# Micro-Foundations for Strategy:
# A Goal-Framing Perspective on the Drivers of Value Creation

Nicolai J. Foss

Siegwart Lindenberg

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Department of Strategic Management and Globalization
Copenhagen Business School
Kilen, Kilevej 14A
2000 Frederiksberg
Denmark
www.cbs.dk/smg

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**Nicolai J Foss**
Department of Strategy and Globalization
Copenhagen Business School
Kilen; Kilevej 14, 2nd fl.
2000 Frederiksberg; Denmark
Njf.smg@cbs.dk
and
Department of Strategy and Management
Norwegian School of Economics
Breiviksveien 40, N-5045
Bergen; Norway

**Siegwart Lindenberg**
Department of Sociology/ICS
University of Groningen
Grote Rozenstraat 31; 9712 TG Groningen
and
Tilburg Institute for Behavioral Economics Research (TIBER),
Tilburg University, The Netherlands


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## Abstract

Scholars increasingly seek to proffer microfoundations for macro management theory, notably strategic management theory. These microfoundations naturally revolve around human resources. We argue that proper microfoundations for strategic management theory must recognize that the management of motivation is first and foremost a matter of the management of cognitions of organizational members, an insight that we found in goal-framing theory, an emerging perspective based on cognitive science, behavioral economics, and social psychology. Building on this insight, we argue that a key reason why strategic goals matter to firm performance——that is, firm-level value creation and value capture and sustained competitive heterogeneity——is that such goals influence value creation rooted in employee motivations. Unfolding this idea allows us to generate new insight in the relations between value creation, strategic leadership and strategic goals.

## INTRODUCTION

Strategic management is concerned with the creation, identification, and exploitation of those sources of competitive heterogeneity that result in high levels of appropriable value creation. Yet, many of the causal linkages between the strategic management process and value creation are unclear. In particular, how do *strategic goals* affect value creation? One hypothesis is that such goals mainly steer the cognition and actions of the top management team. Another one is strategic goals affect very functioning of the firm in the sense that they influence its internal governance and the cognition and motivation of organizational members, not just the top management In this article we make the case that strategic goals matter in this broader sense. Understanding how this works requires attention to microfoundations—specifically, to microfoundations that highlight the (intertwined) motivation and cognitions of individuals (rather than, say, routines; but see Winter, 2013).

It is increasingly recognized that the microfoundations of strategic management greatly matters to the questions that scholars in the field can raise, address, and answer (Abell, Felin & Foss, 2008; Van de Ven, 2013). Much of the concern with microfoundations fundamentally revolves around human resources, often argued to be the "key ingredient to organizational success and failure" (Baron & Kreps, 1999: 4). Accordingly, research highlights the cognitions (Gavetti, 2005) and, more often, motivations of those human resources (Coff, 1999; Gottschalg & Zollo, 2007).

Along with a number of the other contributors to this symposium (in particular, Felin & Barney, 2013), we argue that strategic management theory is in need of better microfoundations. We take it as a given that such microfoundations must involve individuals. While indeed individuals have been highlighted in recent microfoundational research in macro management theory, mainly strategic management, we are concerned that extant research is dichotomized. Specifically, such research either starts from purely cognitive foundations (Gavetti, 2005; Teece, 2007; Powell, Lovallo & Fox, 2011: 1370) or from purely motivational foundations (e.g., Abell, Felin, & Foss, 2008;

Gottschalg & Zollo, 2007; Wang & Barney, 2008; Nickerson & Zenger, 2008). However, a crucial insight that has emerged from cognitive (social) psychology over the last twenty years is that cognitive and motivational processes are so strongly intertwined that they must be considered simultaneously and as closely interacting (Kruglanski et al., 2002). We argue that proper microfoundations for strategic management theory should recognize the fundamentally intertwined nature of cognition and motivation: the management of motivation is first and foremost a matter of the management of overarching goals that link cognition and motivation. Building on this insight, we argue that a key reason why strategic goals matter to firm performance——that is, firm-level value creation and value capture and sustained competitive heterogeneity——is that such goals influence the overarching goals of members of the organization and thereby the value creation rooted in employee motivations (an idea already hinted at in Barney & Griffin, 1992; Hamel & Prahalad, 1989; Kay, 2010; Birkinshaw, 2012.) The purpose of this article is to work out the logic of this link.

We specifically show that *goal-framing theory* (Lindenberg, 2003, 2004, 2006; 2008, Lindenberg & Foss, 2011)—an emerging perspective based on cognitive science, behavioral economics, and social psychology (e.g., Förster, Liberman & Higgins, 2005; Gollwitzer & Bargh, 1996; Kruglanski & Köpetz, 2009)—has the unique capacity to address this link (Foss, 2011). We show that the microfoundations provided by goal-framing theory allow us to address and answer key strategy questions in a novel manner, and in particular how strategic goals influence firm performance. Goal-framing theory deals with overarching goals that influence large clusters of subgoals. Specifically, the theory states that the overarching goal most conducive to value creation is one that promotes a motivation for *joint production*, whereby organizational members are motivated to engage in joint productive endeavors in which they choose their actions in terms of joint goals and exert intelligent effort to reach joint goals (Lindenberg & Foss, 2011). However, such a *normative* goal-frame can easily be sidelined by other overarching goals that are explicitly or implicitly expressed in the strategic management process of the firm. The crucial mechanism is that overarching goals of employees are subject to a top-down contagion process by overarching goals from top management.

The motivation that is most conducive to value creation is not mobilized by overarching goals that make blatant reference to the maximization of profits or shareholder value, exactly—we will argue—because such strategic goals prompt employees to adopt goal-frames that are not conducive to joint production motivation. Rather, profit, shareholder value and market share must not be pursued as the major explicit strategic goal but *obliquely* as a result of more socially oriented goals (cf. Kay, 2010; Birkinshaw, 2012).

In sum, in building our argument about the impact of the strategic management process on the contribution of human resources to value creation, we draw on recent developments in cognitive science, social psychology, and behavioral economics which "provide new opportunities for merging psychology and strategy" (Powell et al., 2011: 1370), going beyond the dichotomization between the cognitive and the motivational dimensions in extant microfoundational research. We develop novel implications for key strategy issues from goal-framing theory. Our theory relates to established insights in particularly the resource-based view (Barney, 1986, 1991; Kogut & Zander, 1996; Foss, 2011), but uniquely points to the importance of the role of overarching goals in establishing joint production motivation as the instrument for creating maximum value. Relatedly, we briefly discuss the huge difficulties of sustaining joint production motivation over time, which is based on the precariousness of the normative goal frame and its tendency to give way to competitive goal-frames, as a key reason for the decline of competitive advantages.

