

Where is your firm's value going?

From satisfied shareholders to millionaire truck drivers, there are many ways to distribute value in a firm, and they can all have big implications for future performance. IESE's Roberto Garcia-Castro and co-authors have developed a tool to help managers make sense of it.



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Wal-Mart shareholders enjoyed 200,000 percent returns over the 30 years following its initial

public offering. During that time, Wal-Mart was also famous for its millionaire truck drivers, thanks to generous profit-sharing and stock-ownership plans for employees. (Although more recent news paints a different picture of the retail giant.)

Toyota in the 1980s and 1990s shared its productivity gains with employees and suppliers. Looking at the total value Toyota created alongside the value enjoyed by its various stakeholders, the Japanese automaker apparently fostered a cooperative culture, with reciprocity ruling — in contrast to some of its competitors.

An [article published in the *Strategic Management Journal*](#) by IESE's **Roberto Garcia-Castro** and co-author Ruth V. Aguilera summarizes how to use a new tool called the "Value Creation and Appropriation" (VCA) model for insights into how value is created and distributed in firms. The tool is intended 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 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. In its creators' view, 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 (aka, the firm's shareholders)
- the government
- management
- employees
- suppliers

The VCA model was first developed conceptually and empirically by Marvin B. Lieberman, Roberto Garcia-Castro and Natarajan Balasubramanian in two working papers. Building on these two previous papers, this article in the *Strategic Management Journal* relies on the VCA

model to provide a more complete characterization of the trade-offs in stakeholder value appropriation observed in corporations.

Learning From the VCA Model

For simplicity sake, the article homes in on trade-offs between two stakeholders: employees and capital providers. In this exercise, each dollar created by a firm is either held by the capital providers or paid out to employees as compensation.

To classify stakeholder trade-offs and describe their results, the authors describe the concept of VCA elasticity. VCA elasticity is determined by comparing the percentage changes between value creation and value appropriation for the two stakeholders. As such, it captures the relationship between the value appropriated by a stakeholder and the total value created in a period of time.

To illustrate, the authors highlight examples that are VCA neutral, VCA inelastic or VCA elastic at particular points in time.

VCA neutral: Data from machinery-maker Lincoln Electric indicates that it was VCA neutral during the time in which management tied employees' compensation to productivity levels. When Lincoln Electric produced less welding machinery, its staff was most affected by loss in value, leaving capital providers mainly unaffected.

VCA inelastic: Data from automakers Nissan and General Motors during the 1980s and 1990s indicates that salary increases came at a cost to the firms' profitability. Both Nissan and General Motors are examples of VCA inelasticity.

VCA elastic: During boom times, examples of elasticity include Wal-Mart and Toyota, as mentioned above. In the case of Toyota, its sustained productivity increases in the 1980s and 1990s were captured by both employees and capital providers.

Strategic Management Theory

In strategic management literature, there are three theoretical lenses that provide complementary explanations for the VCA elasticity seen in the three scenarios above.

1) "Property rights" for VCA neutral: The authors loosely correlate VCA neutral scenarios with the property-rights theory of strategic management. The property rights view has an owner of a value-generating resource keeping or maintaining that value. The owner has the

right to exclude non-owners from access, the right to extract value and the right to sell the resource to others.

2) "Stakeholder power" for VCA inelastic: The authors note that over-appropriation by employees is often associated with their strong collective bargaining power. In strategic management literature, this is described as "stakeholder power" and it usually exists when property rights over resources are less clearly defined and stakeholders' bargaining power rises in importance. In general terms, bargaining power may be determined by stakeholders' capacity for collective action, access to key information, replacement cost to the firm and the costs to exit.

3) "Managing for stakeholders" for VCA elastic: The authors loosely correlate VCA elasticity with "managing for stakeholders" academic literature. This view holds that firms voluntarily invest in selected stakeholders in order to maintain distributional justice, respect reciprocity and build trust.

Uncovering the dynamics at work between key stakeholders during certain periods of time can help pinpoint and advance complementary theories of management. "Our conceptual framework presents the advantage of being quite generalizable, and yet it can be directly applied to empirical settings — as most of the parameters in the VCA model can be estimated using public corporate data," the authors explain.

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