

A new, dynamic way to measure value

Shareholders are not the only ones to benefit from the value created by a firm. Employees, customers and suppliers reap rewards, too. Introducing a new tool to measure value creation dynamically, over time: the Value Creation and Appropriation (VCA) model. IESE's Roberto Garcia-Castro and co-authors discuss its practical implications for firm strategy.



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With Delta, United and US Airways all declaring bankruptcy in the beginning of the 21st

century, it's no surprise many investors in the U.S. airline industry have been disappointed by their lack of returns. Yet other industry stakeholders have benefitted nicely during this tumultuous time.

In fact, following the industry's deregulation a few decades ago, fierce competition from new low-cost carriers has created value for many. The biggest beneficiaries tended to be airline employees, fuel suppliers and customers. Better salaries, more business for fuel suppliers, and more affordable travel are three ways to show that an airline is creating ample value over time — beyond its paltry payouts to investors.

This broad analysis of the airline industry is aided by a new tool, formally introduced in an article published in the *Strategic Management Journal* in 2017. The new tool is called the Value Creation and Appropriation (VCA) model and it was developed conceptually and empirically by Marvin B. Lieberman, [Roberto Garcia-Castro](#) and Natarajan Balasubramanian to help managers and researchers better understand the trade-offs that are happening among various stakeholders over a set period of time.

The VCA Model

In the field of strategic management, value creation and appropriation are traditionally seen in two distinct stages. First, value is created and then value is distributed. The VCA model is distinct from this traditional view in that it looks at value creation and appropriation as intertwined. According to its creators, how you distribute value today partly determines the total value you will generate tomorrow.

In other words, the VCA model is intended to simultaneously measure two things: 1) how much economic value a firm creates over a set period of time and 2) how the value is distributed among the various stakeholders. Those stakeholders may include customers, capital providers (i.e., shareholders), the government, management, employees and suppliers.

What Is Happening to U.S. Airlines?

In the current paper, the co-authors apply their model to companies in two industries: U.S. airlines and global automobile manufacturers.

Consider the story of Southwest Airlines, famous for making a low-cost business model work for the industry. Using the VCA model, the authors are able to track how Southwest's value

creation increasingly went into the wallets of its employees from 2000 to 2010. As Southwest was expanding, gaining business from older rivals, it seems to have made a conscious decision to invest more in its employees, perhaps to boost morale and firm loyalty during its expansion.

Seeing how much value is going where (and when) is useful at a company level and at an industry level. While some trends in value creation are apparent for all, others vary widely from firm to firm, indicating that management policies are more powerful than external market forces.

As the coauthors note, returns to shareholders may account for only a small proportion of firms' total value creation. Taking into account all stakeholders — customers, suppliers, governments, employees, etc. — presents a bigger picture of how management strategies impact their business ecosystem. With this new tool, managers might get a better look not only at how value is created and distributed, but also at how those values are changing over time.

Methodology, Very Briefly

The VCA Model has as its linchpin an equation with all firm revenues on one side and all firm payments to stakeholders on the other.

In the present study, two industries were chosen for the availability of relevant data and because the companies were relatively undiversified with relatively low product innovation rates. U.S. airlines were analyzed over three decades, from 1980 to 2010, while Toyota, General Motors (GM) and Nissan were studied over two, from 1978 to 1998.

See also, "[Where Is Your Firm's Value Going?](#)" for an introduction to the concept of VCA elasticity.

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