## PSYCHOLOGICAL FOUNDATIONS OF STRATEGIC MANAGEMENT: GOAL-FRAMING THEORY

### Beyond Behavioral Micro-foundations

Research has increasingly emphasized that sound microfoundations are important to the development of strategic management theory. Traditionally, the microfoundations of strategic management theory have been located in economics (i.e., industrial organization, organizational economics, and financial economics; e.g., Coff, 1997, 1999; Lippman & Rumelt, 2003; Abell, Felin & Foss, 2008;  Wang & Barney, 2008; Chatain & Zemsky, 2011), but there are familiar limits to the explanatory leverage of standard economics. Thus, scholars increasingly look for microfoundations for strategy in psychology. For example, how the heuristics of strategic decision-making emerge from experience (Bingham & Eisenhardt, 2011), or how firm-level identification processes influence competitive dynamics (Livengood & Reger, 2010), are difficult to analyze on a deep level solely from an economics perspective (which is not to say that such insights necessarily escape economic modeling, e.g., Camerer & Lovallo, 1999).

Thus, strategic management scholars have long made use of psychology research (Hodgkinson & Sparrow, 2002), most notably behavioral decision theory as embodied in Cyert and March (1963) and reflected in the emergence of the "behavioral strategy" field (Bromiley, 2005; Gavetti, Levinthal & Ocasio, 2007; Powell et al., 2011), as well as in cognitive perspectives (e.g., Porac & Thomas, 1990; Weick, 1995) and notions such as attention allocation, escalation, learning myopia and so on (Bromiley, 2005). And yet, the editors of a recent special issue of this journal on the "psychological foundations of strategic management" observe that "strategic management theory lacks adequate psychological groundings" and they conclude that "until strategy theory builds stronger foundations in psychology, it will struggle to explain the facts of firm performance" (Powell, Lovallo & Fox, 2011: 1370) (see also Greve, 2013). The key problem, they argue, is inadequate paradigm development in "behavioral strategy," that is, the merger of cognitive and social psychology with strategic management theory and practice. Strikingly, however, motivational issues are not mentioned in their overview of "behavioral strategy."

The behavioral approach to strategy has not gone uncontested. For example, Felin and Foss (2011) criticize its philosophical foundations, arguing that in spite of the stated interest in developing a more realistic view of decision-making, the behavioral approach fundamentally derives from behaviorist psychology and works with the same impoverished view of decision-making. Our point of departure is different: behavioral strategy is not sufficient, because it says too little about *motivation*. Specifically, behavioral theory focuses all attention on cognitive issues, such as perception, framing, experiential and vocational learning, and heuristics. However, a key theme in psychology research over the last two decades is that cognition and motivation are strongly intertwined, so strongly intertwined, in fact, that often they are not meaningfully separable (Kruglanski, 1999). Behavioral strategy typically emphasizes search heuristics, attention, memory, etc. as drivers of management decisions and firm behavior. Behavioral strategy's starting point in bounded rationality is entirely warranted. A fundamental characteristic of cognitive processes is indeed their selectivity: Attention is selective, memory is selective, concepts and chunks of knowledge are at any given moment only selectively accessible. Selectivity comes about by the twin process of activating some aspects and inhibiting others (cf. Shah, Friedman & Kruglanski, 2002). This creates important differences regarding how individuals look at a situation, the key point in behavioral strategy. However, the link of these cognitive effects with motivational effects is brought about by overarching goals. The dynamics of overarching goals combines cognitive and motivational processes in their relation to the environment, and thus the dynamics of these goals should be the core aspect of microfoundations for strategic management. Goal-framing theory specifies how these links come about.

**Goal-framing Theory**

A key finding of recent social psychological research is that individuals act very differently in terms of their strategy choice (defect or cooperate) depending cues in the environment. For example, the very same prisoners' dilemma can carry the label "Community game" or "Wall Street game" and this cue makes a big difference for the strategy people choose (Liberman, Samuels, & Ross, 2004; see also Pillutla & Chen, 1999). Experimental game theory has produced very similar findings (e.g., Camerer, 2003). A cogent explanation for such strong effects of cues is that they affect the relative weight of activated overarching goals (see Keizer, Lindenberg, and Steg 2008, Lindenberg 2012a), as specified in goal-framing theory (Lindenberg 2008, Lindenberg & Steg 2007). Goal-framing theory is all about the fact that a particular overarching goal can govern large sets of subgoals and thereby change what preferences are salient, which even affects the kind of constraints that are being perceived. Let us briefly have a closer look at how this works.

Goal-framing theory distinguishes between three overarching goals. There is the overarching *hedonic* goal, which expresses the desire to improve (or preserve) the way one feels right now, related to one's need fulfillment; there is the overarching *gain* goal, which expresses the desire to improve (or preserve) one's resources; and there is the overarching *normative* goal which expresses the desire to act appropriately in the service of a collective entity, such as an organization or a group. When one of these three goals is focal, it captures so many of the cognitive and motivational processes that it truly "frames" the situation. Thus, these overarching goals govern what we attend to (Posner & Petersen, 1990), what alternatives we consider, and what knowledge we draw on (Förster et al., 2005; Gollwitzer & Bargh, 1996; Kruglanski & Köpetz, 2009). In turn, these cognitive processes have an impact on motivation by inhibiting other goals (Shah et al., 2002), by influencing what we like and dislike (Ferguson & Bargh, 2004), and by governing the expectations about what other people will do and the criteria that are used to judge goal realization or failure (Carver & Scheier, 2002).

Goals need to be activated (or "focal"), notably by situational cues, in order to influence behavior. A *goal frame* denotes an overarching goal (together with the integrated cognitive/motivational processes that are driven by this goal) when it is more strongly activated than the other two overarching goals. For example, organizational members who are in a gain goal-frame and whose specific goal within this frame is to improve their status in the organization, will be particularly alert to information about opportunities for improving status; the relevant causal knowledge they activate is what pertains to reaching this goal; they will be oriented towards the longer term, and are likely to focus on behavioral alternatives that advance their status position to various degrees. Opportunities pertaining to other high-level goals (such as "behaving appropriately" in the service of joint production) are likely to be more or less ignored unless they overlap with opportunities for the status goal. A goal-frame does not completely inhibit the other two overarching goals. Rather, it pushes these other goals the background to various degrees. More often than not, motivations are therefore mixed and it depends on the relative strength of the foreground and background goals what the final effect will be. Cues in the environment will heavily influence the relative weight, thereby creating shifts in cognitions and motivations. However, due to a different *apriori* strength of the overarching goals, it takes stronger cues to increase the weight of a normative goal-frame than for the hedonic goal-frame (with the gain goal-frame in between). This makes evolutionary sense; thus, from an evolutionary point of view, the group is there for the adaptive advantage of the individual and not the other way around. Thus the goal-frame pertaining to a group orientation is *apriori* the weakest and thus highly precarious. The hedonic goal-frame pertaining to the satisfaction of needs here and now is *apriori* the strongest, and the goal-frame pertaining to resources is in between.[1]

