are sometimes competing and sometimes complementary in achieving that best ToF. In the light of this paper, it may be more useful to consider them as context-specific ToFs that apply to different types of firms. The various ToFs differ in their assumptions about how firms create value and from which sources this value is derived. For example, transaction-cost economics assumes firms create value by reducing costs in comparison to the market. In behavioral theory, on the other hand, firms create value by compensating for the individuals cognitive limitations, thereby enabling more rational decisions. Along the same line, the other ToFs which circulate in the literature articulate different mechanisms by which value is created. Since firms in practice also differ in the type of value they create and the way they do this, strategy theory probably needs more than one ToF to explain this variety. The implication of this is that scholars engaged in the ToF debate may want to aim for multiple ToFs in parallel that reflect different ways of value creation.
The paper has implications for practice as well. It provides strategists and managers with a model of competition and strategy that is different from the mainstream models they may know. For example, by outlining economic, social, and cognitive mechanisms of competition and normative competition, the model outlined in this paper can make practitioners aware of the wide repertoire of competitive actions available to them. Perhaps trained to think in terms of the Porterian model, they may focus their current competitive actions on economic value creation, thereby disregarding or underemphasizing other types of actions. With a richer notion of competition, they may start to engage in these other types of competitive actions or reconsider who are their most important competitors. Along that same line and in line with previous literature on co-creation (Prahalad and Ramaswamy, 2004b; 2004a), our notions of markets as interactive forums and firms as moderators may facilitate practitioners in re-assessing their relationship with customers and the way they interact with their markets.

Finally, while our analysis concerned firms, it applies to other types of organizations as well. We have focused on firms in this paper because most of the strategy and organization literature does so, particularly within economics and strategic management. Furthermore, it is firms that traditionally are most attributed the role of value creation in society. But our analysis and its implications need not be limited to firms. Also non-profit organizations, hospitals, universities, and so forth, create value and values through economic, social, and cognitive mechanisms.
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