The important additional point for the microfoundations for strategic management is that the most potent cues in the environment that affect the relative strength of a goal-frame are the signals of goal-frames of other people, especially of those in higher positions (Aarts, Gollwitzer & Hassin, 2004; Keizer, Lindenberg, & Steg 2008, 2011). This creates a strong top-down contagious process of goal-frames (Lindenberg & Foss, 2011) that is enhanced by horizontal contagion because each employee's goal-frame becomes a cue that affects the other's goal-frame, creating a strong tendency for goal-frames to spread in a group. Because the normative goal-frame is highly precarious and because power-relations are highly asymmetric (i.e., top-down), employees watch out for signals that reveal the goal-frame of the management (Lindenberg 2000; Takeuchi, Chen & Lepak, 2009). If

[1] Note that this while goals can displace each other, they are not necessarily conflict. Different goals can be compatible although only one goal can be in the cognitive foreground. More on this in Lindenberg and Foss (2011).

higher-ups clearly signal that they are in a normative goal-frame, it will greatly help to stabilize this goal-frame in subordinates (Mühlau & Lindenberg, 2003; Brown, Treviño & Harrison 2005). By the same token, signals that higher-ups are not in a normative goal-frame will weaken this goal-frame in subordinates.

## GOAL-FRAMING, JOINT PRODUCTION MOTIVATION, AND VALUE-CREATION

### Joint Production Motivation

Different goal-frames are associated with different levels of value creation in firms because different goal-frames are associated with mobilizing motivation for very different goals. In particular, we argue that the *normative* goal-frame is associated with the highest levels of value creation. The reason is that this goal-frame, and it alone, can prompt the motivation of organizational members to engage in truly collaborative activities, what Lindenberg and Foss (2011) call *joint production motivation*. Organizational members can recognize a joint endeavor and see themselves as part of this endeavor, each with their own roles and responsibilities, involving a sharing of cognitions about the relevant tasks, interdependencies, timing, and possible obstacles to smooth coordination. This leads them to exert intelligent and adaptive efforts that result in productivity gains and innovativeness. Why is joint production motivation so important?

In the strategy literature Lippman and Rumelt (2003) model firms as bundles of complementary, co-specialized resources. They argue that the "… heart of business management and strategy concerns the creation, evaluation, manipulation, administration, and deployment of *unpriced* specialized resource combinations" (2003: 1083; emph. in orig.). While choosing new resources and discovering novel ways of combining resources are important avenues to superior performance, it is a major point of our argument that at the heart of specialized resource combinations is the motivation of human resources in the bundle (Baron & Kreps, 1999; Gottschalg & Zollo, 2007; Lindenberg & Foss, 2011). Strategy thus has to focus first and foremost on this motivation for the realization of whatever higher strategic goal is chosen. We will argue that there is a special motivation that may characterize interacting resources in a bundle and, that strategy should focus on activating and increasing this motivation in the service of achieving superior firm performance.

Another word for the resources bundles of Lippman and Rumelt is "teams" (Alchian, 1984). Teams are a basic form of human cooperation with an impressive evolutionary past, firms are indeed organized around teams of strongly complementary human resources (Lepak & Snell, 1999; Lippman & Rumelt, 2003), and several literatures in management and economics research are taken up with teams.[2] However, none of these literatures explicitly recognize a key recent finding of evolutionary anthropology, namely that human beings are especially equipped with cognitive and motivational faculties that are specifically geared to team-based cooperation (i.e., motivation for joint production) and that this is special source of motivation that created the adaptive advantages of humans cooperating in groups. Joint production involves heterogeneous but complementary resources, a high degree of task and outcome interdependence, and the potential for super-additive outcomes (as in Alchian & Demsetz, 1972). According to what become known as the "social brain hypothesis," the most potent human brain power (the neocortex) evolved as a "social brain" to allow human beings to realize the adaptive advantages that stem from cooperation in larger groups involving joint production (Dunbar, 2003). The brain apparently contains a hardwired ability to recognize a situation as one of joint production, and to trigger motivational and cognitive faculties that are specialized to facilitate joint production (cf. Sebanz, Bekkering & Knoblich, 2006).[3]

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[2] The economics of the firm literature offers two very different understandings of the nature of teams. One derives from Alchian and Demsetz' basic characterization of team production, that is, productive activity that involves heterogeneous but complementary resources, a high degree of task and outcome interdependence, and the potential for super-additive outcomes. The other derives from Marschak and Radner's (1972) characterization of a team as a group of agents with a common goal that can only be achieved by an appropriate combination and coordination of the individual activities of the group members. Both contributions have given rise to much subsequent work. See Foss and Lindenberg (2012) for a more extensive discussion.

[3] Of course, the social brain is also involved in deception and in detection of deception (Epley, Caruso & Bazerman, 2006). Because of that, the normative goal-frame is important, not just the ability to put yourself into the shoes of others. In fact reactive egoism is most likely when an individual is already in a gain goal-frame.

Haidt (2012: chpt. 10) adopts the imagery of a "hive switch," which refers to the activation of a special (human) motivation that is specifically geared to the pursuit of team or group goals. However, the hive terminology is potentially misleading as it also implies an imagery of mindless, ant-like individuals. Indeed, empirical research shows that members of a team perceive the environment differently than in independent action, and generate shared representations of actions and tasks *in terms of* joint goals. They exert intelligent effort to cognitively coordinate temporal and spatial aspects of cooperation and to correctly anticipate goal-related actions from others (Sebanz et al., 2006). They are willing to induce and assist others to do their bit (Tomasello et al., 2005). In ambiguous situations, group members will not wait to be instructed but rather search actively for ways to serve the group goal(s) (De Dreu, Nijstad & Van Knippenberg, 2008), and they are heedful of their and others' contribution to the collective goals (Weick & Roberts, 1993). Given the right social and cultural circumstances (Henrich et al., 2001), a special kind of motivation that contains all these ingredients is activated, namely "joint production motivation." Because extant research on teams does not recognize joint production motivation it sidesteps "… some of the most interesting … questions about teams, including: What are the sources of the economic surpluses in team production, and how can they best be harnessed and directed?" (Blair & Stout, 1999: 267-8).

**Value Creation from a Goal-Framing Perspective**

The consideration of joint production motivation changes the way one may look at value creation in firms. Strategic management is conventionally taken to be about the creation and appropriation of value, and specifically creating and appropriating *more* value than the competition (i.e., superior financial performance) on a sustained basis (Peteraf & Barney, 2003). While the yardstick for the financial performance is reasonably clear (e.g., average industry profitability), what is the yardstick against which we measure value creation? Strategy scholars who have addressed this question have typically taken an economics perspective and defined the maximum conceivable level of value creation as the relevant yardstick. Thus, Lippman and Rumelt (2003: 1082) in their focus on coalitions of resources defined "strategic equilibrium as the state in which all possible resource transfers that create value have taken place." Foss and Foss (2005) focus on how the reduction of transaction costs increase value creation, and argue that the relevant yardstick is a state of zero transaction costs, implying maximum value creation. Such states are what economists call "first-best" states.

Note, however, that such efficiency yardsticks are defined relative to *given preferences*. In standard microeconomics, preferences stay put: people know exactly what they like, how much they like it relative to other things, and the relevant ranking does not change over time. (Or, if changes of preferences take place, they are not caused by economic factors). In the world of standard microeconomics, top-management changing strategic goals or exercising transformational leadership may have behavioral consequences at lower levels of the organization (e.g., because of the informational content of such a change, e.g., Hermalin, 1998), but these behavioral consequences are not (and cannot be) driven by preference changes of organizational members. Accordingly, leaders can only influence the actions chosen by organizational members, their work/leisure tradeoffs, their behavioral persistence, problem-solving intensity say, exercise of sophisticated helping behaviors, and so on, by changing their constraints. By implication, the assumed stability of preferences represents a brake on value creation. It also represents a constraint on what can meaningfully be said about impact of strategic goals on the motivation of organizational members. The fundamental problem is that (given) preference is a part of a logic of trade-offs which tends to suppress or trivialize the processes that lead to preference orderings. In contrast, goal-framing theory builds off of a logic of means-ends relationships, where changing overarching goals imply changing entire sets of situationally salient preferences. Preferences and constraints thus interact.

In terms of goal-framing theory, standard microeconomics assumes that individuals are always and everywhere in the gain-goal frame. Thus, it is not just that preferences are stable but also that they have a specific content, that is, individuals (always and everywhere) seek to pursue their own individual interests.[4] That individuals entertain such interests is uncontroversial and economics has made impressive headway based on its single-minded examination of the many ramifications of individuals pursuing their own goals and intentions. Thus, agency theory and mechanism design theory have yielded much important insight into how harmonizing colletive and individual goals can be (partially) brought about by interest alignment through incentives and/or supervision. However, such alignment usually requires very significant monitoring effort (of input and/or output performance), and because of the costliness of monitoring, it is inherently imperfect, thus severely limiting the actual alignment of interests (Lindenberg 2013). By contrast, because of normative goal-frames and joint production motivation, there is a different way to link the individual employee to organizational goals: individuals may also choose actions *in terms of* what serves collective goals. Standard microeconomics rules this out, because the team is only a context for the realization of the agent's individual goals. The entire process of deliberating upon and choosing actions in terms of group goals is thus ignored as a source of value creation

In sum, the notion of first-best value creation imported from standard microeconomics assumes that organizational members are *always* in a gain goal-frame (Foss & Lindenberg, 2012). The introduction of the normative goal-frame and its support of joint production motivation change this: The first-best in a situation where organizational members are in a normative goal-frame is different—specifically, higher—relative to what it is when organizational members are in a gain goal-frame. Because of the difficulty of establishing and maintaining a normative goal-frame and joint production motivation, the additional economic surplus that is caused by the motivational force of a collective orientation accrues on the longer run. Interest alignment (with all its limitations) often seems a first-best solution when one takes a short-term perspective. In this perspective, not just the longer-term advantages of joint production motivation are neglected, but the costs of using interest

[4] To be sure, (behavioral) economics is by no means inconsistent with the notion that decisions can be driven by self-esteem, excitement, fairness, etc. However, these are modelled as extra determinants of utility that are not dependent on the context. In contrast, goal-framing theory points out that the salience of various goals, such as pursuing fairness, is context-dependent.

alignment are also ignored (Lindenberg 2013)  What, more specifically, are the sources of this additional economic surplus stemming from joint production motivation?

Joint production motivation has beneficial organization-level consequences that either directly or indirectly translates into higher value creation, because it impacts the tasks that organizational members are willing to engage in, how much effort they will put into these tasks, and how they coordinate their actions. Empirical research links the normative goal frame to pro-social behaviors, such as spontaneous sharing of knowledge (De Dreu et al., 2008), which, in turn, may positively impact work productivity and innovation performance (Tsai, 2001).  The heedful interrelating discussed by Weick and Roberts (1993), and found to assist coordination in ambiguous situations (Weick & Roberts, 1993) and to promote innovation performance (Dougherty & Takacs, 2004), results from joint production motivation. As the normative goal frame implies a partial suspension of moral hazard/opportunism, it reduces the need for costly control mechanisms (Podsakoff & McKenzie, 1997).

Coordination costs are reduced because joint production motivation implies that organizational members generate shared representations of actions and tasks in terms of joint goals, reducing the need for planning and formalization. Individual efforts are channeled towards the realization of common goals. Because individuals who are in a normative goal frame engage in fundamentally pro-social activities that they do not engage in when in the gain goal frame (and may choose higher levels of effort), the *first best under joint production motivation is higher than the first-best identified by standard microeconomics.* Because standard microeconomics assumes that individuals are always in the gain goal frame, it is simply too pessimistic with respect to what can be achieved by human cooperation and at the same time too optimistic about what can be achieved by attempts to align individual and organizational goals by incentives.[5] In general, economics-based strategic

[5] This is clearly seen by Alchian and Woodward (1988) who in a review of Williamson (1985) conclude that "… it is important to recognize the forces of ethics, etiquette, and 'proper, correct, reasonable, moral, etc.' standards of conduct in controlling business relationships."  While they may have the language to describe what is seemingly so important, they admit that "…. we don't know enough about how such 'moral' forces operate to say more than that they exist and should

management therefore underestimates the upside of what firms can do in terms of value creation, because it neglects the normative goal-frame and joint production motivation.

This underestimation of cooperative potential is confounded by a systematic neglect of the costs of failures to achieve interest alignment by incentives (in terms of indicator behavior, apathy, and sabotage, see Lindenberg, 2013). This neglect derives to a large extent from the fact that microeconomics has no room for the workings of the *hedonic* goal-frame. Hedonic goals are directed at improving how one feels at a particular moment, such as seeking direct improvement in self-esteem, seeking excitement, and avoiding unpleasant effort, and reacting to perceived unfairness (such as sabotage and taking revenge). The criteria for success in a hedonic goal-frame relate to improvements in the way one feels not the way things function. The power of this goal-frame *vis-à-vis* rival goal-frames is considerable and it derives from its direct link to basic needs and emotions (Ryan, Huta & Deci, 2008).

An organization in which members take a myopic perspective and are predominantly hedonically oriented is not conducive to value creation (cf. Lindenberg, 2004): Investments in human capital are not undertaken, helping behaviors do not thrive, and rewards that are not directly linked to efforts may be useless. Such myopic behaviors may arise even if incentives are geared to supporting a gain goal frame. For example, Postrel and Rumelt (1992) document cases in which, even in spite of high-powered incentives, firms had to resort to intense monitoring to hinder the consequences of employees adopting hedonic goal frames. For these reasons, the hedonic goal frame is the goal frame that is associated with the lowest level of value creation.

Figure 1 depicts how goal frames and value creation are related (for the two kinds of human resources, $x_1$ and $x_2$, interacting in a team, but generalizable to n human resources). The key questions raised by the figure are how firms can reach the level of value creation associated with the goal frame, and, once reached, how firms can maintain this level of value creation.

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not be ignored in seeking an understanding of how the economic institutions of capitalism, or any other -ism, evolve and operate ... Whatever the emotive language, ‘decent’ behavior saves resources and enables greater welfare“ (Alchian & Woodward, 1988: 77).

***---- Insert Figure 1 here ----***

## STRATEGIC CONCERNS: LINKING JOINT PRODUCTION MOTIVATION, GOVERNANCE, AND STRATEGIC GOALS

There are potentially two interrelated avenues by which strategic management can affect the motivation for joint production and thereby bring about the consequences of such motivation in terms of high levels of appropriable value creation. One is the direct way: By making the internal governance structure for joint production motivation a core concern for strategy. The other way is indirect: adopting an *oblique* approach to strategic opportunities (Kay, 2010; Birkinshaw, 2012), that is, to opportunities that increase appropriable value creation (Denrell, Fang & Winter, 2003). However, there are supporting relations between these two approaches: A governance structure that supports joint production motivation is positively or negatively affected by strategic goals of the firm. Only oblique (and typically prosocial) strategic goals will support a governance structure for joint production motivation. Moreover, we argue, both ways are importantly interrelated with leadership style, which gives leadership style a central place in strategy; see Figure 2. In the remainder of the article, we will unfold the logic that generated Figure 2.

***---- Insert Figure 2 Here ----***

### The Internal Governance Structure as Strategic Concern

As stated, goal-frames have a strong tendency to spread in a group. The more employees see others committed to joint production, the stronger their own commitment. For example, to the degree to which others have positive feelings about their jobs, employees are more willing to use intelligent effort in terms of innovativeness (Shipton, West, Parkes, Dawson & Patterson, 2006). Similarly, receiving positive relational signals from others in the daily interaction on the shop floor fosters sending positive relational signals and increases overall performance (Colquitt, 2004; Tabibnia, Satpute & Lieberman, 2008)). Conversely, colleagues who clearly show that they work for their own goals (gain or hedonic) rather than for company goals, can drag many others to their side.

Colleagues have a weaker contagion effect than higher-ups. As already mentioned, the normative goal-frame is highly precarious and power-relations are highly asymmetric (i.e., top-down), and because of this, employees watch out for signals that reveal the goal-frame of the management (Mühlau & Lindenberg, 2003; Takeuchi, Chen & Lepak, 2009). If higher-ups clearly signal that they are in a normative goal-frame, it will greatly help to stabilize this goal-frame in subordinates (Mühlau & Lindenberg, 2003; Brown, Treviño & Harrison 2005). By the same token, signals that higher-ups are not in a normative goal-frame will weaken this goal-frame in subordinates. For example, in a vignette study, Keizer, Lindenberg and Steg (2013) show that when higher-ups use company money for their private purposes, employees are less inclined to keep to their own work rules. In short, such "goal contagion" effect (Aarts, Gollwitzer & Hassin, 2004) can strongly influence the stability of the normative goal-frame in both positive and negative directions. This also limits the ability by the management to use the language of cooperation, joint production, and solidarity as a means to get individuals to work for the company goals, without believably signaling that they are in a normative goal-frame. Signaling such a normative goal-frame is inherently difficult. Because of the difference in power and in stakes with regard to company profits, employees don't easily trust higher-ups, which makes relational signals from the top very costly and easily distorted. Therefore, management signaling of a normative goal frame needs support from other structures (cf. also Foss, Reinholdt, Pedersen & Stea, 2013).

In previous work (Lindenberg & Foss, 2011), we have identified the organizational preconditions for the activation of a normative goal-frame that is conducive to joint production motivation. For reasons of space, we only briefly summarize these preconditions. First, members of an organization must perceive their various interdependencies in terms of joint production (through the team and task structure). Thus, employees must understand that tasks and teams are designed for the achievement and maintenance of joint production. The clearer the common goals, the various roles in which individuals help to reach these goals, and the functional connections of tasks and goals between different levels of the firm, the easier it is for employees to develop and sustain a motivation for joint production. Second, even if common goals are specified in the task and team design, they must still be embedded in a shared sense of common direction and affect on the level of the firm. This will also help prevent subunit egoism. A suitable means for achieving a common direction is a vision and mission statement, consensually supported by top management, that focuses on a common purpose (Ashforth & Johnson, 2001) rather than operational goals that are appropriate for the task and team structure. Third, reward structures must be calibrated so that they provide direct support for the normative goal-frame (i.e., individual rewards should be explicitly recognitions for contributions to joint production, and team rewards for contributions to high-level goals). This also holds for indirect support by keeping the gain goal frame in the background strong enough to stall excessive group pressure and conformism. In addition to non-contingent rewards linked to position, employees also need to be rewarded individually in a contingent manner in order to maintain the motivation to engage in certain activities. But contingent gain rewards, such as status advancement and money, must remain modest, because they can foster a gain goal-frame, just as contingent hedonic rewards, such as especially enjoyable tasks and better offices, can foster a hedonic goal-frame. When rewards get too strong, they can undermine the normative goal-frame, and intelligent effort will be selectively driven by what leads to personal rewards (hedonic or gain), rather than by contribution to the realization of common goals. Fourth, authority should be legitimized in terms of the functional prerequisites for joint production, by linking it to superior insight on what is needed for the realization of common goals, rather than based on fiat and contractual clauses.

**Gain-related Strategic Goals and the Importance of Obliquity**

Goal-framing theory explicitly addresses high-level (strategic) goals. But true to the importance of motivation for joint production, it focuses on the implications of such high-level goals for motivation. The key to understanding how this works is the vertical contagion effect. Thus, if firms adopt goals that stress seeking to continually seize profit opportunities (as in Avon Products'

"We will deliver superior returns to our shareholders by tirelessly pursuing new growth opportunities"), this sends a signal down in the organization that top-management is in a gain goal-frame. Due to the contagion effect of overarching goals, this means that the gain goal-fame will spread throughout the organization. Thus, if gains are explicitly addressed as the key strategic goal, this makes it difficult, if not impossible, to maintain a governance structure that supports joint production motivation. For this reason, goal-framing theory would maintain that even though firms have to make profits, gain-related strategic goals should not get center stage (Lindenberg 2013). They should be approached obliquely. This point has also been picked up recently by popular management books that have made the case for "oblique" strategic goals (explicitly in Kay, 2010; Birkinshaw, 2012). There, the arguments for this oblique approach remain somewhat fuzzy. As Birkinshaw (2012: 124) notes, obliquity is "not an easy concept to come to grips with," and it is not well established in the research literature in strategic management (in fact, there has, as far as we can tell, been no attention to the concept or the underlying ideas in the research literature).

There are scholars who have examined the impact of strategic goals on the internal workings of the firm. They provide part of the answer by emphasizing that organizational goals serve the functions of providing direction, facilitating planning, and assisting in the process of evaluating and controlling performance (Barney & Griffin, 1992). The potential motivating role of strategic goals frequently emerges in such discussions.[6] For example, Hamel and Prahalad's (1989: 64) discussion of strategic intent links this construct to an "…active management process that include focusing the organization's attention on the essence of winning, motivating people by communicating the value of the target, leaving room for individual and team contributions [and] sustaining enthusiasm by providing new operational definitions as circumstances change." But lacking microfoundations that deal with the integration of cognition and motivation through overarching goals, the possibility and importance of obliquity has not been theorized. Goal-framing theory can give a clear underpinning of

[6] There is also work on the motivational ramifications of employee involvement in strategic planning (e.g., Ketokivi & Castaner, 2004), but this is distinct from our focus here on the motivational implications of strategic goals (i.e., outcomes of planning processes).

the importance of obliquity with regard to gain goals and, as we will see shortly, some of the world's best known corporations seem to have arrived at the same point. Let us look at this link between strategy and obliquity in somewhat more detail.

Strategic goals exist at different levels, from mission and vision statements at the highest strategic level over operational goals at the business unit level to the goals set for individual organizational members. In this discussion, we focus on the high-level, strategic goals that define aspirations and directions for the firm as a whole, but the arguments are meant to apply equally to strategic goals nested in lower levels. High-level strategic goals of the organization are the embedding for lower-level strategic goals and thus influence the weight of goal-frames inside the firm, thereby indirectly affecting the motivation for joint production. Such goals have a double function. One function is the direct influence in the relative strength of the gain goal over the normative goal. This influence derives from the fact that overarching goals are highly contagious, especially when they are imbued with status. Because the normative goal-frame is apriori weaker than the gain goal-frame, the former will be easily displaced by the latter. In this way high-level goals will have a trickle effect through all levels of the organization, if it is known that the management ("status") stands behind these goals.

But high-level strategic goals also have another important function: they help or hinder coordinated action and the use and sharing of knowledge, depending on how they affect the employees' understanding of higher-level goals. For example, increasing market share as a strategic goal pushes a gain goal-frame. That alone makes it difficult to maintain a normative goal-frame for joint production motivation. But such a goal also makes it difficult for employees to know how their tasks relate to those of others, not giving them a sense of why and how they matter (see Anand et al, 2008; Montgomery 2008). This too, frustrates the realization and maintenance of joint production motivation.

High-level strategic goals either refer directly to gain (profit or market share, or shareholder value etc.) or they refer to a substantive mission in terms of societal goals. In both versions, these goals that define the aspiration of firms, are quite abstract and not very operational. But they are *directional,* providing purpose, and that is their strategic function. “Sitting at the hub of the strategy wheel, purpose aligns all the functional pieces and draws the company into a logically consistent whole. Well understood, it serves as both a constraint on activity and a guide to behavior.” (Montgomery 2008: 56). For example, compare the mission statement by the Cooper Tire & Rubber Company with that of IKEA. “The purpose of the Cooper Tire & Rubber Company is to earn money for its shareholders and increase the value of their investment. We will do that through growing the company, controlling assets and properly structuring the balance sheet, thereby increasing EPS, cash flow, and return on invested capital.” This mission is clearly directed at gain and it will push a gain goal-frame in the employees. In addition, it does not help employees to define their own role, to understand their purpose in the organization. This contrasts with IKEA’s mission statement, namely to “… offer a wide range of home furnishing items of good design and function, excellent quality and durability, at prices so low that the majority of people can afford to buy them”. This mission statement can serve collective identification with firm goals (thus supporting a normative goal-frame) and it helps the individual employee to give direction to his or her own role in realizing the collective goals. Other examples are not difficult to find. For example, another Fortune 500 company, Avon Products, declares that “We will deliver superior returns to our shareholders by tirelessly pursuing new growth opportunities while continually improving our profitability, a socially responsible, ethical company that is watched and emulated as a model of success.” Here, an ethical component is mentioned, but it is hijacked by the gain component. By contrast, LEGO’s mission is stated as ”to help children develop their creativity and learning skills through constructive play.” This goal is both easy to identify with (thus supporting a collective orientation to the firm’s goal) and concrete enough to give each employee a sense of what it is that needs to be done (Lindenberg &

Foss 2011). High-level strategic goals can also be explicitly linked to goals of the employees. For example, the pharmaceutical company Eisai explicitly states that “it is most important that we know and share the feelings of the patients, their joys, anger, sadness, and happiness. The essence of Eisai is our pursuit of the “’Eisai way,’ which is realized through the exercise of strong entrepreneurship by each employee” (in Spender & Strong, 2012: 18).

**The Strategic Importance of Leadership Style**

For both ways to influence the motivation for joint production (governance structure and obliquity with regard to gain-goals), there is likely to be a symbiotic relationship with leadership style, which imbues leadership style with strategic importance. First of all, there is the top-down contagion process that gives considerable weight to the overarching goals of leaders for affecting the goal-frames of the employees. Thus for obliquity to work, the leadership must be seen as supporting these high-level goals also in daily practice. Second of all, leadership can actively encourage identification with the organization and the preconditions for individuals to be motivated to take individual responsibility for reaching collective goals. In the literature, such kind of leadership has been identified as transformational leadership (Kirkpatrick & Locke, 1996; Judge & Piccolo, 2004; Grant, 2012).

Overall, this literature asserts that (strategic) leaders motivate followers/employees by communicating compelling visions, typically in the context of stressing collective identities as we all as generally and strongly held core human values that can motivate followers to switch from gain goal frames to normative goal frames (Shamir, House & Arthur, 1993). Thus, from the point of view of goal-framing theory, transformational leaders need to capture motivating aspects of the high-level goals and use them to steer identification processes so that they provide direct support for the normative goal-frame by embedding common goals (Van Knippenberg, 2000) and providing links to values (Thompson & Bunderson, 2003). Because the normative goal-frame is linked to a supra-individual entity, there must be particular emphasis on what organizational members have in common, what binds them, together with the creation and maintenance of positive affect connected to what organizational members have in common (Bollen & Hoyle, 1990; Liberman et al., 2004; Zaccaro & McCoy, 1988).

Grant (2012: 458) notes that findings in the transformational leadership literature have been mixed, with "inconsistent effects of transformational leadership on followers' performance" emerging in laboratory as well as field experiments. A possible reason is that leaders may fail to take steps "to ensure that the vision is not simply rhetoric" (Kirkpatrick & Locke, 1996: 37). Indeed, goal-framing theory suggests that strategic "as if" relational campaigns that actually only try to create the appearance of relational concern and concern for individual improvement, will not be effective for long and will ultimately drive out normative goal-frames in favor of gain or hedonic goal-frames (Greenberg, 1990, Miller, 2001). Of course, leaders also have a transactional role of control, but that should be embedded in the transformational approach (Wang et al 2011). This means that control too needs to be approached obliquely.

Grant (2012) suggests that transformational leadership is most effective with respect to motivating followers when leaders lead by example and engage in direct contact with followers. Goal-framing theory supports this idea: Because the normative goal-frame is highly precarious and because power-relations are highly asymmetric (i.e., top-down), employees watch out for signals that reveal the goal-frame of the management (Mühlau & Lindenberg, 2003; Six and Sorge 2008; Takeuchi, Chen & Lepak, 2009). What Grant calls "beneficiary contact," for example, when leaders visibly work with organizational members ("beneficiaries") in a manner oriented towards joint production, can signal the normative goal frame of leaders and show concretely to organizational members that strategic goals are indeed geared towards joint production and underpinned by prosocial visions that make a difference to stakeholders. Because of the contagion effects on the stability of the normative goal-frame, seeing that strategic leaders, in special communal events, show affective and consensual commitment to a cause and the related vision/mission, and seeing that many other employees experience this simultaneously, creates affective communality among organizational members (see Islam & Zyphur, 2009; Trice & Beyer, 1984). In short, there is need for a transactional role of control but it is of strategic importance that the leadership actually "live" their strategic goals that keep gain goals oblique.

## CONCLUSION

From the point of view of pragmatic management research, microfoundations matter, not so much because microfoundations are philosophically the right thing to do, but because they furnish substantive implications for theory-building that truly matter to practitioners. This insight is not new, but until now, microfoundations for strategic management have separated the cognitive and motivational dimensions and neglected their crucial interconnection in the dynamics of overarching goals. To be sure, the investigation of the effects of heuristics and biases on the behavior of top-management teams (Powell et al., 2011) is a worthwhile endeavor, as is the integration of motivation research with strategic management (Coff, 1997; Osterloh & Frey, 2000). However, consistent with important recent research in experimental economics, social psychology, and cognitive science, goal-framing theory argues that cognitive and motivational microfoundations are strongly intertwined, and that both dimensions should be taken into account—and that this makes a substantive difference in terms of theory-development in strategic management. Specifically, goal-framing theory allows us to cast the fundamental strategic management issues of value creation and strategic goals in a new light and to explore their interrelations (cf. Figure 1 and 2).

On the basis of goal-faming theory one can thus argue that the heart of value creation in firms lies in the motivation for joint production for all involved. No matter what the firm wants to achieve, optimal value creation will always crucially depend on eliciting a motivation among employees that is directed at common goals, such that organizational members are motivated to choose their actions in terms of joint goals and exert intelligent effort to reach joint goals (Lindenberg & Foss, 2011). Literatures on human resource management (e.g., Rousseau & Wade-Benzoni, 1994) and goal-setting (e.g., Locke & Latham, 2002) often address the strategic importance of employee motivation, but they do not focus on joint production motivation but rather on the dyadic link of the individual to the organization. For example, Rousseau and Wade-Benzoni (1994) argue that HR practices are key ways in which strategies are implemented. Different practices implement different psychological contracts and the motivation of an employee is closely related to her interpretation of promises and commitments issued by the organization. However, this literature remains fundamentally dyadic in its orientation: It is the relation between the individual organizational member and the organization that is in focus.

In traditional microeconomic approaches to strategy, the joint production motivation has also been neglected, as have the costs of failing interest alignment with incentives. Yet, from a strategic management point of view, it is exactly the motivation for joint production that is crucial for optimal value creation. Accordingly, we have argued that the core strategic concern is to create a governance structure that can bring about and maintain a high level of joint production motivation among all members of the organization. One way to do this is to make the governance structure itself a key strategic concern (for more detail, see Lindenberg and Foss, 2011).

For the strategy field, another influence on the motivation for joint production is possibly less obvious but just as important: the influence of high-level strategic goals on motivation. Because of their obvious centrality, high-level strategic goals have been extensively discussed from multiple perspectives. For example, agency theorists have discussed the extent to which the goals of the firm are aligned with those of shareholders (Jensen & Meckling, 1976); resource-based theorists see the goals of the firm as constrained by the resource portfolio of the firm (Wernerfelt, 1984); positioning theory explains how goals are constrained by external competitive forces (Porter, 1980); competitive dynamics theory emphasizes how environmental changes influence changes in strategic goals (Audia, Locke and Smith, 2000); strategy process theories explain how goals may emerge from lower echelons in the organization (Burgelman, 1994) or reflect changing levels of aspiration

(Shinkle, 2012) or reference points (Fiegenbaum, Hart & Schendel 1996, 222); and strategic leadership theorists examine how goals are influenced by the discretion possessed by strategic managers (Finkelstein & Hambrick, 1996). However, whether, how and why strategic goals have to deal with obliquity is generally not addressed in the strategic management literature.

As become clear from the point of view of goal-framing theory, with regard to high-level strategic goals, strategic management involves a fundamental squaring-of-the-circle operation: On the one hand the overall aim is indeed to maximize appropriable value creation relative to the competition. This seems to require a competitive and economizing mindset associated with the gain goal-frame. On the other hand, promoting such a mindset internally results (*via* the operation of the vertical goal contagion mechanism) in the adoption on the part of organizational members of the gain goal-frame, which is associated with a lower level of value creation than the normative goal-frame. The implication is that the successful maximization of net returns require an oblique strategy, that is, one that stresses explicit goals that can support the normative goal-frame, which—in turn—is conducive to joint production motivation and aids a governance structure that is supportive of joint product motivation.

A good example of a successful oblique approach is the Swedish bank, Svenska Handelsbanken. Kroner (2011) who has studied this bank shows that the bank's strategic goal of higher return on equity than the average of its peers is pursued in a rather oblique way (p.139-141) and supported by an internal organization that is conducive to joint production. Thus, Handelsbanken's culture stresses employees being "self-directed and entrepreneurial" (p.93) with a high degree of accountability; the task structure is simple and highly transparent (p.96); and "Handelsbanken does not award bonuses" (p.98). This internal organization supports the "… bank's visceral dislike for risk-taking, its focus on concentrating on customer satisfaction over profits, and its emphasis on long-term orientation" (p.99). Svenska Handelsbanken has been consistently successful in pursuing its strategic goal in this oblique way, placing it among the top-25 in Europe.

This success of Handelsbanken is a witness to yet another strategic concern derivable from goal-framing theory: the importance of transformational leadership. Such leadership is important in making strategic gain goals oblique, in creating common purpose, and in maintaining a governance structure that is supportive of joint production motivation. The three strategic concerns suggested here (governance, oblique gain goals, and transformational leadership) take time and a long-term perspective to develop and might well constitute the heart of the complex and path-dependent resources highlighted by the resource-based perspective (Barney, 1991).

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**Figure 1:** ***Value Creation Frontiers and Goal-frames***

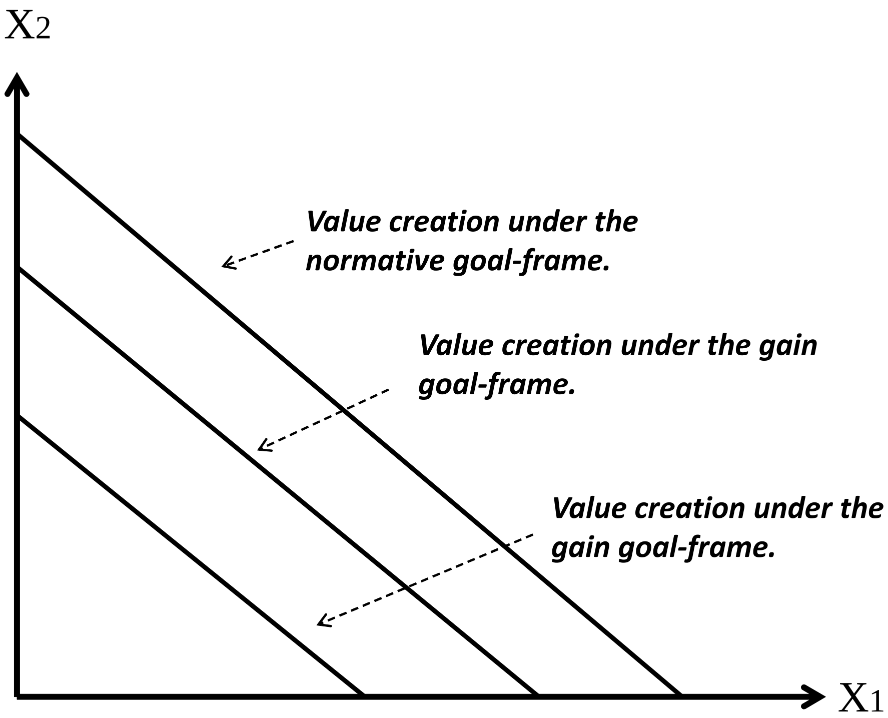
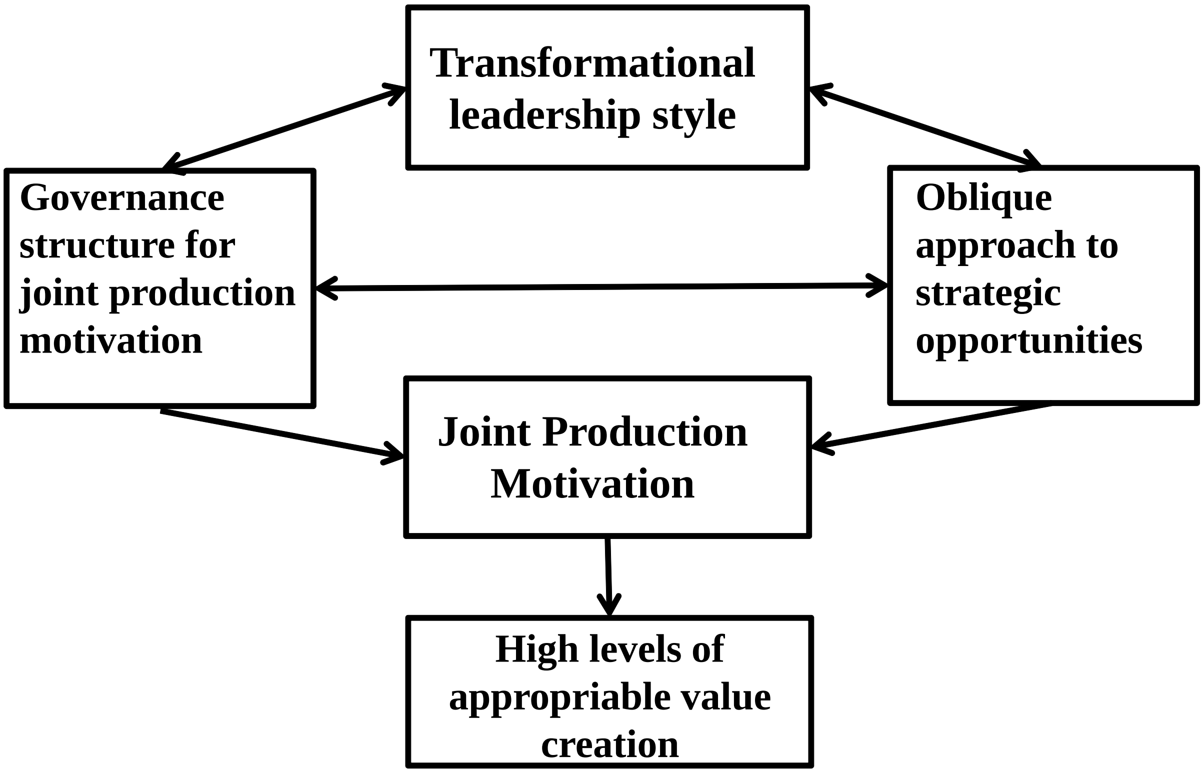


**Figure 2:** ***The key concerns for strategic management based on goal-framing theory***



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